TRANSAT A.T. Inc.
Restated Management's Discussion and Analysis
Year ended October 31, 2018

Investor Relations
Denis Pétrin
Chief Financial Officer
investorrelations@transat.com

Ticker symbol
TSX: TRZ

TABLE OF CONTENTS

1. Caution Regarding Forward-Looking Statements 6
2. Non-IFRS Financial Measures 8
3. Financial Highlights 12
4. Overview 13
5. Revisiting Our September 13, 2018 Outlook 17
6. Recent Developments 17
7. Business Acquisitions and Disposals 18
8. Consolidated Operations 19
9. Financial Position, Liquidity and Capital Resources 25
10. Other 30
11. Accounting 31
12. Risks and Uncertainties 37
13. Controls and Procedures 42
14. Outlook 43

Management's Report 44

Independent Auditors' Report 45

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

This restated Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2018, compared with the year ended October 31, 2017, and should be read in conjunction with the restated audited consolidated financial statements and the restated notes thereto. Unless otherwise indicated, the information contained herein is dated as of September 11, 2019. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2018 and the Annual Information Form.

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

RESTATEMENT

On June 27, 2019, the Corporation announced that it needed to restate its consolidated financial statements and MD&A for the year ended October 31, 2018. Management has concluded that a restatement of its consolidated financial statements was necessary regarding the carrying amount of the non-controlling interest in the Trafictours Canada Inc. subsidiary.

The carrying amount of the non-controlling interest is related to the Trafictours Canada Inc. subsidiary and the right of the minority shareholder to require the Corporation to purchase the Trafictours Canada Inc. shares it holds at a price calculated in accordance with a pre-determined formula, subject to adjustment based on the circumstances, payable in cash. The estimated repurchase value of this option is taken into account in the carrying amount of the non-controlling interest. The difference results from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest. As a result, the liability for the non-controlling interest reported under Trade and other payables and Other liabilities in the consolidated statements of financial position as at October 31, 2018 and 2017, respectively, was undervalued by $25.9 million and $22.9 million as at October 31, 2018 and 2017, respectively. These under-valuations have no impact on the consolidated statements of income for the aforementioned periods as these adjustments are recorded as equity transactions in Retained earnings.

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

For further information on the restatement, see note 27 to the restated audited consolidated financial statements.

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

The forward-looking statements contained in this restated MD&A, including the forward-looking statements under section 4. Overview and section 14. Outlook were made as at December 12, 2018 and have not been revised as part of the restatement of the consolidated financial statements. Forward-looking statements regarding the Corporation as at September 11, 2019 can be found in our MD&A for the quarter ended July 31, 2019 available on the SEDAR website at www.sedar.com.

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

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

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

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

- The outlook whereby Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is now expected that the potential transaction with Air Canada will be completed by the second quarter of the 2020 calendar year.
- The outlook whereby our new hotel chain will strengthen Transat's profitability, particularly during winter.
- The outlook whereby the Corporation has the resources it needs to meet its 2019 objectives and to continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues and total travellers to increase compared with 2018.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2019.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $40.0 million, excluding any land and hotel acquisitions related to the development of our hotel chain.

- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for winter 2019 on the sun destinations market, the impact of fluctuations in the Canadian dollar, combined with increased fuel costs, will result in a 3.4% increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable.

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

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	**2018 Restated[1] $**	2017 $	2016 $
Operating income (loss)	**(51,275)**	34,720	(30,335)
Lump-sum payments related to collective agreements	**—**	—	7,263
Special items	**8,962**	2,925	6,562
Depreciation and amortization	**59,125**	68,470	50,038
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(299)**	(4,090)	(7,752)
Adjusted operating income	**16,513**	102,025	25,776
Income (loss) before income tax expense	**(5,282)**	151,804	(97,374)
Lump-sum payments related to collective agreements	**—**	—	7,263
Special items	**8,962**	2,925	6,562
Change in fair value of fuel-related derivatives and other derivatives	**1,284**	(9,187)	(6,901)
Loss (gain) on business disposals	**(31,064)**	(86,616)	843
Foreign exchange gain on business disposal	**—**	(15,478)	—
Asset impairment	**—**	—	79,708
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(299)**	(4,090)	(7,752)
Adjusted pre-tax income (loss)	**(26,399)**	39,358	(17,651)
Net income (loss) attributable to shareholders	**(1,126)**	134,308	(41,748)
Net loss (income) from discontinued operations	**—**	—	(49,772)
Lump-sum payments related to collective agreements	**—**	—	7,263
Special items	**8,962**	2,925	6,562
Change in fair value of fuel-related derivatives and other derivatives	**1,284**	(9,187)	(6,901)
Loss (gain) on business disposals	**(31,064)**	(86,616)	843
Foreign exchange gain on business disposal	**—**	(15,478)	—
Asset impairment	**—**	—	79,708
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(299)**	(4,090)	(7,752)
Tax impact	**(2,297)**	7,237	(3,745)
Adjusted net income (loss)	**(24,540)**	29,099	(15,542)
Adjusted net income (loss)	**(24,540)**	29,099	(15,542)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,394**	37,040	36,899
Adjusted net income (loss) per share	**(0.66)**	0.79	(0.42)

[1] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

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

3. FINANCIAL HIGHLIGHTS

	2018 Restated[1]	2017	2016	Change 2018	Change 2017
(in thousands of Canadian dollars, except per share amounts)	$	$	$	%	%
Consolidated Statements of Income (Loss)					
Revenues	**2,992,582**	3,005,345	2,889,646	(0.4)	4.0
Operating income (loss)	**(51,275)**	34,720	(30,335)	(247.7)	214.5
Net income (loss) attributable to shareholders	**(1,126)**	134,308	(41,748)	(100.8)	421.7
Basic earnings (loss) per share	**(0.03)**	3.63	(1.13)	(100.8)	421.2
Diluted earnings (loss) per share	**(0.03)**	3.63	(1.13)	(100.8)	421.2
Adjusted operating income[2]	**16,513**	102,025	25,776	(83.8)	295.8
Adjusted net income (loss)[2]	**(24,540)**	29,099	(15,542)	(184.3)	287.2
Adjusted net income (loss) per share[2]	**(0.66)**	0.79	(0.42)	(183.5)	288.1
Consolidated Statements of Cash Flows					
Operating activities	**68,804**	161,487	43,561	(57.4)	270.7
Investing activities	**(93,644)**	97,901	5,093	(195.7)	1,822.3
Financing activities	**(430)**	(3,596)	(9,823)	88.0	63.4
Effect of exchange rate changes on cash and cash equivalents	**(982)**	450	(12,132)	(318.2)	103.7
Net change in cash and cash equivalents	**(26,252)**	256,242	26,699	(110.2)	859.7

	As at October 31, 2018 Restated[1]	As at October 31, 2017	As at October 31, 2016	Change 2018	Change 2017
	$	$	$	%	%
Consolidated Statements of Financial Position					
Cash and cash equivalents	**593,654**	593,582	363,664	0.0	63.2
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**338,919**	309,064	338,581	9.7	(8.7)
	932,573	902,646	702,245	3.3	28.5
Total assets	**1,561,615**	1,453,216	1,227,420	7.5	18.4
Debt (current and non-current)	**—**	—	—	—	—
Total debt[2]	**622,270**	660,695	679,065	(5.8)	(2.7)
Total net debt[2]	**28,616**	67,113	315,401	(57.4)	(78.7)

[1] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.
[2] See section 2 – Non-IFRS financial measures

4. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

Core business

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

Vision

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

Strategy

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

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

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

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

For 2019, Transat has set the following objectives:

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

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

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

4. Transform our fleet: complete the changes planned for this year, including the introduction of the first A321neo LRs, finalize fleet planning over 3–5 years, while improving reliability, and integrating new pilot fatigue rules and the passenger bill of rights

5. Reduce and control costs

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

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

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

9. Unite our teams and maintain their engagement

Review of Objectives and Achievements for 2018

The main objectives and achievements for 2018 were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

KEY PERFORMANCE DRIVERS

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

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

Ability to Deliver on our Objectives

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

Our financial resources are as follows:

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

Our non-financial resources include:

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

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

5. REVISITING OUR SEPTEMBER 13, 2018 OUTLOOK

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

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

6. RECENT DEVELOPMENTS

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

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

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

7. BUSINESS ACQUISITIONS AND DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price totalled $48.9 million, of which $46.7 million was received in cash, with the balance of $2.2 million receivable under certain contractual conditions prior to May 31, 2019. The disposed subsidiary's net assets amounted to $13.4 million on November 30, 2017. The Corporation recognized a gain on business disposal of $31.3 million, net of transaction costs of $0.5 million and of $3.7 million due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which $3.3 million was paid in cash during the year, as an additional consideration to the repurchase price of the 19.93% interest held by the Fonds in December 2016.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income and comprehensive income for the years ended October 31, 2018 and 2017. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

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

OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for an amount of US$150.5 million [$187.5 million], received in cash. The disposed interest had a carrying value of $97.3 million as at October 4, 2017. During the year ended October 31, 2017, the Corporation recognized a gain on business disposal of $86.6 million, net of transaction costs of $1.7 million, as well as a foreign exchange gain of $15.5 million realized on the reclassification of the cumulative exchange differences related to the investment.

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

DESARROLLO TRANSIMAR

On April 3, 2017, the Corporation invested in a hotel on Puerto Vallarta's Pacific coast, which operates under the name Rancho Banderas All Suites Resort, by acquiring a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo Transimar"], its Mexican owner and operator, for a consideration of US$10.0 million [$13.4 million], of which US$9.5 million [$12.8 million] was paid in cash and US$0.5 million [$0.7 million] was included in trade and other payables as at October 31, 2018. This amount was paid on November 5, 2018. This interest in a joint venture is accounted for using the equity method.

8. CONSOLIDATED OPERATIONS

	2018 Restated[1]	2017	2016	Change	
(in thousands of dollars)	$	$	$	%	%
Continuing operations					
Revenues	**2,992,582**	3,005,345	2,889,646	(0.4)	4.0
Operating expenses					
Costs of providing tourism services	**1,091,924**	1,268,832	1,309,430	(13.9)	(3.1)
Aircraft fuel	**498,512**	358,558	329,784	39.0	8.7
Salaries and employee benefits	**386,898**	371,863	346,899	4.0	7.2
Aircraft maintenance	**237,918**	203,669	178,317	16.8	14.2
Airport and navigation fees	**149,699**	134,665	128,695	11.2	4.6
Aircraft rent	**124,454**	132,139	135,813	(5.8)	(2.7)
Commissions	**87,763**	88,635	92,018	(1.0)	(3.7)
Other airline costs	**263,272**	225,512	221,540	16.7	1.8
Other	**135,225**	126,500	119,964	6.9	5.4
Share of net loss (income) of an associate and a joint venture	**105**	(11,143)	(6,342)	(100.9)	75.7
Depreciation and amortization	**59,125**	68,470	50,038	(13.6)	36.8
Special items	**8,962**	2,925	13,825	206.4	(78.8)
	3,043,857	2,970,625	2,919,981	2.5	1.7
Operating income (loss)	**(51,275)**	34,720	(30,335)	(247.7)	214.5
Financing costs	**2,061**	2,134	1,669	(3.4)	27.9
Financing income	**(17,935)**	(8,363)	(6,996)	114.5	19.5
Change in fair value of fuel-related derivatives and other derivatives	**1,284**	(9,187)	(6,901)	(114.0)	33.1
Loss (gain) on business disposals	**(31,064)**	(86,616)	843	(64.1)	(10,374.7)
Foreign exchange gain on business disposal	**—**	(15,478)	—	(100.0)	N/A
Foreign exchange loss (gain) on non-current monetary items	**(339)**	426	(1,284)	(179.6)	(133.2)
Asset impairment	**—**	—	79,708	N/A	(100.0)
Income (loss) before income tax expense	**(5,282)**	151,804	(97,374)	(103.5)	255.9
Income taxes (recovery)					
Current	**(6,494)**	18,684	(17,188)	(134.8)	208.7
Deferred	**(1,204)**	(5,252)	6,345	77.1	(182.8)
	(7,698)	13,432	(10,843)	(157.3)	223.9
Net income (loss) from continuing operations	**2,416**	138,372	(86,531)	(98.3)	259.9
Discontinued operations					
Net income from discontinued operations	**—**	—	49,772	—	(100.0)
Net income (loss) for the year	**2,416**	138,372	(36,759)	(98.3)	476.4
Net income (loss) attributable to:					
Shareholders	**(1,126)**	134,308	(41,748)	(100.8)	421.7
Non-controlling interests	**3,542**	4,064	4,989	(12.8)	(18.5)
	2,416	138,372	(36,759)	(98.3)	476.4
Earnings (loss) per share from continuing operations					
Basic	**(0.03)**	3.63	(2.48)	(100.8)	246.4
Diluted	**(0.03)**	3.63	(2.48)	(100.8)	246.4
Earnings (loss) per share					
Basic	**(0.03)**	3.63	(1.13)	(100.8)	421.2
Diluted	**(0.03)**	3.63	(1.13)	(100.8)	421.2

[1] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

REVENUES

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

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

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

OPERATING EXPENSES

Total operating expenses increased by $73.2 million (2.5%) during the year compared with 2017. The increase was mainly attributable to our winter season, which saw a rise in the number of travellers in the sun destinations market, our main market for the period, partially offset by the strengthening of the dollar against the U.S. dollar. The increase also results from the summer season, during which there was a rise in fuel price indices, combined with an increase in the number of travellers across all of our markets. During the summer, the increase in operating expenses was partially offset by the decrease in the number of person-nights sold in Canada, following the sale of our Jonview subsidiary, and by the strengthening of the dollar against the U.S. dollar.

Costs of providing tourism services

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

Aircraft fuel

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

Salaries and employee benefits

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

Aircraft maintenance

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

Airport and navigation fees

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

Aircraft rent

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

Commissions

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

Other air costs

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

Other

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

Share of net income of an associate and a joint venture

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

Depreciation and amortization

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

Special items

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

On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5.0 million [$6.7 million], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded as a subsequent event under Special items in the restated consolidated statement of income for the year ended October 31, 2018.

OPERATING RESULTS

Given the above, we recorded an operating loss of $51.3 million (1.7%) for the year, compared with an operating income of $34.7 million (1.2%) for the previous year. Operating results by season are summarized as follows:

				Change	
	2018 Restated[1]	**2017**	**2016**	**2018**	**2017**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Winter season					
Revenues	**1,627,763**	1,573,642	1,613,944	3.4	(2.5)
Operating expenses	**1,682,305**	1,639,374	1,668,187	2.6	(1.7)
Operating loss	**(54,542)**	(65,732)	(54,243)	17.0	(21.2)
Operating loss (%)	**(3.4)**	(4.2)	(3.4)	19.8	(24.3)
Summer season					
Revenues	**1,364,819**	1,431,703	1,275,702	(4.7)	12.2
Operating expenses	**1,361,552**	1,331,251	1,251,794	2.3	6.3
Operating income	**3,267**	100,452	23,908	(96.7)	320.2
Operating income (%)	**0.2**	7.0	1.9	(96.6)	274.4

[1] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

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

During the summer, operating income totalled $3.3 million (0.2%) compared with $100.5 million (7.0%) for the previous year. The decrease in our operating results was attributable to the increase in fuel prices which, combined with the foreign exchange effect, resulted in a $75.6 million increase in our operating expenses. The decrease in our operating results was accentuated by the disposal of our wholly owned subsidiary Jonview and our minority interest in Ocean Hotels, which contributed $15.0 million to operating results in 2017.

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

OTHER EXPENSES AND REVENUES

Financing costs

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

Financing income

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

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

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

Loss (gain) on business disposals

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

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

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

Foreign exchange gain on business disposal

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

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

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

INCOME TAXES

For the year ended October 31, 2018, income tax recovery amounted to $7.7 million compared with an income tax expense of $13.4 million for the previous year. Excluding the gain on business disposals and the share of net loss (income) of an associate and a joint venture, the effective tax rate was 22.2% for the year ended October 31, 2018 and 24.0% for the previous year. The change in tax rates between fiscal 2018 and 2017 resulted mainly from greater unfavourable permanent differences in 2018.

NET INCOME

Considering the items discussed in the Consolidated operations section, net income for the year ended October 31, 2018 amounted to $2.4 million, compared with $138.4 million in 2017.

For the year ended October 31, 2018, adjusted net loss amounted to $24.5 million ($0.66 per share) compared with adjusted net income of $29.1 million ($0.79 per share) in 2017.

NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to shareholders amounted to $1.1 million or $0.03 per share, basic and diluted, compared with net income attributable to shareholders of $134.3 million or $3.63 per share, basic and diluted, for the previous year. The weighted average number of outstanding shares used to compute basic per share amounts was 37,394,000 for 2018 and 36,995,000 for 2017 (37,394,000 and 37,040,000, respectively, for diluted per share amounts).

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

Selected unaudited quarterly financial information

(in thousands of dollars, except per share data)	Q1-2017 $	Q2-2017 $	Q3-2017 $	Q4-2017 $	**Q1-2018** **$**	**Q2-2018** **$**	**Q3-2018** **$**	**Q4-2018 Restated[1]** **$**
Revenues	689,332	884,310	733,152	698,551	**725,782**	**901,981**	**696,551**	**668,268**
Aircraft rent	36,103	37,361	32,390	26,285	**30,169**	**33,352**	**32,090**	**28,843**
Operating income (loss)	(50,671)	(15,061)	40,952	59,500	**(45,795)**	**(8,747)**	**(7,994)**	**11,261**
Net income (loss)	(31,054)	(6,155)	27,168	148,413	**(5,233)**	**8,487**	**(3,685)**	**2,847**
Net income (loss) attributable to shareholders	(32,073)	(8,354)	26,588	148,147	**(6,588)**	**6,683**	**(4,038)**	**2,817**
Basic earnings (loss) per share	(0.87)	(0.23)	0.72	4.00	**(0.18)**	**0.18**	**(0.11)**	**0.08**
Diluted earnings (loss) per share	(0.87)	(0.23)	0.72	3.97	**(0.18)**	**0.18**	**(0.11)**	**0.07**
Adjusted operating income (loss)[2]	(37,079)	1,508	59,055	78,541	**(31,026)**	**6,563**	**5,091**	**35,885**
Adjusted net income (loss)[2]	(36,039)	(8,100)	26,857	46,381	**(33,868)**	**(4,548)**	**(3,026)**	**16,902**
Adjusted net income (loss) per share[2]	(0.98)	(0.22)	0.73	1.24	**(0.91)**	**(0.12)**	**(0.08)**	**0.45**

(1) The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.
(2) See section 2 – Non-IFRS financial measures

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $668.3 million in revenues, down $30.3 million (4.3%) from $698.6 million for the corresponding period of 2017. This decrease is due to the sale of our Jonview subsidiary. The decrease in revenues was partially offset by a 14.8% rise in the number of travellers in the transatlantic market, our main market for the period, despite a 1.5% decrease in average selling prices. In this market, the Corporation increased capacity by 13.6% compared with 2017, while overall capacity was up nearly 9%. Our operations generated operating income of $11.3 million, compared with $59.5 million in 2017. The deterioration in our operating income resulted primarily from higher fuel prices which, combined with the foreign exchange effect, resulted in a $35.3 million increase in our operating expenses. The decrease in our operating income was partially offset by increased capacity and load factors in the transatlantic market.

Net income amounted to $2.8 million in the fourth quarter, compared with $148.4 million in 2017. Net income attributable to shareholders was $2.8 million ($0.08 per share, basic and $0.07 per share, diluted), compared with $148.1 million ($4.00 per share, basic and $3.97 per share, diluted) in 2017.

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

9. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2018, cash and cash equivalents totalled $593.7 million compared with $593.6 million as at October 31, 2017. Cash and cash equivalents in trust or otherwise reserved amounted to $338.9 million as at the end of 2018, compared with $309.1 million in 2017. The Corporation's statement of financial position reflected $283.3 million in working capital, for a ratio of 1.33, compared with $386.6 million and a ratio of 1.51 as at October 31, 2017.

Total assets increased by $108.4 million (7.5%), from $1,453.2 million as at October 31, 2017 to $1,561.6 million as at October 31, 2018. This increase was mainly attributable to higher cash and cash equivalents in trust or otherwise reserved, deferred rent and cash security deposits receivable from lessors due to aircraft maintenance. Equity increased by $13.6 million from $555.0 million as at October 31, 2017 to $568.5 million as at October 31, 2018. This increase resulted primarily from a $5.2 million unrealized gain on cash flow hedges, combined with share capital issuances and a $1.6 million foreign exchange gain on translation of the financial statements of foreign subsidiaries.

CASH FLOWS

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

Operating activities

Operating activities generated $68.8 million in cash flows, compared with $161.5 million in 2017. The decrease resulted from a $52.1 million decrease in the net change in non-cash working capital balances related to operations and a $47.3 million decrease in the net income before operating items not involving an outlay (receipt) of cash.

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

Investing activities

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

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

Financing activities

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

RESTATED CONSOLIDATED FINANCIAL POSITION

	October 31, 2018 Restated[(1)] $	October 31, 2017 Restated[(1)] $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**593,654**	593,582	72	See the *Cash flows* section
Cash and cash equivalents in trust or otherwise reserved	**338,919**	309,064	29,855	Increase in business volume
Trade and other receivables	**140,009**	121,618	18,391	Increase in receivables from lessors due to aircraft maintenance
Income taxes receivable	**26,505**	17,418	9,087	Increase in income taxes recoverable given deductible losses
Inventories	**14,464**	12,790	1,674	Increase in fuel inventory
Prepaid expenses	**63,789**	64,245	(456)	No significant difference
Deposits	**61,992**	52,129	9,863	Increase in deposits related to ordered aircraft
Assets held for sale	**—**	47,472	(47,472)	Sale of Jonview subsidiary in November 2017
Deferred tax assets	**14,850**	16,286	(1,436)	Decrease in deferred taxes related to derivative financial instruments
Property, plant and equipment	**201,478**	134,672	66,806	Land acquisition in Mexico
Intangible assets	**42,689**	49,604	(6,915)	Amortization for the year, partially offset by additions
Derivative financial instruments	**20,497**	18,058	2,439	Favourable change in the dollar against the US dollar related to contracted derivatives
Investments	**16,084**	15,888	196	No significant difference
Other assets	**26,685**	390	26,295	Increase in deferred rent
Liabilities				
Trade and other payables	**326,621**	245,013	81,608	Increase in current portion of non-controlling interest, business volume and salaries payable
Provision for overhaul of leased aircraft	**57,228**	47,917	9,311	Increase in number of leased aircraft
Income taxes payable	**1,117**	8,102	(6,985)	Settlement of balances due
Derivative financial instruments	**3,445**	8,278	(4,833)	Maturity of foreign exchange derivatives during the year
Liabilities related to assets held for sale	**—**	33,109	(33,109)	Sale of Jonview subsidiary in November 2017
Customer deposits and deferred revenues	**510,631**	433,897	76,734	Increase in business volume
Other liabilities	**92,025**	119,713	(27,688)	Decrease in non-current portion of non-controlling interest, partially offset by the increase in deferred aircraft lease incentives
Deferred tax liabilities	**2,019**	2,217	(198)	No significant difference
Equity				
Share capital	**219,684**	215,444	4,240	Options exercised and shares issued from treasury
Share-based payment reserve	**18,017**	17,817	200	No significant difference
Retained earnings	**329,895**	327,562	2,333	Net income for the year
Unrealized gain on cash flow hedges	**9,732**	4,532	5,200	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(8,799)**	(10,385)	1,586	Foreign exchange gain on translation of financial statements of foreign subsidiaries

(1) The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

FINANCING

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

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

Off-balance sheet arrangements

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

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

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

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

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

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

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

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

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

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

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

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

Debt levels

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

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

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

Outstanding shares

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

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

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

Stock options

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

10.OTHER

FLEET

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

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

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

SUBSEQUENT EVENTS

On November 28, 2018, the Corporation acquired land in Puerto Morelos for an amount of US$11.8 million [$15.7 million], the balance of which was fully paid in cash.

On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5.0 million [$6.7 million], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded under Special items in the restated consolidated statement of income for the year ended October 31, 2018.

On August 23, 2019, a significant majority of shareholders voted in favour of the special resolution approving the previously announced plan of arrangement pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for $18.00 per share in cash. See Section 6 - Recent Developments for further details.

11. ACCOUNTING

Critical Accounting Estimates

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

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

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

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

Goodwill

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

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

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

INTANGIBLE ASSETS

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

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

As at April 30, 2018, after-tax discount rates used for impairment testing for trademarks ranged from 10.0% to 18.0% [between 10.3% and 18.0% as at April 30, 2017].

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

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

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

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

Fair value of derivative financial instruments

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

Provision for overhaul of leased aircraft

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

Non-controlling interest

A non-controlling interest, in respect of which the non-controlling shareholder may require the Corporation to buy back the shares held, is reclassified as liabilities at the estimated redemption value, thus assuming the option is exercised. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Generally speaking, the main assumptions used to calculate this provision would have to be adversely changed by over 15% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

Employee future benefits

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

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

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

Taxes

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

FINANCIAL INSTRUMENTS

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

Foreign exchange risk management

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

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

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

Management of fuel price risk

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

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $30.9 million as at October 31, 2018. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2018, approximately 6% of accounts receivable were over 90 days past due, whereas approximately 80% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

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

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

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

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

Liquidity risk

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

Interest rate risk

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instrum*ents 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 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation will adopt IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The Corporation will apply the new hedge accounting model and comply with the corresponding disclosure requirements for foreign exchange risk management activities with prospective application as of November 1, 2018. For hedging relationships including options that existed as at November 1, 2017 or those that have been designated since then, the Corporation will account for the changes related to the time value of the options retrospectively, with restatement of comparative figures. The accounting policies and the main changes related to the adoption of IFRS 9 are explained in note 4 to the restated consolidated financial statements for the year ended October 31, 2018.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue,* and various interpretations regarding revenue. IFRS 15 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. The Corporation will adopt IFRS 15 on November 1, 2018 retrospectively with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income for the year ended October 31, 2018. The accounting policies and the main changes related to the adoption of IFRS 15 are explained in note 4 to the restated consolidated financial statements for the year ended October 31, 2018.

IFRS 16, *Leases*

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

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize 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.

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

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

IFRIC 23, *Uncertainty over Income Tax Treatments*

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

12. RISKS AND UNCERTAINTIES

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

Risk Governance

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

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

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

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

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

Key Risks

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

Economic and General Risks

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

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

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

Competition Risks

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

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

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

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

Reputation Risk

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

Key Supplies and Supplier Risks

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

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

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

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

Aviation Risks

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

REGULATORY RISKS

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

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

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

HUMAN RESOURCE RISKS

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

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

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

INSURANCE COVERAGE RISKS

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

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

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

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

13.CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

MATERIAL WEAKNESS

In light of the restatement of the consolidated financial statements as discussed above in the Restatement section, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have concluded that the Corporation's ICFR were ineffective as at October 31, 2018 owing to a material weakness in ICFR that required a restatement of its consolidated financial statements.

The material weakness in the Corporation's ICFR as at October 31, 2018 had an impact on the accounting treatment for the non-controlling interest of the Trafictours Canada Inc. subsidiary. In June 2019, the Corporation identified a difference resulting from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest, which led to an undervaluation of $25.9 million as at October 31, 2018, as discussed in the Restatement section.

Although the ICFR relating to the accounting treatment for the non-controlling interest in question was designed such that it operates as intended, the observed deficiency prevented the ICFR from detecting in a timely manner a material misstatement in an amount reported in the Corporation's consolidated financial statements for prior years and accordingly, this ICFR is considered deficient in its operation and design, as defined in National Instrument 52-109.

REMEDIAL ACTIONS

Following the identification of this weakness, remedial actions were taken as of June 2019 to remediate this material weakness and also to strengthen the Corporation's DC&P and ICFR, including:

- a confirmation request will be sent annually to the minority shareholders of Trafictours Canada Inc. subsidiary to validate the application of the formula used to calculate the repurchase price of the minority interest.
- the annual monitoring by Internal Audit of the existence and effectiveness of the implemented corrective action.

It is important to note that the Corporation's internal controls and procedures remain very strong overall and reduce the risk of a similar error occurring in the future.

Despite the material weakness identified, based on our assessment, there is no other evidence to indicate the existence of additional material weaknesses that would have, or could reasonably be expected to have, an overall impact on ICFR during the year ended October 31, 2018. In addition, except for the situation discussed above, no other significant changes in ICFR occurred during the fourth quarter ended October 31, 2018 that have materially affected or are reasonably likely to materially affect the Corporation's ICFR.

14.OUTLOOK

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

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

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

MANAGEMENT'S REPORT

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

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

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

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

Chairman of the Board,
President and Chief Executive Officer

Jean-Marc Eustache

Vice-President, Finance and Administration
and Chief Financial Officer

Denis Pétrin

INDEPENDENT AUDITORS' REPORT

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

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

Management's responsibility for the restated consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Restated consolidated financial statements

Without modifying our opinion, we draw attention to Note 27 to the restated consolidated financial statements which explains that the consolidated financial statements for the year ended October 31, 2018 have been restated from those on which we originally reported on December 12, 2018.

Montréal, Canada
September 11, 2019
[1] CPA auditor, CA, public accountancy permit No. A113209

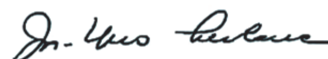
TRANSAT A.T. INC.
RESTATED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at October 31 (in thousands of Canadian dollars)	Note	2018 Restated *[note 27]* $	2017 Restated *[note 27]* $
ASSETS			
Cash and cash equivalents		**593,654**	593,582
Cash and cash equivalents in trust or otherwise reserved	*6*	**287,735**	258,964
Trade and other receivables	*7*	**140,009**	121,618
Income taxes receivable		**11,405**	2,318
Inventories		**14,464**	12,790
Prepaid expenses		**63,789**	64,245
Derivative financial instruments	*8*	**20,413**	18,024
Current portion of deposits	*9*	**20,250**	18,487
Assets held for sale	*5*	**—**	47,472
Current assets		**1,151,719**	1,137,500
Cash and cash equivalents reserved	*6*	**51,184**	50,100
Deposits	*9*	**41,742**	33,642
Income taxes receivable	*21*	**15,100**	15,100
Deferred tax assets	*21*	**14,850**	16,286
Property, plant and equipment	*10*	**201,478**	134,672
Intangible assets	*11*	**42,689**	49,604
Derivative financial instruments	*8*	**84**	34
Investments	*12*	**16,084**	15,888
Other assets	*13*	**26,685**	390
Non-current assets		**409,896**	315,716
		1,561,615	1,453,216
LIABILITIES			
Trade and other payables	*14, 20*	**326,621**	245,013
Current portion of provision for overhaul of leased aircraft	*15*	**27,313**	22,699
Income taxes payable		**1,117**	8,102
Customer deposits and deferred revenues		**510,631**	433,897
Derivative financial instruments	*8*	**2,766**	8,123
Liabilities related to assets held for sale	*5*	**—**	33,109
Current liabilities		**868,448**	750,943
Provision for overhaul of leased aircraft	*15*	**29,915**	25,218
Other liabilities	*17*	**92,025**	119,713
Derivative financial instruments	*8*	**679**	155
Deferred tax liabilities	*21*	**2,019**	2,217
Non-current liabilities		**124,638**	147,303
EQUITY			
Share capital	*18*	**219,684**	215,444
Share-based payment reserve		**18,017**	17,817
Retained earnings		**329,895**	327,562
Unrealized gain on cash flow hedges		**9,732**	4,532
Cumulative exchange differences		**(8,799)**	(10,385)
		568,529	554,970
		1,561,615	1,453,216

Commitments and contingencies *[note 24]* and Subsequent events *[note 28]*
See accompanying notes to restated consolidated financial statements

On behalf of the Board,

Director



Director

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

Years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Note	2018 Restated *[note 27]* $	2017 $
Revenues		**2,992,582**	3,005,345
Operating expenses			
Costs of providing tourism services		**1,091,924**	1,268,832
Aircraft fuel		**498,512**	358,558
Salaries and employee benefits	*19, 23*	**386,898**	371,863
Aircraft maintenance		**237,918**	203,669
Airport and navigation fees		**149,699**	134,665
Aircraft rent		**124,454**	132,139
Commissions		**87,763**	88,635
Other airline costs		**263,272**	225,512
Other		**135,225**	126,500
Share of net loss (income) of an associate and a joint venture	*5, 12*	**105**	(11,143)
Depreciation and amortization	*19*	**59,125**	68,470
Special items	*20*	**8,962**	2,925
		3,043,857	2,970,625
Operating income (loss)		**(51,275)**	34,720
Financing costs		**2,061**	2,134
Financing income		**(17,935)**	(8,363)
Change in fair value of fuel-related derivatives and other derivatives		**1,284**	(9,187)
Gain on business disposals	*5*	**(31,064)**	(86,616)
Foreign exchange gain on business disposal	*5*	**—**	(15,478)
Foreign exchange (gain) loss on non-current monetary items		**(339)**	426
Income before income tax expense		**(5,282)**	151,804
Income taxes (recovery)	*21*		
Current		**(6,494)**	18,684
Deferred		**(1,204)**	(5,252)
		(7,698)	13,432
Net income for the year		**2,416**	138,372
Net income attributable to:			
Shareholders		**(1,126)**	134,308
Non-controlling interest		**3,542**	4,064
		2,416	138,372
Earnings per share	*18*		
Basic		**(0.03)**	3.63
Diluted		**(0.03)**	3.63

See accompanying notes to restated consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	Note	2018 Restated [note 27] $	2017 Restated [note 27] $
Net income for the year		**2,416**	138,372
Other comprehensive income (loss)			
Items that will be reclassified to net income			
Change in fair value of derivatives designated as cash flow hedges		**12,459**	12,537
Reclassification to net income		**(5,385)**	(9,352)
Deferred taxes	21	**(1,874)**	(864)
		5,200	2,321
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries		**1,586**	(6,162)
Reclassification of foreign exchange gain on business disposal	5	**—**	(15,478)
		1,586	(21,640)
Items that will never be reclassified to net income			
Retirement benefits – Net actuarial gains	23	**2,219**	1,497
Deferred taxes	21	**(595)**	(401)
		1,624	1,096
Total other comprehensive income (loss)		**8,410**	(18,223)
Comprehensive income for the year		**10,826**	120,149
Attributable to:			
Shareholders		**6,289**	118,066
Non-controlling interest		**4,537**	2,083
		10,826	120,149

See accompanying notes to restated consolidated financial statements

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

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings Restated *[note 27]*	Unrealized gain on cash flow hedges	Cumulative exchange differences Restated *[note 27]*	Total Restated *[note 27]*	Non-controlling interests Restated *[note 27]*	Total equity Restated *[note 27]*
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2016	214,250	17,849	194,021	2,211	11,255	439,586	—	439,586
Net income for the year	—	—	134,308	—	—	134,308	4,064	138,372
Other comprehensive income (loss)	—	—	1,096	2,321	(19,659)	(16,242)	(1,981)	(18,223)
Comprehensive income for the year	—	—	135,404	2,321	(19,659)	118,066	2,083	120,149
Issued from treasury	1,094	—	—	—	—	1,094	—	1,094
Exercise of options	100	(31)	—	—	—	69	—	69
Vesting of PSUs	—	(312)	—	—	—	(312)	—	(312)
Share-based payment expense	—	311	—	—	—	311	—	311
Dividends	—	—	—	—	—	—	(4,447)	(4,447)
Fair value changes in non-controlling interest liabilities	—	—	(1,863)	—	—	(1,863)	1,863	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(1,480)	(1,480)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,981)	(1,981)	1,981	—
	1,194	(32)	(1,863)	—	(1,981)	(2,682)	(2,083)	(4,765)
Balance as at October 31, 2017	**215,444**	**17,817**	**327,562**	**4,532**	**(10,385)**	**554,970**	**—**	**554,970**
Net income (loss) for the year	—	—	(1,126)	—	—	(1,126)	3,542	2,416
Other comprehensive income	—	—	1,624	5,200	591	7,415	995	8,410
Comprehensive income for the year	—	—	498	5,200	591	6,289	4,537	10,826
Issued from treasury	1,555	—	—	—	—	1,555	—	1,555
Exercise of options	2,685	(812)	—	—	—	1,873	—	1,873
Vesting of PSUs	—	(1,198)	—	—	—	(1,198)	—	(1,198)
Share-based payment expense	—	2,210	—	—	—	2,210	—	2,210
Dividends	—	—	—	—	—	—	(3,302)	(3,302)
Fair value changes in non-controlling interest liabilities	—	—	1,835	—	—	1,835	(1,835)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,595	1,595
Reclassification of non-controlling interest exchange difference	—	—	—	—	995	995	(995)	—
	4,240	200	1,835	—	995	7,270	(4,537)	2,733
Balance as at October 31, 2018	**219,684**	**18,017**	**329,895**	**9,732**	**(8,799)**	**568,529**	**—**	**568,529**

See accompanying notes to restated consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	Note	2018 Restated [note 27] $	2017 $
OPERATING ACTIVITIES			
Net income for the year		**2,416**	138,372
Non-cash operating items:			
Depreciation and amortization	19	**59,125**	68,470
Change in fair value of fuel-related derivatives and other derivatives		**1,284**	(9,187)
Gain on business disposals	5	**(31,064)**	(86,616)
Foreign exchange gain on business disposal	5	**—**	(15,478)
Foreign exchange (gain) loss on non-current monetary items		**(339)**	426
Share of net loss (income) of an associate and a joint venture		**105**	(11,143)
Deferred taxes		**(1,204)**	(5,252)
Employee benefits		**2,799**	2,732
Share-based payment expense		**2,210**	311
		35,332	82,635
Net change in non-cash working capital balances related to operations		**17,167**	69,269
Net change in provision for overhaul of leased aircraft		**9,311**	7,056
Net change in other assets and liabilities related to operations		**6,994**	2,527
Cash flows related to operating activities		**68,804**	161,487
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(119,053)**	(69,523)
Increase in cash and cash equivalent reserved		**(1,084)**	(3,650)
Consideration received on business disposals, net of cash disposed of	5	**26,493**	187,500
Consideration paid for business acquisitions		**—**	(20,321)
Dividend received from an associate	12	**—**	3,895
Cash flows related to investing activities		**(93,644)**	97,901
FINANCING ACTIVITIES			
Proceeds from issuance of shares		**3,428**	1,163
Repurchase of shares related to stock-based compensation		**(556)**	(312)
Dividends paid by a subsidiary to a non-controlling shareholder		**(3,302)**	(4,447)
Cash flows related to financing activities		**(430)**	(3,596)
Effect of exchange rate changes on cash and cash equivalents		**(982)**	450
Net change in cash and cash equivalents related to continuing operations		**(26,252)**	256,242
Cash and cash equivalents held for sale	5	**—**	(26,324)
Cash and cash equivalents held for sale, beginning of year		**26,324**	—
Cash and cash equivalents, beginning of year		**593,582**	363,664
Cash and cash equivalents, end of year		**593,654**	593,582
Supplementary information (as reported in operating activities)			
Net income taxes paid (recovered)		**10,670**	(11,883)
Interest paid		**334**	432

See accompanying notes to restated consolidated financial statements

October 31, 2018 and 2017

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

Note 1 Corporate information

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. Its Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange. The Corporation's Class A Variable Voting Shares and Class B Voting Shares are traded on the Toronto Stock Exchange under a single ticker symbol, namely "TRZ".

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. As at October 31, 2018, the core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The restated consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2018 were approved by the Corporation's Board of Directors on September 11, 2019.

Note 2 Significant accounting policies

Basis of preparation

These restated consolidated financial statements of the Corporation and its subsidiaries are prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada.

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

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

Basis of consolidation

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

SUBSIDIARIES

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

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

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

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

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

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

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

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

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

INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

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

- Investment is initially recognized at cost;

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

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

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

Foreign currency translation

TRANSACTIONS AND BALANCES

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

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

GROUP COMPANIES

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated at the period-end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The exchange differences arising from translation are recognized in Cumulative exchange differences in Accumulated other comprehensive income (loss) in equity. On disposal of an interest, the exchange difference component relating to that particular interest is recognized in the consolidated statement of income.

Cash equivalents

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

Goodwill

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

Intangible assets

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

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

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

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

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

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

Software	3–10 years
Customer lists	7–10 years

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

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

Operating lease and deferred lease inducements

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

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

Financial instruments

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

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

Loans and receivables and other financial liabilities

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

These derivative financial instruments are designated as cash flow hedges.

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

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

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

TRANSACTION COSTS

Transaction costs related to financial assets and financial liabilities classified as financial assets or liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

FAIR VALUE

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

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

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

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

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

Impairment of financial assets classified as loans and receivables

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

Impairment of non-financial assets

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

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

INTANGIBLE ASSETS

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

REVERSAL OF IMPAIRMENT LOSSES

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

Provisions

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

Employee future benefits

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

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

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

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

Revenue recognition

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

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

Income taxes

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

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

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

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

Share-based payment plans

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

EQUITY-SETTLED TRANSACTIONS

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

CASH-SETTLED TRANSACTIONS

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

EMPLOYEE SHARE PURCHASE PLANS

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

Earnings per share

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

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

Note 3 Significant accounting estimates and judgments

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

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

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

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

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

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

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

Fair value of derivative financial instruments

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

Provision for overhaul of leased aircraft

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

Non-controlling interest

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

Employee future benefits

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

Taxes

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

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

Note 4 Future changes in accounting policies

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

IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments*, addresses the classification and measurement of financial assets and financial liabilities and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation will adopt IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The main changes are discussed below.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. Financial assets previously classified as "loans and receivables" are now included in the "amortized cost" category. With respect to financial liabilities, trade and other payables that were formerly classified as "other financial liabilities" are now included in the "amortized cost" category. The Corporation has determined that this change has no other impact on its consolidated financial statements, particularly with respect to the measurement of financial assets and financial liabilities.

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

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

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

The Corporation separates the intrinsic value and time value of an option and designates as the hedging instrument only the change in intrinsic value of an option; this method was also applied under IAS 39. Accordingly, for effective hedging relationships in existence as at November 1, 2017 or designated thereafter, the Corporation is required to account for the time value of the options retrospectively in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss). The cumulative effect of the adoption of IFRS 9 on the consolidated statements of financial position as at October 31, 2018 and 2017 is an increase in retained earnings of $7,761 and $683, respectively, with equivalent reductions in unrealized profit from cash flow hedges. The effect of the adoption of IFRS 9 on the consolidated statement of income is a $7,078 increase in net income for the year ended October 31, 2018. The Corporation has determined that this change had no other impact on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue,* as well as various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers 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. The Corporation will adopt IFRS 15 as of November 1, 2018 with retrospective application and an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income for the year ended October 31, 2018. The main changes are discussed below.

The practical expedient of paragraph C5(d) of IFRS 15 will be applied. For the periods before the date of initial application, the Corporation does not need to disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when it expects to recognize that amount as revenue.

REVENUE FROM PASSENGER AIR TRANSPORTATION

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

REVENUE FROM THE LAND PORTION OF HOLIDAY PACKAGES

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

REVENUE FROM TRAVEL AGENCY COMMISSIONS

Commission revenue from travel agencies will be recognized when passengers depart. Prior to the adoption of IFRS 15, these revenues were recognized at the time of booking. This change in accounting policy will affect the timing of revenue recognition.

REPORTING REVENUE GROSS OR NET

All airport taxes will be recognized on a net basis as a result of new criteria set out in IFRS 15. Prior to the adoption of IFRS 15, revenue related to certain airport taxes were recognized on a gross basis. For the year ended October 31, 2018, the impact on the consolidated statement of income consisted of a $156,430 decrease in revenue and the corresponding costs.

Prior to the adoption of IFRS 15, some revenues were reported net of commission costs. These revenues will be reported on a gross basis, with the corresponding commission costs reported under Selling and distribution costs. For the year ended October 31, 2018, the impact on the consolidated statement of income consisted of a $12,955 increase in revenue and the corresponding costs. The reclassifications will have no impact on operating results.

STATEMENT OF INCOME (LOSS) PRESENTATION

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

RECOGNIZING THE COSTS OF OBTAINING A CONTRACT

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

IFRS 16, *Leases*

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

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize 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.

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

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

IFRIC 23, *Uncertainty over Income Tax Treatments*

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

Note 5 Business acquisitions and disposals

Jonview Canada Inc.

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

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview, which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price totals $48,896, of which $46,696 was received in cash, with the balance of $2,200 receivable under certain contractual conditions prior to May 31, 2019. The disposed subsidiary's net assets amounted to $13,430 on November 30, 2017. The Corporation recognized a gain on business disposal of $31,264, net of transaction costs of $486 and of $3,716 due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which $3,278 was paid in cash during the year, as an additional consideration to the repurchase price of the 19.93% interest held by the Fonds in December 2016.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income and comprehensive income for the years ended October 31, 2018 and 2017. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

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

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

Ocean Hotels

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

Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1,500 [$1,935] to US$149,000 [$185,565]. As a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a downward adjustment of $200 to the gain on business disposal, bringing the total amount of the gain on disposal of Ocean Hotels to $86,416.

Desarrollo Transimar

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

Note 6 Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2018, cash and cash equivalents in trust or otherwise reserved included $276,038 [$239,974 as at October 31, 2017] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $62,881, of which $51,184 was recorded as non-current assets [$69,090 as at October 31, 2017, of which $50,100 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 Trade and other receivables

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

Note 8 Financial instruments

Classification of financial instruments

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

	Carrying amount				
	Financial assets/liabilities at fair value through profit or loss $	**Loans and receivables** $	**Other financial liabilities Restated** *[note 27]* $	**Total Restated** *[note 27]* $	**Fair value Restated** *[note 27]* $
As at October 31, 2018					
Financial assets					
Cash and cash equivalents	593,654	—	—	593,654	593,654
Cash and cash equivalents in trust or otherwise reserved	338,919	—	—	338,919	338,919
Trade and other receivables	—	117,832	—	117,832	117,832
Deposits on leased aircraft and engines	—	34,874	—	34,874	34,874
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	6,873	—	—	6,873	6,873
-Other foreign currency derivatives	11,233	—	—	11,233	11,233
	950,679	152,706	—	1,103,385	1,103,385
Financial liabilities					
Trade and other payables	—	—	249,607	249,607	249,607
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	844	—	—	844	844
-Other foreign currency derivatives	1,996	—	—	1,996	1,996
Non-controlling interest	—	—	48,700	48,700	48,700
	2,840	—	298,307	301,147	301,147

	Carrying amount				
	Financial assets/liabilities at fair value through profit or loss	**Loans and receivables**	**Other financial liabilities Restated** *[note 27]*	**Total Restated** *[note 27]*	**Fair value Restated** *[note 27]*
	$	**$**	**$**	**$**	**$**
As at October 31, 2017					
Financial assets					
Cash and cash equivalents	593,582	—	—	593,582	593,582
Cash and cash equivalents in trust or otherwise reserved	309,064	—	—	309,064	309,064
Trade and other receivables	—	100,015	—	100,015	100,015
Deposits on leased aircraft and engines	—	28,033	—	28,033	28,033
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,471	—	—	8,471	8,471
-Other foreign currency derivatives	2,054	—	—	2,054	2,054
	913,171	128,048	—	1,041,219	1,041,219
Financial liabilities					
Trade and other payables	—	—	226,170	226,170	226,170
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	212	—	—	212	212
-Other foreign currency derivatives	2,656	—	—	2,656	2,656
Non-controlling interest	—	—	49,300	49,300	49,300
	2,868	—	275,470	278,338	278,338

Determination of fair value of financial instruments

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

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

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

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

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

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

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3) Restated *[note 27]*	Total Restated *[note 27]*
	$	$	$	$
As at October 31, 2018				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	**—**	**6,873**	**—**	**6,873**
-Foreign exchange forward contracts and other foreign currency derivatives	**—**	**13,624**	**—**	**13,624**
	—	**20,497**	**—**	**20,497**
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	**—**	**844**	**—**	**844**
-Foreign exchange forward contracts and other foreign currency derivatives	**—**	**2,601**	**—**	**2,601**
Non-controlling interest	**—**	**—**	**48,700**	**48,700**
	—	**3,445**	**48,700**	**52,145**

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3) Restated *[note 27]*	Total Restated *[note 27]*
	$	$	$	$
As at October 31, 2017				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	8,471	—	8,471
-Foreign exchange forward contracts and other foreign currency derivatives	—	9,587	—	9,587
	—	18,058	—	18,058
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	212	—	212
-Foreign exchange forward contracts and other foreign currency derivatives	—	8,066	—	8,066
Non-controlling interest	—	—	49,300	49,300
	—	8,278	49,300	57,578

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

	2018 Restated *[note 27]* $	2017 Restated *[note 27]* $
Balance, beginning of year	**49,300**	54,784
Net income	**3,542**	4,064
Other comprehensive income (loss)	**995**	(1,981)
Dividends	**(3,302)**	(4,447)
Acquisitions and disposals of subsidiaries	**—**	(4,983)
Change in fair value of non-controlling interest	**(1,835)**	1,863
	48,700	49,300

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

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

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

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

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

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

Liquidity risk

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

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

	Maturing in under 1 year Restated *[note 27]*	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Contractual cash flows Total Restated *[note 27]*	Carrying amount Total Restated *[note 27]*
	$	$	$	$	$
Accounts payable and accrued liabilities	249,607	–	–	249,607	249,607
Non-controlling interest	48,700	–	–	48,700	48,700
Derivative financial instruments	2,778	679	–	3,457	3,445
Total	**301,085**	**679**	**–**	**301,764**	**301,752**

Market risk

FOREIGN EXCHANGE RISK

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

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

Net assets (liabilities)	U.S. dollar Restated *[note 27]* $	Euro $	Pound sterling $	Canadian dollar $	Other currencies $	Total Restated *[note 27]* $
2018						
Financial statement measurement currency of the group's companies						
Euro	**6**	**—**	**—**	**—**	**—**	**6**
Pound sterling	**(94)**	**201**	**—**	**(1,759)**	**—**	**(1,652)**
Canadian dollar	**43,995**	**(9,413)**	**10,222**	**—**	**367**	**45,171**
Other currencies	**(911)**	**27**	**—**	**13**	**597**	**(274)**
Total	**42,996**	**(9,185)**	**10,222**	**(1,746)**	**964**	**43,251**

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

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

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

RISK OF FLUCTUATIONS IN FUEL PRICES

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

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

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

INTEREST RATE RISK

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

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

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

CAPITAL RISK MANAGEMENT

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

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

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

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

	2018 **Restated** *[note 27]* **$**	**2017** **Restated** *[note 27]* **$**
Net debt		
Long-term debt	**—**	—
Adjusted operating leases	**622,270**	660,695
Cash and cash equivalents	**(593,654)**	(593,582)
	28,616	67,113
Equity	**568,529**	554,970
Adjusted debt/equity ratio	**5.0%**	12.1%

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

Note 9 Deposits

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

Note 10 Property, plant and equipment

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

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

Note 11 Intangible assets

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

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

Impairment test in 2018

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

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

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

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

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

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

Note 12 Investment

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

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

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

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

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

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

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

Note 13 Other assets

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

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

Note 14 Trade and other payables

	2018 Restated *[note 27]* $	2017 $
Trade payables	**152,282**	132,816
Accrued expenses	**33,824**	37,348
Salaries and employee benefits payable	**63,501**	56,006
Government remittances	**28,314**	18,843
Non-controlling interest *[note 8]*	**48,700**	—
	326,621	245,013

Note 15 Provision for overhaul of leased aircraft

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases. The change in the provision for overhaul of leased aircraft for the year ended October 31, 2018 is detailed as follows:

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

Note 16 Long-term debt

On May 11, 2018, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial ratios and conditions. As at October 31, 2018, all financial ratios and conditions were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2018, $56,151 had been drawn down under the facility [$54,847 as at October 31, 2017], of which $51,184 is to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

Note 17 Other liabilities

	2018 Restated *[note 27]* **$**	**2017 Restated** *[note 27]* **$**
Employee benefits *[note 23]*	**40,388**	40,764
Deferred lease inducements	**51,637**	29,649
Non-controlling interest *[note 8]*	**48,700**	49,300
	140,725	119,713
Less non-controlling interest included in Trade and other payables *[note 14]*	**(48,700)**	—
	92,025	119,713

Non-controlling interest

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

Note 18 Equity

Authorized share capital

Class A Variable Voting Shares

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

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

Issued and outstanding share capital

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

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

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

Subscription rights plan

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

Stock option plan

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

The following tables summarize all outstanding options:

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

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

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

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

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

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

Performance share unit plan

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

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

Share purchase plan

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

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

Stock ownership incentive and capital accumulation plan

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

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

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

Permanent stock ownership incentive plan

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

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

Deferred share unit plan

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

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

Restricted share unit plan

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

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

Earnings per share

Basic and diluted earnings per share were calculated as follows:

[In thousands, except per share amounts]	**2018 Restated** *[note 27]* $	**2017** $
NUMERATOR		
Net income attributable to shareholders	**(1,126)**	134,308
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,394**	36,995
Effect of dilutive securities		
Stock options	**—**	45
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,394**	37,040
Earnings per share		
Basic	**(0.03)**	3.63
Diluted	**(0.03)**	3.63

Given the net loss recorded for the year ended October 31, 2018, all 1,786,588 outstanding stock options [1,772,084 in 2017] were excluded from the calculation due to their anti-dilutive effect.

Note 19 Additional disclosure on expenses

Salaries and employee benefits

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

Depreciation and amortization

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

Note 20 Special items

Special items mainly include termination benefits and other significant unusual items. During the year ended October 31, 2018, the Corporation recorded a restructuring charge of $2,262 [$2,925 for the year ended October 31, 2017], comprising mainly termination benefits, of which an amount of $1,772 was unpaid as at October 31, 2018 and included under accounts payable and accrued liabilities. During the year ended October 31, 2018, the Corporation also recorded an amount of $6,700 related to the settlement of a dispute *[see note 28]*.

Note 21 Income taxes

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

Consolidated statements of income	**2018 Restated *[note 27]* $**	**2017 $**
Current		
Current income taxes	**(7,505)**	15,378
Adjustment to taxes payable for prior years	**1,011**	3,306
	(6,494)	18,684
Deferred		
Relating to temporary differences	**(672)**	(2,366)
Adjustment to deferred taxes for prior years	**(532)**	(2,886)
	(1,204)	(5,252)
Income tax expense (recovery)	**(7,698)**	13,432

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

	2018 Restated *[note 27]*		2017	
	%	$	%	$
Income taxes at the statutory rate	**26.7**	**(1,410)**	26.8	40,709
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	**60.8**	**(3,213)**	(2.4)	(3,629)
Non-deductible (non-taxable) items	**86.4**	**(4,563)**	(16.4)	(24,670)
Recognition of previously unrecorded tax benefits	**3.0**	**(156)**	—	(46)
Derecognition of a future income tax asset	**(16.6)**	**874**	0.3	402
Adjustments for prior years	**(9.1)**	**479**	0.3	420
Effect of tax rate changes	**0.2**	**(12)**	0.1	114
Other	**(5.7)**	**303**	0.1	132
	145.7	**(7,698)**	8.8	13,432

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

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

	2018				
	Balance, beginning of year	Recognized in net income Restated *[note 27]*	Recognized in other comprehensive income	Exchange differences	Balance, end of year Restated *[note 27]*
	$	$	$	$	$
Deferred tax losses	**1,467**	**(1,224)**	**—**	**—**	**243**
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	**(12,646)**	**525**	**—**	**18**	**(12,103)**
Intangible assets, excluding software	**837**	**9**	**—**	**9**	**855**
Derivative financial instruments	**(2,750)**	**271**	**(1,874)**	**—**	**(4,353)**
Other financial assets and other assets	**1,289**	**(148)**	**—**	**—**	**1,141**
Provisions	**13,151**	**4,785**	**—**	**—**	**17,936**
Employee benefits	**10,802**	**496**	**(595)**	**—**	**10,703**
Other financial liabilities and other liabilities	**1,919**	**(3,510)**	**—**	**—**	**(1,591)**
Deferred tax	**14,069**	**1,204**	**(2,469)**	**27**	**12,831**

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

The net deferred tax assets are detailed below:

	2018 Restated *[note 27]*	2017
	$	$
Deferred tax assets	**14,850**	16,286
Deferred tax liabilities	**(2,019)**	(2,217)
Net deferred tax assets	**12,831**	14,069

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

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

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

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

Note 22 Related party transactions and balances

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

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

Compensation of key senior executives

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

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

Note 23 Employee future benefits

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

Defined benefit arrangements and post-employment benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined contribution pension plans

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

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

Note 24 Commitments and contingencies

Operating leases

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

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

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

Other commitments

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

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

Litigation

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

The Corporation is involved in a particular litigation in which plaintiffs allege misappropriation of confidential information and solicitation of employees. Although the amended complaint did not disclose the amount of damages claimed, the plaintiffs' principal, during his deposition, asserted that they amounted to at least US$30,000 [$39,400]. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5,000 [$6,700] *[see notes 27 and 28]*.

Other

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

Note 25 Guarantees

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

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

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

Operating leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2018, the total amount of these guarantees unsecured by deposits was $419. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2018, no amounts had been accrued with respect to the above-mentioned agreements.

Irrevocable credit facility unsecured by deposits

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

Note 26 Segmented disclosure

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

Note 27 Restatement of consolidated financial statements

On June 27, 2019, the Corporation announced that it needed to restate its consolidated financial statements and MD&A for the year ended October 31, 2018. Management has concluded that a restatement of its consolidated financial statements is necessary regarding the carrying amount of the non-controlling interest in the Trafictours Canada Inc. subsidiary.

The carrying amount of the non-controlling interest is related to the Trafictours Canada Inc. subsidiary and the right of the minority shareholder to require that the Corporation purchase the Trafictours Canada Inc. shares it holds at a price calculated in accordance with a pre-determined formula, subject to adjustment based on the circumstances, payable in cash. The estimated repurchase value of this option is taken into account in the carrying amount of the non-controlling interest. The difference results from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest. As a result, the liability for the non-controlling interest reported under Trade and other payables and Other liabilities in the consolidated statements of financial position as at October 31, 2018 and 2017, respectively, was undervalued by $25,900 and $22,900 as at October 31, 2018 and 2017, respectively. These under-valuations have no impact on the consolidated statements of income for the aforementioned periods as such adjustments are recorded as equity transactions in the Retained earnings.

The non-controlling interest in the Trafictours Canada Inc. subsidiary is also undervalued in the Corporation's consolidated financial statements for the periods prior to October 31, 2017. However, the Corporation believes that that it is not necessary to present the adjusted amounts for these prior periods given the adjustments made to the 2018 and 2017 fiscal years. The opening balance of Retained earnings as at October 31, 2016 was undervalued by $24,800 and was restated.

An amount of $6,700 related to the settlement of a litigation was also recorded under Special items in the restated consolidated statements of income for the quarter ended October 31, 2018 *[see note 28]*.

The impact of the restatement of the consolidated financial statements for 2018 and 2017 is shown in the tables below:

Consolidated statements of financial position

As at October 31			2018			2017
(in thousands of Canadian dollars)	**As published** $	**Restate-ment** $	**Restated** $	**As published** $	**Restate-ment** $	**Restated** $
ASSETS						
Deferred tax assets	13,095	1,755	**14,850**	16,286	—	**16,286**
Non-current assets	408,141	1,755	**409,896**	315,716	—	**315,716**
	1,559,860	1,755	**1,561,615**	1,453,216	—	**1,453,216**
LIABILITIES						
Trade and other payables	294,021	32,600	**326,621**	245,013	—	**245,013**
Current liabilities	835,848	32,600	**868,448**	750,943	—	**750,943**
Other liabilities	92,025	—	**92,025**	96,813	22,900	**119,713**
Non-current liabilities	124,638	—	**124,638**	124,403	22,900	**147,303**
EQUITY						
Retained earnings	361,098	(31,203)	**329,895**	351,138	(23,576)	**327,562**
Cumulative exchange differences	(9,157)	358	**(8,799)**	(11,061)	676	**(10,385)**
	599,374	(30,845)	**568,529**	577,870	(22,900)	**554,970**
	1,559,860	1,755	**1,561,615**	1,453,216	—	**1,453,216**

Consolidated statements of income	**Year ended October 31, 2018**		
(in thousands of Canadian dollars, except per share amounts)	**As published $**	**Restatement $**	**Restated $**
Revenues	2,992,582	—	**2,992,582**
Operating expenses			
Special items	2,262	6,700	**8,962**
	3,037,157	6,700	**3,043,857**
Operating income (loss)	(44,575)	(6,700)	**(51,275)**
Income before income tax expense	1,418	(6,700)	**(5,282)**
Income taxes (recovery)			
Deferred	551	(1,755)	**(1,204)**
	(5,943)	(1,755)	**(7,698)**
Net income for the year	7,361	(4,945)	**2,416**
Net income attributable to:			
Shareholders	3,819	(4,945)	**(1,126)**
Non-controlling interest	3,542	—	**3,542**
	7,361	(4,945)	**2,416**
Earnings per share			
Basic	0.10	(0.13)	**(0.03)**
Diluted	0.10	(0.13)	**(0.03)**

The detailed impact of the restatement of retained earnings for 2018 and 2017 is shown in the table below:

	Retained earnings		
(in thousands of Canadian dollars)	**As published $**	**Restatement $**	**Restated $**
Balance as at October 31, 2016	218,821	(24,800)	**194,021**
Net income for the year	134,308	—	**134,308**
Other comprehensive income	1,096	—	**1,096**
Comprehensive income for the year	135,404	—	**135,404**
Fair value changes in non-controlling interest liabilities	(3,087)	1,224	**(1,863)**
Balance as at October 31, 2017	351,138	(23,576)	**327,562**
Net income (loss) for the year	3,819	(4,945)	**(1,126)**
Other comprehensive income	1,624	—	**1,624**
Comprehensive income (loss) for the year	5,443	(4,945)	**498**
Fair value changes in non-controlling interest liabilities	4,517	(2,682)	**1,835**
Balance as at October 31, 2018	361,098	(31,203)	**329,895**

Note 28 Subsequent events

On November 28, 2018, the Corporation acquired land in Puerto Morelos for an amount of US$11,800 [$15,709], the balance of which was fully paid in cash.

As part of the restatement of its consolidated financial statements as at October 31, 2018 *[see note 27],* the Corporation reviewed subsequent events up to September 11, 2019, the new date of authorization to publish the financial statements for the year ended October 31, 2018. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5,000 [$6,700], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded under Special items in the restated consolidated statements of income for the year ended October 31, 2018. No provision was recorded in the October 31, 2018 financial statements as initially disclosed since it was not possible to determine with certainty the impact of the financial liability that could arise from such proceedings if the defense of the Corporation was not retained.

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

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

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

	2018 Restated *[note 27]*	2017 Restated *[note 27]*	2016 Restated *[note 27]*	2015 Restated *[note 27]*	2014 Restated *[note 27]*
Consolidated statements of income (loss)					
Continuing operations					
Revenues	**2,992,582**	3,005,345	2,889,646	2,897,950	2,996,106
Operating expenses	**2,975,770**	2,899,230	2,856,118	2,797,342	2,909,737
Depreciation and amortization	**59,125**	68,470	50,038	45,817	43,581
Special items	**8,962**	2,925	13,825	—	6,387
Operating income (loss)	**(51,275)**	34,720	(30,335)	54,791	36,401
Financing costs	**2,061**	2,134	1,669	1,775	1,541
Financing income	**(17,935)**	(8,363)	(6,996)	(7,576)	(7,872)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**1,284**	(9,187)	(6,901)	1,391	21,978
Foreign exchange gain	**(339)**	(15,052)	(1,284)	(2,531)	(1,123)
Impairment of assets	**—**	—	79,708	—	369
Loss (gain) on business disposals	**(31,064)**	(86,616)	843	—	—
Income (loss) before income tax expense	**(5,282)**	151,804	(97,374)	61,732	21,508
Income taxes (recovery)	**(7,698)**	13,432	(10,843)	12,413	1,724
Net income (loss) from continuing operations	**2,416**	138,372	(86,531)	49,319	19,784
Discontinued operations					
Net income (loss) from discontinued operations	**—**	—	49,772	(2,355)	6,282
Net income (loss) for the year	**2,416**	138,372	(36,759)	46,964	26,066
Non-controlling interest in subsidiaries' results	**3,542**	4,064	4,989	4,399	3,191
Net income (loss) for the year attributable to shareholders	**(1,126)**	134,308	(41,748)	42,565	22,875
Basic earnings (loss) per share	**(0.03)**	3.63	(1.13)	1.11	0.59
Diluted earnings (loss) per share	**(0.03)**	3.63	(1.13)	1.10	0.59
Cash flows related to:					
Operating activities	**68,804**	161,487	43,561	108,992	90,009
Investing activities	**(93,644)**	97,901	5,093	(53,854)	(52,683)
Financing activities	**(430)**	(3,596)	(9,823)	(12,672)	191
Effect of exchange rate changes on cash and cash equivalents	**(982)**	450	(12,132)	3,402	(2,262)
Net change in cash and cash equivalents related to continuing operations	**(26,252)**	256,242	26,699	45,868	35,255
Cash and cash equivalents, end of year	**593,654**	593,582	363,664	336,423	308,887
Total assets	**1,561,615**	1,453,216	1,277,420	1,513,764	1,375,030
Long-term debt (including current portion)	**—**	—	—	—	—
Equity	**568,529**	554,970	439,586	518,252	464,946
Debt ratio[1]	**0.64**	0.62	0.66	0.66	0.66
Book value per share[2]	**15.14**	14.97	11.93	13.79	12.00
Shareholding statistics (in thousands)					
Outstanding shares, end of year	**37,545**	37,064	36,859	37,591	38,742
Weighted average number of shares outstanding:					
Undiluted	**37,394**	36,995	36,899	38,442	38,644
Diluted	**37,394**	37,040	36,899	38,558	39,046

[1] Total liabilities divided by total assets.
[2] Total equity divided by the number of outstanding share

transat