TRANSAT A.T. INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2017

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

Trading symbol
TSX: TRZ

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended April 30, 2017, compared with the quarter ended April 30, 2016, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2016, the accompanying notes and the 2016 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second-quarter update to the information contained in the MD&A section of our 2016 Annual Report. The risks and uncertainties set out in the MD&A of the 2016 Annual Report are herein incorporated by reference and remain unchanged. The information contained herein is dated as of March 15, 2017. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended April 30, 2017 and the Annual Information Form for the year ended October 31, 2016.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements, by their nature, necessarily 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, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, statutory changes, adverse regulatory developments or procedures, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

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 Corporation made a number of assumptions in making forward-looking statements in this MD&A such as certain economic, market, operational and financial assumptions and assumptions about transactions and forward-looking statements.

Examples of such forward-looking statements include, but are not limited to, statements concerning:

- 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 the summer season, the impact of increased fuel cost combined with currency fluctuation will not result in any increase of operating expenses compared with the same period last year.
- The outlook whereby global results for the second six-month period will be similar to those of last year.

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

By excluding from results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect the Corporation's operating performance for the period, such as the change in fair value of fuel-related derivatives and other derivatives, restructuring charges, impairment of goodwill, depreciation and amortization and other significant unusual items, we believe this MD&A helps users to better analyze the Corporation's results and 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 items mentioned previously 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 disposal of a subsidiary, 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 items mentioned previously 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 disposal of a subsidiary, 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 items mentioned previously 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 discharge 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 with respect to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to discharge its current and future financial obligations.

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30		Six-month periods ended April 30	
	2017 $	2016 $	2017 $	2016 $
Operating income (loss)	(15,061)	(13,701)	(65,732)	(54,243)
Depreciation and amortization	17,152	11,718	31,358	23,224
Premium related to fuel-related derivatives and other derivatives matured during the period	(583)	(3,019)	(1,197)	(5,666)
Adjusted operating income (loss)	1,508	(5,002)	(35,571)	(36,685)
Income (loss) before income tax expense	(11,616)	(34,763)	(56,727)	(106,819)
Change in fair value of fuel-related derivatives and other derivatives	930	3,877	(3,874)	37,964
Loss on disposal of a subsidiary	—	843	—	843
Asset impairment	—	15,809	—	15,809
Premium related to fuel-related derivatives and other derivatives matured during the period	(583)	(3,019)	(1,197)	(5,666)
Adjusted pre-tax income (loss)	(11,269)	(17,253)	(61,798)	(57,869)
Net income (loss) attributable to shareholders	(8,354)	(24,952)	(40,427)	(86,107)
Net (income) loss from discontinued operations	—	(381)	—	7,380
Change in fair value of fuel-related derivatives and other derivatives	930	3,877	(3,874)	37,964
Loss on disposal of a subsidiary	—	843	—	843
Asset impairment	—	15,809	—	15,809
Premium related to fuel-related derivatives and other derivatives matured during the period	(583)	(3,019)	(1,197)	(5,666)
Tax impact	(93)	(4,045)	1,359	(12,471)
Adjusted net income (loss)	(8,100)	(11,868)	(44,139)	(42,248)
Adjusted net income (loss)	(8,100)	(11,868)	(44,139)	(42,248)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	36,937	36,736	36,909	36,999
Adjusted net income (loss) per share	(0.22)	(0.32)	(1.20)	(1.14)

	As at April 30, 2017 $	As at October 31, 2016 $
Aircraft rent for the past four quarters	138,253	135,813
Multiple	5	5
Adjusted operating leases	691,265	679,065
Long-term debt	—	—
Adjusted operating leases	691,265	679,065
Total debt	691,265	679,065
Total debt	691,265	679,065
Cash and cash equivalents	(566,288)	(363,664)
Total net debt	124,977	315,401

FINANCIAL HIGHLIGHTS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of Canadian dollars, except per share amounts)	2017 $	2016 $	Difference $	Difference %	2017 $	2016 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	884,310	888,221	(3,911)	(0.4)	1,573,642	1,613,944	(40,302)	(2.5)
Operating income (loss)	(15,061)	(13,701)	(1,360)	(9.9)	(65,732)	(54,243)	(11,489)	(21.2)
Net income (loss) attributable to shareholders	(8,354)	(24,952)	16,598	66.5	(40,427)	(86,107)	45,680	53.1
Basic earnings (loss) per share	(0.23)	(0.68)	0.45	66.2	(1.10)	(2.33)	1.23	52.8
Diluted earnings (loss) per share	(0.23)	(0.68)	0.45	66.2	(1.10)	(2.33)	1.23	52.8
Adjusted operating income (loss)[1]	1,508	(5,002)	6,510	130.1	(35,571)	(36,685)	1,114	3.0
Adjusted net income (loss)[1]	(8,100)	(11,868)	3,768	31.7	(44,139)	(42,248)	(1,891)	(4.5)
Adjusted net income (loss) per share[1]	(0.22)	(0.32)	0.10	31.3	(1.20)	(1.14)	(0.06)	(5.3)
Consolidated Statements of Cash Flows								
Operating activities	138,617	31,396	107,221	341.5	255,000	165,651	89,349	53.9
Investing activities	(28,942)	(8,899)	(20,043)	(225.2)	(53,228)	(24,685)	(28,543)	(115.6)
Financing activities	(1,314)	(3,445)	2,131	61.9	(1,671)	(8,119)	6,448	79.4
Effect of exchange rate changes on cash and cash equivalents	3,100	(6,035)	9,135	151.4	2,523	(6,276)	8,799	140.2
Net change in cash and cash equivalents related to continuing operations	111,461	13,017	98,444	756.3	202,624	126,571	76,053	60.1

	As at April 30, 2017 $	As at October 31, 2016 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	566,288	363,664	202,624	55.7
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	224,516	338,581	(114,065)	(33.7)
	790,804	702,245	88,559	12.6
Total assets	1,392,543	1,277,420	115,123	9.0
Long-term debt	—	—	—	—
Total debt[1]	691,265	679,065	12,200	1.8
Total net debt[1]	124,977	315,401	(190,424)	(60.4)

[1] SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

CORE BUSINESS

Transat is an integrated international tour operator. We operate solely in the holiday travel industry and market our services in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services purchased in Canada and abroad and reselling them primarily in Canada, France, the U.K. 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. Transat relies on its subsidiary Air Transat for a significant portion of its needs, but also deals with other air carriers as needed. Transat offers destination services to Canada, Mexico, the Dominican Republic and Jamaica. Transat holds interests in hotel businesses which own, operate or manage properties in Mexico, Cuba and the Dominican Republic.

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 business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

To deliver on its vision, the Corporation has considerably improved the effectiveness of its airline operations and launched technological initiatives to improve its efficiency as a distributor. The strategy also includes entry into new source markets and the launch of new destinations, targeting new markets for its traditional destinations and increasing its buying power for these routes. Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains to improve its operating income and maintain or grow market share in all its markets. Given the growing strategic importance of sustainable development in the holiday and air travel industries, Transat has undertaken to adopt avant-garde policies on corporate responsibility and sustainable tourism.

For 2017, Transat has set the following objectives at the beginning of the fiscal year:

1. Increase the competitiveness of our distribution, notably by reinforcing our product offering and network, continuing to increase our controlled sales and client intimacy and optimizing our revenue management.

2. Continue to improve Air Transat's operational efficiency and plan for the optimization and renewal of our fleet.

3. Increase our presence in hotels and acquire more hotel management competencies.

4. Pursue our cost reduction and unit margin improvement initiatives.

5. Continue working on employee engagement.

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

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

BUSINESS ACQUISITIONS AND DISPOSALS

On April 3, 2017, the Corporation invested in a hotel in Puerto Vallarta, on the Pacific coast, which operates under the name Rancho Banderas All Suite Resort, by acquiring a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo"], its owner and operator, for a consideration of US$10 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 April 30, 2017. This amount is payable subject to certain conditions. This interest in a joint venture is accounted for using the equity method.

On December 21, 2016, upon exercise of a put option by the minority shareholder in the subsidiary Jonview Canada Inc., the Corporation completed the purchase of 19.93% of the shares of its subsidiary Jonview Canada Inc., which has an incoming tour operator business in Canada, thereby bringing its interest in the subsidiary to 100%. The cash consideration totalled $5.0 million, being the fair value of the put option at the time of the transaction. Also, the non-controlling interest item was derecognized without any impact being recognized in the consolidated statements of loss.

DISCONTINUED OPERATIONS

On October 31, 2016, Transat completed the sale of its tour operating businesses in France (Transat France) and Greece (Tourgreece) for an amount of €63.4 million ($93.3 million) to TUI AG, a multinational tourism company. On January 27, 2017, TUI AG confirmed that the purchase price will not be subject to any working capital adjustments after the final closing and audit of accounts.

As at April 30, 2016, the tour operating businesses in France and Greece were identified as discontinued operations and their assets as held for sale.

The disposal of Transat France and Tourgreece has no impact on Transat's transatlantic program or on Air Transat's operations.

CONSOLIDATED OPERATIONS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2017 $	2016 $	Difference $	Difference %	2017 $	2016 $	Difference $	Difference %
Continuing operations								
Revenues	884,310	888,221	(3,911)	(0.4)	1,573,642	1,613,944	(40,302)	(2.5)
Costs of providing tourism services	462,931	492,725	(29,794)	(6.0)	834,937	902,138	(67,201)	(7.4)
Salaries and employee benefits	90,824	91,829	(1,005)	(1.1)	180,501	177,020	3,481	2.0
Aircraft fuel	84,105	74,337	9,768	13.1	147,811	135,747	12,064	8.9
Aircraft maintenance	51,783	36,819	14,964	40.6	94,583	76,772	17,811	23.2
Aircraft rent	37,361	38,749	(1,388)	(3.6)	73,464	71,024	2,440	3.4
Commissions	40,120	39,886	234	0.6	68,911	68,872	39	0.1
Airport and navigation fees	32,456	31,648	808	2.6	56,560	56,456	104	0.2
Other airline costs	55,762	58,255	(2,493)	(4.3)	98,516	102,032	(3,516)	(3.4)
Other	32,740	32,212	528	1.6	62,179	63,089	(910)	(1.4)
Share of net income of an associate and a joint venture	(5,863)	(6,256)	393	6.3	(9,446)	(8,187)	(1,259)	(15.4)
Depreciation and amortization	17,152	11,718	5,434	46.4	31,358	23,224	8,134	35.0
Operating expenses	899,371	901,922	(2,551)	(0.3)	1,639,374	1,668,187	(28,813)	(1.7)
Operating results	(15,061)	(13,701)	(1,360)	(9.9)	(65,732)	(54,243)	(11,489)	(21.2)
Financing costs	455	535	(80)	(15.0)	899	921	(22)	(2.4)
Financing income	(1,843)	(1,946)	103	5.3	(3,600)	(3,727)	127	3.4
Change in fair value of fuel-related derivatives and other derivatives	930	3,877	(2,947)	(76.0)	(3,874)	37,964	(41,838)	(110.2)
Foreign exchange loss (gain) on non-current monetary items	(2,987)	1,944	(4,931)	(253.7)	(2,430)	766	(3,196)	(417.2)
Loss on disposal of a subsidiary	—	843	(843)	(100.0)	—	843	(843)	(100.0)
Asset impairment	—	15,809	(15,809)	(100.0)	—	15,809	(15,809)	(100.0)
Income (loss) before income tax expense	(11,616)	(34,763)	23,147	66.6	(56,727)	(106,819)	50,092	46.9
Income taxes (recovery)								
Current	(2,866)	(9,168)	6,302	68.7	(17,803)	(21,819)	4,016	18.4
Deferred	(2,595)	(1,778)	(817)	(46.0)	(1,715)	(9,142)	7,427	81.2
	(5,461)	(10,946)	5,485	50.1	(19,518)	(30,961)	11,443	37.0
Net income (loss) from continuing operations	(6,155)	(23,817)	17,662	74.2	(37,209)	(75,858)	38,649	50.9
Discontinued operations								
Net income (loss) from discontinued operations	—	381	(381)	(100.0)	—	(7,380)	7,380	100.0
Net income (loss) for the period	(6,155)	(23,436)	17,281	73.7	(37,209)	(83,238)	46,029	55.3
Net income (loss) attributable to:								
Shareholders	(8,354)	(24,952)	16,598	66.5	(40,427)	(86,107)	45,680	53.1
Non-controlling interests	2,199	1,516	683	45.1	3,218	2,869	349	12.2
	(6,155)	(23,436)	17,281	73.7	(37,209)	(83,238)	46,029	55.3

REVENUES

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

Compared with 2016, revenues were down $3.9 million (0.4%) for the quarter ended April 30, 2017 and $40.3 million (2.5%) for the six-month period. The decrease for the quarter was due to the higher proportion of flights sold without a land portion compared with 2016, despite a 0.3% increase in total travellers to sun destinations, our main market for the period. The decrease was also partially offset by the 9.3% increase in our product offering in the transatlantic market which led to an 8.2% rise in total travellers in this market. Also, average selling prices increased across all our markets.

For the six-month period, the decrease resulted primarily from the higher proportion of flights sold without a land portion compared with 2016. The 1.4% decrease in total travellers to sun destinations, our main market during the winter season, resulted primarily from our decision to reduce our product offering in this market by 2.3%. The impact of this decrease was offset by the 9.6% increase in our product offering in the transatlantic market which led to a 6.5% rise in total travellers. Average selling prices increased in the sun destinations market but decreased slightly in the transatlantic market.

OPERATING EXPENSES

Total operating expenses for the quarter and six-month period decreased $2.6 million (0.3%) and $23.0 million (1.4%), respectively, compared with 2016. For the six-month period, the decrease resulted primarily from the higher proportion of flights sold without a land portion compared with 2016. The decrease was partially offset by an unfavourable foreign exchange effect which resulted in an increase in operating expenses.

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. These costs decreased $29.8 million (6.0%) for the quarter and $67.2 million (7.4%) for the six-month period, compared with the corresponding periods of 2016. The decreases resulted from the higher proportion of flights sold without a land portion compared with 2016 as well as the addition of two Airbus A330s and one Boeing 737 to our fleet compared with 2016, which led to a decrease in the Corporation's flight purchases from air carriers other than Air Transat. For the six-month period, the decrease in costs of providing tourism services was also attributable to our decision to reduce our product offering in the sun destinations market by 2.3%.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were down $1.0 million (1.1%) for the quarter and increased $3.5 million (2.0%) for the six-month period, compared with 2016. The decline for the quarter resulted from a lower number of employees compared with 2016 following the sale of the subsidiary Travel Superstore on April 1, 2016 as well as the closure of call centres during the third quarter of 2016. This decrease was partially offset by the hiring of pilots and mechanics following the addition of Airbus A330 and Boeing 737 to our aircraft fleet, and annual salary reviews. For the six-month period, the increase resulted primarily from the hiring of pilots and mechanics following the addition of Airbus A330 and Boeing 737 to our aircraft fleet, and annual salary reviews.

AIRCRAFT FUEL

The aircraft fuel expense for the quarter and six-month period was up $9.8 million (13.1%) and $12.1 million (3.7%), respectively, compared with the corresponding periods of 2016. These increases resulted primarily from a rise in in fuel price indices in markets combined with an unfavourable foreign exchange effect.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Compared with 2016, these expenses increased $15.0 million (40.6%) during the quarter and by $17.8 million (23.2%) during the six-month period. These increases were due to the dollar's weakening against the U.S. dollar and the expansion of our aircraft fleet compared with 2016.

AIRCRAFT RENT

In line with our strategic plan, we implemented a flexible aircraft fleet at the beginning of fiscal 2015. In addition to our permanent fleet, this flexible fleet allows us, among other options, to operate a seasonal fleet that comprises a greater number of Boeing 737s during the winter than during the summer season.

During the quarter and the six-month period, Air Transat's permanent fleet consisted of fourteen Airbus A330s, nine Airbus A310s and seven Boeing 737-800s. Of this number, two Airbus A330s and three Boeing 737-800s were commissioned in summer 2016. For the quarter, the $1.4 million decrease (3.6%) in aircraft rent resulted from a lower number of seasonal Boeing 737s compared with 2016. The $2.4 million (3.4%) increase for the six-month period is due primarily to the two Airbus A330s commissioned in summer 2016.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These expenses were up $0.9 million (2.6%) for the quarter and $0.1 million (0.2%) for the six-month period, compared with 2016. These increases are due to a higher number of flights compared with 2016.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense was up $0.2 million (0.6%) for the quarter and remained stable for the six-month period compared with 2016. As a percentage of our revenues, commissions remained stable and accounted for 4.5% of revenues for the quarter. For the six-month period, as a percentage of revenues, commissions increased and accounted for 4.4% of revenues, compared with 4.3% in 2016.

OTHER AIR COSTS

Other air costs consist mainly of handling, crew and catering costs. Other air costs decreased $2.5 million (4.3%) for the quarter and by $3.5 million (3.4%) for the six-month period, compared with 2016, due primarily to a decline in crew costs.

OTHER

Other expenses were up $0.5 million (1.6%) for the quarter and declined $0.9 million (1.4%) for the six-month period, compared with 2016.

SHARE OF NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE

Our share of net income of an associate and a joint venture is generated by Caribbean Investments B.V. ["CIBV"] and Desarrollo, our hotel businesses. Our share of net income for the second quarter totalled $5.9 million, compared with $6.2 million for the corresponding quarter of 2016. For the six-month period, the share of net income amounted to $9.4 million compared with $8.2 million in 2016. For the six-month period, the increase was due to CIBV's higher operating profitability.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes the depreciation of property, plant and equipment, and the amortization of intangible assets subject to amortization and deferred incentive benefits. This expense increased $5.4 million (46.4%) in the second quarter and $8.1 million (35.0%) during the first half of the year, compared with 2016. These increases resulted primarily from recent aircraft maintenance work that was capitalized.

OPERATING INCOME (LOSS)

In light of the foregoing, we recorded an operating loss of $15.1 million (1.7%) for the quarter compared with $13.7 million (1.5%) in 2016. The deterioration in our operating results is due to a rise in air costs and to the weakening of the dollar against the U.S. dollar which, combined with an increase in fuel prices, resulted in a $21.0 million increase in operating expenses for the quarter, that the higher average selling prices could not offset.

For the six-month period, the Corporation recorded an operating loss of $65.7 million (4.2%) compared with $54.2 million (3.4%) in 2016. The deterioration in our operating results is due to a rise in air costs and to the unfavourable foreign exchange effect which, combined with an increase in fuel prices, resulted in a $39.3 million increase in operating expenses for the six-month period, that the higher average selling prices for sun packages could not offset.

For the quarter, the Corporation reported an adjusted operating income of $1.5 million (0.2%) compared with an adjusted operating loss of $5.0 million (0.6%) in 2016. For the six-month period, the Corporation reported an adjusted operating loss of $35.6 million (2.3%) compared with $36.7 million (2.3%) in 2016.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs decreased $0.1 million for the quarter but remained stable for the six-month period compared with 2016.

FINANCING INCOME

Financing income was up $0.1 million during the quarter and the six-month period, compared with 2016.

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

The change in fair value of fuel-related derivatives and other derivatives represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives decreased by $0.9 million, compared with $3.9 million in 2016. For the six-month period, the fair value of fuel-related derivatives and other derivatives was up $3.9 million, compared with a $38.0 million decrease in fair value in 2016. These increases are attributable to the higher fair value of foreign exchange derivatives, partially offset by the decrease in fair value of fuel-related derivatives.

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

During the quarter, the Corporation recognized a $3.0 million foreign exchange gain on non-current monetary items compared with a $1.9 million foreign exchange loss in 2016. For the six-month period, the Corporation posted a foreign exchange gain on non-current monetary items of $2.4 million compared with a foreign exchange loss of $0.8 million in 2016. These changes resulted mainly from the favourable exchange effect on foreign currency deposits.

LOSS ON DISPOSAL OF A SUBSIDIARY

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 disposal of a subsidiary.

IMPAIRMENT OF ASSETS

The accounting policies adopted by the Corporation require that intangible assets with indefinite lives be tested for impairment annually on April 30. Accordingly, the Corporation performed an impairment test on April 30, 2017 and April 30, 2016 to determine if the carrying amounts of the cash-generating units ("CGUs"), for the purposes of goodwill and trademarks, were higher than their recoverable amounts. No charge was required in 2017 following this test compared with a $15.8 million asset impairment charge in 2016. The impairment loss is related to the trademarks and results from the implementation of an integrated distribution and brand strategy, including the introduction of a new reservation platform which, for European travellers, favours the purchasing of seats directly from our Air Transat subsidiary instead of through our European subsidiaries, and the greater use of the Transat brand while decreasing the use of certain trademarks held by the Corporation.

INCOME TAXES

An income tax recovery of $5.5 million was recorded for the second quarter compared with $10.9 million for the corresponding period of the previous fiscal year. Income tax recovery for the six-month period amounted to $19.5 million compared with $31.0 million in 2016. Excluding the share of net income of an associate and a joint venture, the effective tax rate stood at 31.2% for the quarter and 29.5% for the six-month period, compared with 26.7% and 26.9%, respectively, for the corresponding periods of 2016. The change in tax rates for the quarter and the six-month period resulted from differences between countries in the statutory tax rates applied to taxable income.

NET LOSS FROM CONTINUING OPERATIONS

In light of the items discussed in the Consolidated operations section, the Corporation reported a net loss of $6.2 million for the quarter ended April 30, 2017, compared with a net loss from continuing operations of $23.8 million in 2016. The net loss from continuing operations attributable to shareholders stood at $8.4 million or $0.23 per share (basic and diluted) compared with $25.3 million or $0.69 per share (basic and diluted) for the corresponding quarter of the previous fiscal year. For the second quarter of 2017, the weighted average number of outstanding shares used to compute per share amounts was 36,937,000 (basic and diluted), compared with 36,736,000 (basic and diluted) for the corresponding quarter of 2016.

For the six-month period ended April 30, 2017, the Corporation reported a net loss from continuing operations of $37.2 million compared with a net loss of $75.9 million in 2016. The net loss from continuing operations attributable to shareholders stood at $40.4 million or $1.10 per share (basic and diluted), compared with $78.7 million or $2.13 per share (basic and diluted) for the corresponding six-month period of the previous fiscal year. For the first six-month period of 2017, the weighted average number of outstanding shares used to compute per share amounts was 36,909,000 (basic and diluted), compared with 36,999,000 (basic and diluted) for the corresponding period of 2016.

NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

As mentioned in the Discontinued operations section, for the quarter ended April 30, 2016, the net income (loss) of our subsidiaries Transat France and Tourgreece, which is generated from sales made to clients in Europe, is reported as net loss from discontinued operations.

For the quarter and six-month period ended April 30, 2016, discontinued operations generated revenues of $163.6 million and $284.8 million, respectively, and posted net income of $0.4 million (0.2%) and a net loss of $7.4 million (2.6%), respectively.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

For the second quarter, net loss attributable to shareholders stood at $8.4 million or $0.23 per share (basic and diluted) compared with $25.0 million or $0.68 per share (basic and diluted) for the corresponding quarter of the previous fiscal year. Net loss attributable to shareholders for the six-month period stood at $40.4 million or $1.10 per share (basic and diluted) compared with $86.1 million or $2.33 per share (basic and diluted) in 2016.

For the quarter and six-month period ended April 30, 2017, adjusted net loss stood at $8.1 million ($0.22 per share) and $44.1 million ($1.20 per share), respectively, compared with $11.9 million ($0.32 per share) and $42.2 million ($1.14 per share), respectively, for the corresponding periods of 2016.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues decreased compared with the corresponding quarters. For the first part of winter (Q1), following our decision to reduce our product offering by 5.2% in the sun destinations market, total travellers decreased and average selling prices increased for sun destinations. The reverse occurred in the transatlantic market due to the 10.1% increase in our product offering in this market. For the summer season (Q3 and Q4), average selling prices were lower in the transatlantic market, our main market for the period, owing to the decline in fuel prices and a 14% rise in overall capacity in the transatlantic market, while there was an increase in total travellers compared with 2015. In terms of operating results, increases in average selling prices for sun packages in winter combined with cost reduction and margin improvement initiatives were not sufficient to offset the foreign exchange effect on our costs. For the summer season, the decline in average selling prices and load factors were only partially offset by lower fuel prices. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q3-2015 $	Q4-2015 $	Q1-2016 $	Q2-2016 $	Q3-2016 $	Q4-2016 $	Q1-2017 $	Q2-2017 $
Revenues	704,844	634,004	725,723	888,221	663,591	612,111	689,332	884,310
Aircraft rent	24,702	26,306	32,275	38,749	31,946	32,843	36,103	37,361
Operating income (loss)	34,480	57,850	(40,541)	(13,701)	(2,990)	26,898	(50,671)	(15,061)
Net income (loss)	13,820	69,965	(59,803)	(23,817)	10,548	36,313	(31,054)	(6,155)
Net income (loss) attributable to shareholders	13,067	69,108	(61,155)	(24,952)	9,439	34,920	(32,073)	(8,354)
Basic earnings (loss) per share	0.34	1.82	(1.64)	(0.68)	0.26	0.95	(0.87)	(0.23)
Diluted earnings (loss) per share	0.34	1.82	(1.64)	(0.68)	0.26	0.95	(0.87)	(0.23)
Net income (loss) from continuing operations attributable to shareholders	13,058	59,035	(53,393)	(25,333)	7,704	(20,497)	(32,073)	(8,354)
Basic earnings (loss) per share from continuing operations	0.34	1.56	(1.43)	(0.69)	0.21	(0.56)	(0.87)	(0.23)
Diluted earnings (loss) per share from continuing operations	0.34	1.55	(1.43)	(0.69)	0.21	(0.56)	(0.87)	(0.23)
Adjusted operating income (loss)(1)	44,798	70,805	(31,682)	(5,002)	15,964	46,497	(37,079)	1,508
Adjusted net income (loss)(1)	26,886	44,648	(30,378)	(11,868)	2,523	24,183	(36,039)	(8,100)
Adjusted net income (loss) per share(1)	0.70	1.18	(0.82)	(0.32)	0.07	0.66	(0.98)	(0.22)

[1] SEE NON-IFRS FINANCIAL MEASURES

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2017, cash and cash equivalents totalled $566.3 million compared with $363.7 million as at October 31, 2016. As at the end of the second quarter of 2017, cash and cash equivalents held in trust or otherwise reserved amounted to $224.5 million compared with $338.6 million as at October 31, 2016. The Corporation's statement of financial position reflected $116.9 million in working capital, for a ratio of 1.14, compared with $192.5 million and a ratio of 1.28 as at October 31, 2016.

Total assets increased by $115.1 million (9.0%), from $1,277.4 million as at October 31, 2016 to $1,392.5 million as at April 30, 2017, as shown in the financial position table provided further below. Equity decreased $34.3 million, from $464.4 million as at October 31, 2016 to $430.1 million as at April 30, 2017. This decrease resulted from the $40.4 million net loss attributable to shareholders, partially offset by the $4.1 million unrealized gain on cash flow hedges.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
	2017	2016	Difference	2017	2016	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	138,617	31,396	107,221	255,000	165,651	89,349
Cash flows related to investing activities	(28,942)	(8,899)	(20,043)	(53,228)	(24,685)	(28,543)
Cash flows related to financing activities	(1,314)	(3,445)	2,131	(1,671)	(8,119)	6,448
Effect of exchange rate changes on cash	3,100	(6,035)	9,135	2,523	(6,276)	8,799
Net change in cash and cash equivalents related to continuing operations	111,461	13,017	98,444	202,624	126,571	76,053
Net change in cash flows related to discontinued operations	—	10,453	(10,453)	—	(8,113)	8,113

OPERATING ACTIVITIES

Operating activities related to continuing operations generated $138.6 million in cash flows during the second quarter, compared with $31.4 million in 2016. The $107.2 million increase resulted primarily from a $95.2 million increase in the net change in non-cash working capital balances related to operations. This increase is due primarily to the 2016 launch of our new reservation platform, which favours the purchase of seats directly from our Air Transat subsidiary instead of via our tour operator Transat Tours Canada, as a result of which funds received from clients were not deposited in the Corporation's cash accounts in trust but in unrestricted cash accounts, and also to a smaller decrease in trade and other payables. The $12.8 million increase in the net change in the provision for overhaul of leased aircraft also contributed to the higher amount of cash flows generated by operating activities.

For the six-month period, cash flows from operating activities related to continuing operations increased by $89.3 million from $165.7 million in 2016 to $255.0 million in 2017. The increase is attributable to a $86.7 million increase in the net change in non-cash working capital balances related to operations, resulting primarily from the decrease in cash held in trust following the launch of the new reservation platform as well as a $11.2 million increase in the net change in the provision for overhaul of leased aircraft, partially offset by a $9.1 million decrease in our profitability.

INVESTING ACTIVITIES

Cash flows used in investing activities related to continuing operations during the second quarter amounted to $28.9 million compared with $8.9 million in 2016, representing an increase of $20.0 million. The increase is due to a $12.8 million consideration paid for the acquisition of 50% of the shares of our joint venture Desarrollo and to a $5.0 million increase in additions to property, plant and equipment and intangible assets. The additions consisted primarily of computer software and aircraft improvements.

For the six-month period, cash flows used in investing activities related to continuing operations amounted to $53.2 million compared with $24.7 million in 2016, representing an increase of $28.5 million. The increase is due primarily to the acquisition of Desarrollo and the $5.0 million contribution paid for the acquisition of all of the shares of our subsidiary Jonview Canada Inc., as well as an $8.5 million increase in additions to property, plant and equipment and intangible assets. These additions are mainly related to computer software, aircraft improvements as well as aircraft equipment and maintenance.

FINANCING ACTIVITIES

Cash flows used in financing activities related to continuing operations decreased from $3.4 million for the second quarter of 2016 to $1.3 million in 2017, representing a decrease of $2.1 million. Cash flows used in financing activities in the six-month period amounted to $1.7 million compared with $8.1 million in 2016. Lower utilization of cash flows than in 2016 resulted primarily from share repurchases of $2.2 million and $7.1 million, respectively, during the quarter and six-month period of 2016, compared with none in the corresponding periods of 2017.

CASH FLOWS RELATED TO DISCONTINUED OPERATIONS

For the second quarter of 2016, discontinued operations generated cash flows of $10.5 million, of which $12.1 million represented cash flows generated by operations. For the six-month period, discontinued operations used cash flows of $8.1 million, due primarily to cash flows used in operations of $5.7 million.

CONSOLIDATED FINANCIAL POSITION

	April 30, 2017 $	October 31, 2016 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	566,288	363,664	202,624	See Cash flows section
Cash and cash equivalents in trust or otherwise reserved	224,516	338,581	(114,065)	Seasonal nature of operations
Trade and other receivables	102,393	105,003	(2,610)	Decrease in taxes and other receivables
Income taxes receivable	59,151	39,858	19,293	Increase in income taxes recoverable given subsidiaries' losses
Inventories	9,969	12,354	(2,385)	Seasonal nature of operations
Prepaid expenses	44,446	58,657	(14,211)	Decrease in prepayments to hotels due to seasonal
Derivative financial instruments	15,640	18,517	(2,877)	Maturing of fuel-related derivatives during the period
Deposits	43,900	42,044	1,856	Increase in deposits related to aircraft
Deferred tax assets	15,964	15,055	909	No significant difference
Property, plant and equipment	132,902	134,959	(2,057)	Depreciation for the period, partially offset by additions
Intangible assets	53,893	50,327	3,566	Additions during the period, partially offset by depreciation
Investments	122,866	97,668	25,198	Acquisition of an interest in a hotel business, share of net income of investments and foreign exchange difference
Other assets	615	733	(118)	No significant difference
Liabilities				
Trade and other payables	287,316	247,795	39,521	Seasonal nature of operations and foreign exchange difference
Provision for overhaul of leased aircraft	46,715	40,861	5,854	Increase in the number of aircraft and foreign exchange difference
Income taxes payable	531	976	(445)	No significant difference
Customer deposits and deferred revenues	523,754	409,045	114,709	Seasonal nature of operations
Derivative financial instruments	7,420	21,358	(13,938)	Maturing of foreign exchange derivatives during the period
Other liabilities	90,859	88,011	2,848	Increase in non-controlling interests
Deferred tax liabilities	5,851	4,988	863	No significant difference
Equity				
Share capital	214,802	214,250	552	Shares issued from treasury
Share-based payment reserve	18,156	17,849	307	Share-based payment expense, net of options exercised
Retained earnings	177,494	218,821	(41,327)	Net income (loss)
Unrealized gain (loss) on cash flow hedges	6,343	2,211	4,132	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	13,302	11,255	2,047	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at June 7, 2017, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50 million revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2020, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at April 30, 2017, all the financial ratios and criteria were met and the credit facility was undrawn.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reported as liabilities in the interim condensed consolidated financial statements and others are disclosed in the notes to the financial statements. The Corporation did not report any obligations in the statements of financial position as at April 30, 2017 and October 31, 2016.

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

- Guarantees
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $770.3 million as at April 30, 2017 ($710.3 million as at October 31, 2016) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at April 30, 2017 $	As at October 31, 2016 $
Guarantees		
Irrevocable letters of credit	26,915	17,723
Collateral security contracts	725	721
Operating leases		
Obligations under operating leases	742,667	691,841
	770,307	710,285

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at April 30, 2017, $55.1 million had been drawn down under the facility, of which $50.1 million was to insure the benefits to participants under senior executives 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 insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

In addition, the Corporation has a $35.0 million guarantee facility renewable annually in February. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. 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 these letters of credit. As at April 30, 2017, $26.9 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 £10.7 million [$18.8 million], which has been fully drawn down.

As at April 30, 2017, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $60.0 million compared with October 31, 2016. This increase resulted primarily from lease agreements signed during the six-month period for four Airbus A330s as well as the weakening of the dollar against the U.S. dollar. The increase was partially offset by the repayments made.

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

DEBT LEVELS

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

The Corporation's total debt stood at $691.3 million, up $12.2 million from October 31, 2016, due to the addition of Airbus A330s and Boeing 737s to our aircraft fleet.

Total net debt decreased $190.4 million from $315.4 million as at October 31, 2016 to $125.0 million as at April 30, 2017. The decrease in total net debt resulted from higher cash and cash equivalent balances than in 2016, partially offset by the increase in total debt.

OUTSTANDING SHARES

As at April 30, 2017, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at June 2, 2017, there were 36,985,982 total voting shares outstanding.

STOCK OPTIONS

As June 2, 2017, there were a total of 2,132,770 stock options outstanding, 1,921,202 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of fourteen Airbus A330s (332, 345 or 375 seats), nine Airbus A310s (250 seats) and seven Boeing 737-800s (189 seats). Two more Airbus A330s will be commissioned during summer 2017.

During winter 2017, the Corporation had also entered into seasonal lease agreements for ten Boeing 737-800s (189 seats) and three Boeing 737-700s (149 seats).

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more relevant and comprehensive disclosures.. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

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 current standard IAS 17, 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 the vast majority 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.

The application of IFRS 16 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted if the new IFRS 15 standard on revenue has also been applied. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at April 30, 2017 the design of:

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended April 30, 2017 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Summer 2017 – The transatlantic market outbound from Canada and Europe accounts for a substantial portion of Transat's business during the summer season. For the period May to October 2017, total industry capacity is higher by 4%, while that of the Corporation is higher by 7%. To date, Transat's load factors on that market are higher by 1.4% than those of summer 2016, 64% of the capacity has been sold, and selling prices of bookings taken are similar to those recorded at the same date in 2016. The impact of fuel costs, combined with currency exchange fluctuations, will not result in any increase in operating expenses if fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound. Since February, prices on the transatlantic market have been steadily improving.

On the Sun destinations market outbound from Canada, for which summer is low season, Transat's capacity is equivalent to that marketed at the same date last year. To date, 53% of that capacity has been sold, load factors are higher by 8.0%, and selling prices are up by 5.9%. The impact of fuel costs, combined with currency-exchange fluctuations, will not result in any increase in operating expenses if fuel prices remain stable and the dollar remains at its current level against the U.S. dollar. Unit margins are currently higher by 3.0% compared with those recorded at the same date last year.

If current trends hold, and considering the implementation costs of the feeder program, Transat expects that its global results for the second six-month period will be similar to those of last year.

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

(in thousands of Canadian dollars)	As at April 30, 2017 $	As at October 31, 2016 $
ASSETS		
Cash and cash equivalents	566,288	363,664
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	174,416	292,131
Trade and other receivables	102,393	105,003
Income taxes receivable	44,051	24,758
Inventories	9,969	12,354
Prepaid expenses	44,446	58,657
Derivative financial instruments	15,475	18,318
Current portion of deposits	10,754	13,067
Current assets	967,792	887,952
Cash and cash equivalents reserved *[note 5]*	50,100	46,450
Deposits	33,146	28,977
Income taxes receivable	15,100	15,100
Deferred tax assets	15,964	15,055
Property, plant and equipment	132,902	134,959
Intangible assets	53,893	50,327
Derivative financial instruments	165	199
Investments *[note 8]*	122,866	97,668
Other assets	615	733
Non-current assets	424,751	389,468
	1,392,543	1,277,420
LIABILITIES		
Trade and other payables	287,316	247,795
Current portion of provision for overhaul of leased aircraft	32,074	16,232
Income taxes payable	531	976
Customer deposits and deferred revenues	523,754	409,045
Derivative financial instruments	7,186	21,358
Current liabilities	850,861	695,406
Provision for overhaul of leased aircraft *[note 9]*	14,641	24,629
Other liabilities *[note 11]*	90,859	88,011
Derivative financial instruments	234	—
Deferred tax liabilities	5,851	4,988
Non-current liabilities	111,585	117,628
EQUITY		
Share capital *[note 12]*	214,802	214,250
Share-based payment reserve	18,156	17,849
Retained earnings	177,494	218,821
Unrealized gain (loss) on cash flow hedges	6,343	2,211
Cumulative exchange differences	13,302	11,255
	430,097	464,386
	1,392,543	1,277,420

See accompanying notes to interim condensed consolidated financial statements

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

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30 2017 $	2016 $	Six-month periods ended April 30 2017 $	2016 $
Continuing operations				
Revenues	884,310	888,221	1,573,642	1,613,944
Operating expenses				
Costs of providing tourism services	462,931	492,725	834,937	902,138
Salaries and employee benefits	90,824	91,829	180,501	177,020
Aircraft fuel	84,105	74,337	147,811	135,747
Aircraft maintenance	51,783	36,819	94,583	76,772
Aircraft rent	37,361	38,749	73,464	71,024
Airport and navigation fees	32,456	31,648	56,560	56,456
Commissions	40,120	39,886	68,911	68,872
Other airline costs				
Other	32,740	32,212	62,179	63,089
Share of net income of an associate and a joint venture	(5,863)	(6,256)	(9,446)	(8,187)
Depreciation and amortization	17,152	11,718	31,358	23,224
	899,371	901,922	1,639,374	1,668,187
Operating income (loss)	(15,061)	(13,701)	(65,732)	(54,243)
Financing costs	455	535	899	921
Financing income	(1,843)	(1,946)	(3,600)	(3,727)
Change in fair value of fuel-related derivatives and other derivatives	930	3,877	(3,874)	37,964
Foreign exchange (gain) loss on non-current monetary items	(2,987)	1,944	(2,430)	766
Loss on disposal of a subsidiary *[note 4]*	—	843	—	843
Asset impairment *[note 7]*	—	15,809	—	15,809
Income (loss) before income tax expense	(11,616)	(34,763)	(56,727)	(106,819)
Income taxes (recovery)				
Current	(2,866)	(9,168)	(17,803)	(21,819)
Deferred	(2,595)	(1,778)	(1,715)	(9,142)
	(5,461)	(10,946)	(19,518)	(30,961)
Net income (loss) from continuing operations	(6,155)	(23,817)	(37,209)	(75,858)
Discontinued operations				
Net income (loss) from discontinued operations	—	381	—	(7,380)
Net income (loss) for the period	(6,155)	(23,436)	(37,209)	(83,238)
Net income (loss) attributable to:				
Shareholders	(8,354)	(24,952)	(40,427)	(86,107)
Non-controlling interests	2,199	1,516	3,218	2,869
	(6,155)	(23,436)	(37,209)	(83,238)
Earnings (loss) per share from continuing operations *[note 12]*				
Basic	(0.23)	(0.69)	(1.10)	(2.13)
Diluted	(0.23)	(0.69)	(1.10)	(2.13)
Earnings (loss) per share *[note 12]*				
Basic	(0.23)	(0.68)	(1.10)	(2.33)
Diluted	(0.23)	(0.68)	(1.10)	(2.33)

See accompanying notes to interim condensed consolidated financial statements

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

	Quarters ended April 30		Six-month periods ended April 30	
	2017	2016	2017	2016
(in thousands of Canadian dollars)	$	$	$	$
Net income (loss) from continuing operations	(6,155)	(23,817)	(37,209)	(75,858)
Other comprehensive income (loss) from continuing operations				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	9,039	(54,774)	3,593	(61,488)
Reclassification to net income (loss)	2,367	13,956	2,128	26,262
Deferred taxes	(3,118)	10,885	(1,589)	9,436
	8,288	(29,933)	4,132	(25,790)
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	4,665	(16,090)	2,047	(11,062)
Total other comprehensive income (loss) from continuing operations	12,953	(46,023)	6,179	(36,852)
Comprehensive income (loss) from continuing operations	6,798	(69,840)	(31,030)	(112,710)
Net income (loss) from discontinued operations	—	381	—	(7,380)
Other comprehensive income (loss) from discontinued operations	—	(2,124)	—	(1,406)
Comprehensive income (loss) from discontinued operations	—	(1,743)	—	(8,786)
Comprehensive income (loss) for the period	6,798	(71,583)	(31,030)	(121,496)
Attributable to:				
Shareholders	2,966	(69,615)	(34,968)	(122,991)
Non-controlling interests	3,832	(1,968)	3,938	1,495
	6,798	(71,583)	(31,030)	(121,496)

See accompanying notes to interim condensed consolidated financial statements

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

				Accumulated other comprehensive income (loss)					
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Reserve related to assets held for sale	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$	$
Balance as at October 31, 2015	218,134	17,105	263,812	14,960	23,241	—	537,252	—	537,252
Net income (loss) for the period	—	—	(86,107)	—	—	—	(86,107)	2,869	(83,238)
Other comprehensive income (loss)	—	—	—	(25,790)	(9,688)	(1,406)	(36,884)	(1,374)	(38,258)
Comprehensive income (loss) for the period	—	—	(86,107)	(25,790)	(9,688)	(1,406)	(122,991)	1,495	(121,496)
Issued from treasury	561	—	—	—	—	—	561	—	561
Exercise of options	577	(177)	—	—	—	—	400	—	400
Share-based payment expense	—	663	—	—	—	—	663	—	663
Repurchase of shares	(5,680)	—	(1,427)	—	—	—	(7,107)	—	(7,107)
Dividends	—	—	—	—	—	—	—	(1,973)	(1,973)
Discontinued operations	—	—	—	(777)	(538)	1,315	—	—	—
Other changes in non-controlling interest liabilities	—	—	(169)	—	—	—	(169)	169	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(1,065)	(1,065)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,374)	—	(1,374)	1,374	—
	(4,542)	486	(1,596)	(777)	(1,912)	1,315	(7,026)	(1,495)	(8,521)
Balance as at April 30, 2016	213,592	17,591	176,109	(11,607)	11,641	(91)	407,235	—	407,235
Net income for the period	—	—	44,359	—	—	—	44,359	2,120	46,479
Other comprehensive income (loss)	—	—	(2,360)	13,299	(4,617)	2,499	8,821	2,006	10,827
Comprehensive income (loss) for the period	—	—	41,999	13,299	(4,617)	2,499	53,180	4,126	57,306
Issued from treasury	658	—	—	—	—	—	658	—	658
Share-based payment expense	—	258	—	—	—	—	258	—	258
Dividends	—	—	—	—	—	—	—	(2,362)	(2,362)
Discontinued operations	—	—	(336)	519	2,225	(2,408)	—	—	—
Fair value changes in non-controlling interest liabilities	—	—	1,049	—	—	—	1,049	(1,049)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	1,291	1,291
Reclassification of non-controlling interest exchange difference	—	—	—	—	2,006	—	2,006	(2,006)	—
	658	258	713	519	4,231	(2,408)	3,971	(4,126)	(155)
Balance as at October 31, 2016	214,250	17,849	218,821	2,211	11,255	—	464,386	—	464,386
Net income (loss) for the period	—	—	(40,427)	—	—	—	(40,427)	3,218	(37,209)
Other comprehensive income (loss)	—	—	—	4,132	1,327	—	5,459	720	6,179
Comprehensive income (loss) for the period	—	—	(40,427)	4,132	1,327	—	(34,968)	3,938	(31,030)
Issued from treasury	552	—	—	—	—	—	552	—	552
Share-based payment expense	—	307	—	—	—	—	307	—	307
Dividends	—	—	—	—	—	—	—	(2,223)	(2,223)
Fair value changes in non-controlling interest liabilities	—	—	(900)	—	—	—	(900)	—	(900)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(995)	(995)
Reclassification of non-controlling interest exchange difference	—	—	—	—	720	—	720	(720)	—
	552	307	(900)	—	720	—	679	(3,938)	(3,259)
Balance as at April 30, 2017	214,802	18,156	177,494	6,343	13,302	—	430,097	—	430,097

See accompanying notes to interim condensed consolidated financial statements

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

	Quarters ended April 30		Six-month periods ended April 30	
	2017	2016	2017	2016
(in thousands of Canadian dollars)	$	$	$	$
OPERATING ACTIVITIES				
Net income (loss) from continuing operations	(6,155)	(23,817)	(37,209)	(75,858)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	17,152	11,718	31,358	23,224
Change in fair value of fuel-related derivatives and other derivatives	930	3,877	(3,874)	37,964
Foreign exchange (gain) loss on non-current monetary items	(2,987)	1,944	(2,430)	766
Loss on disposal of a subsidiary	—	843	—	843
Asset impairment	—	15,809	—	15,809
Share of net income of an associate and a joint venture	(5,863)	(6,256)	(9,446)	(8,187)
Deferred taxes	(2,595)	(1,778)	(1,715)	(9,142)
Employee benefits	689	670	1,378	1,340
Share-based payment expense	103	206	307	663
	1,274	3,216	(21,631)	(12,578)
Net change in non-cash working capital balances related to operations	134,622	39,457	273,742	187,014
Net change in other assets and liabilities related to operations	(1,429)	(2,592)	(2,965)	(3,410)
Net change in provision for overhaul of leased aircraft	4,150	(8,685)	5,854	(5,375)
Cash flows related to operating activities	138,617	31,396	255,000	165,651
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(12,538)	(7,549)	(31,841)	(23,335)
Increase in cash and cash equivalent reserved	(3,650)	(1,550)	(3,650)	(1,550)
Consideration paid for a business acquisition	(12,754)	—	(17,737)	—
Net proceeds from disposal of subsidiary	—	200	—	200
Cash flows related to investing activities	(28,942)	(8,899)	(53,228)	(24,685)
FINANCING ACTIVITIES				
Proceeds from issuance of shares	279	695	552	961
Dividends paid by a subsidiary to a non-controlling shareholder	(1,593)	(1,973)	(2,223)	(1,973)
Repurchase of shares	—	(2,167)	—	(7,107)
Cash flows related to financing activities	(1,314)	(3,445)	(1,671)	(8,119)
Effect of exchange rate changes on cash and cash equivalents	3,100	(6,035)	2,523	(6,276)
Net change in cash and cash equivalents related to continuing operations	111,461	13,017	202,624	126,571
Net cash flows related to discontinued operations	—	10,453	—	(8,113)
Cash and cash equivalents, beginning of period	454,827	431,411	363,664	336,423
Cash and cash equivalents, end of period	566,288	454,881	566,288	454,881
Supplementary information (as reported in operating activities)				
Income taxes paid	1,074	2,524	1,896	7,528
Interest paid	123	152	252	277

See accompanying notes to interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended April 30, 2017 were approved by the Corporation's Board of Directors on June 7, 2017.

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

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2016.

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

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

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 current standard IAS 17, 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 the vast majority 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.

The application of IFRS 16 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted if the new IFRS 15 standard on revenue has also been applied. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

Note 4 BUSINESS ACQUISITIONS AND MERGERS

On April 3, 2017, the Corporation acquired a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo"], 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 [$683] was included in trade and other payables as at April 30, 2017. This amount is payable subject to certain conditions. This interest in a joint venture is accounted for using the equity method *[note 8]*.

On December 21, 2016, upon exercise of a put option by the minority shareholder in the subsidiary Jonview Canada Inc., the Corporation completed the purchase of 19.93% of the shares of its subsidiary Jonview Canada Inc., 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. Also, the non-controlling interest item was derecognized without any impact being recognized in the consolidated statements of loss.

On April 1, 2016, the Corporation concluded the sale of its subsidiary Travel Superstore, which operates the website tripcentral.ca and 27 travel agencies. The cash consideration totalled $300 and the carrying amount of net assets transferred stood at $1,312, which resulted in a reversal of retained earnings of $169 and a loss on disposal of a subsidiary of $843.

Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

On April 30, 2017, cash and cash equivalents in trust or otherwise reserved included $149,990 [$254,311 as at October 31, 2016] of 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 $74,526, of which $50,100 was recorded as non-current assets [$84,270 as at October 31, 2016, of which $46,450 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 DISCONTINUED OPERATIONS

On October 31, 2016, the Corporation completed the sale of its tour operating businesses in France (Transat France) and Greece (Tourgreece) for an amount of €63,428 [$93,254] to TUI AG, a multinational tourism company. On January 27, 2017, TUI AG confirmed that the purchase price will not be subject to any working capital adjustments after the final closing and audit of accounts.

As at April 30, 2016, the tour operating businesses in France and Greece were identified as discontinued operations, and their assets as held for sale.

The net income (loss) from discontinued operations is entirely attributable to common shareholders of the Corporation and is detailed as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2017	2016	2017	2016
	$	$	$	$
Revenues	—	163,564	—	284,770
Operating expenses and other expenses	—	162,217	—	294,966
Income (loss) before income tax expense	—	1,347	—	(10,196)
Income tax expense (recovery)	—	966	—	(2,816)
Net income (loss) from discontinued operations	—	381	—	(7,380)

Basic and diluted earnings (loss) per share from discontinued operations are detailed as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2017	2016	2017	2016
	$	$	$	$
Earnings (loss) per share from discontinued operations				
De base	—	0.01	—	(0.20)
Diluted	—	0.01	—	(0.20)

The net change in cash flows related to discontinued operations is as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2017	2016	2017	2016
	$	$	$	$
Cash flows related to operating activities	—	12,104	—	(5,672)
Cash flows related to investing activities	—	(1,130)	—	(2,124)
Effect of exchange rate changes on cash and cash equivalents	—	(521)	—	(317)
Net cash flows related to discontinued operations	—	10,453	—	(8,113)

Note 7 IMPAIRMENT TEST

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

The Corporation performed an impairment test as at April 30, 2017 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following the impairment test, the Corporation did not identify any impairment of its trademarks, which total $4,717 as at April 30, 2017.

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

As at April 30, 2017, after-tax discount rates used for impairment testing for trademarks range from 10.3% to 18.0% [between 10.3% and 18.0% as at April 30, 2016].

On April 30, 2017, 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 required any impairment charge.

On April 30, 2017, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would not have required any impairment charge.

Note 8 INVESTMENTS

The change in the 35% investment in an associate, Caribbean Investments B.V. [”CIBV’], and the change in the 50% investment in a joint venture, Desarrollo, are detailed as follows:

	CIBV	Desarrollo	Total
	$	$	$
Balance as at October 31, 2016	97,668	—	97,668
Acquisition	—	13,425	13,425
Share of net income	9,353	93	9,446
Translation adjustment	2,084	243	2,327
Balance as at April 30, 2017	109,105	13,761	122,866

The investments were translated at the CAD/USD rate of 1.3665 as at April 30, 2017 [1.3403 as at October 31, 2016].

Note 9 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

	$
Balance as at October 31, 2016	40,861
Additional provisions	4,083
Utilization of provisions	(2,379)
Balance as at January 31, 2017	42,565
Additional provisions	7,132
Utilization of provisions	(2,982)
Balance as at April 30, 2017	46,715
Current provisions	32,074
Non-current provisions	14,641
Balance as at April 30, 2017	46,715

Note 10 LONG-TERM DEBT

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2020, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at April 30, 2017, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at April 30, 2017, $55,093 had been drawn down under the facility [$66,220 as at October 31, 2016], of which $50,100 is to insure the benefits to participants under senior executives 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 insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

Note 11 OTHER LIABILITIES

	As at April 30, 2017 $	As at October 31, 2016 $
Employee benefits	41,349	40,400
Deferred lease inducements	21,895	22,611
Non-controlling interests	27,615	29,984
	90,859	92,995
Less: Non-controlling interests included in Trade and other payables	—	(4,984)
	90,859	88,011

Note 12 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 shareholders' 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 participating Class B Voting Shares ["Class B Shares"], which may be owned and controlled by Canadians as defined by the CTA only 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, 2015	37,590,747	218,134
Issued from treasury	83,293	561
Exercise of options	59,890	577
Repurchase and cancellation of shares	(978,831)	(5,680)
Balance as at April 30, 2016	36,755,099	213,592
Issued from treasury	104,066	658
Balance as at October 31, 2016	36,859,165	214,250
Issued from treasury	110,555	552
Balance as at April 30, 2017	36,969,720	214,802

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; as of that date, the Corporation had repurchased a total of 2,274,921 Class B Shares for a cash consideration of $16,531. During the quarter ended April 30, 2016, the Corporation repurchased 286,431 Class B Shares for a cash consideration of $2,167. During the six-month period ended April 30, 2016, the Corporation repurchased 978,831 Class B Shares for a cash consideration of $7,107.

As at April 30, 2017, the number of Class A Shares and Class B Shares stood at 2,470,014 and 34,499,706, respectively [2,476,020 and 34,383,145 as at October 31, 2016].

STOCK OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2016	2,611,891	11.94
Cancelled	(317,921)	11.26
Balance as at April 30, 2017	2,293,970	12.04
Options exercisable as at April 30, 2017	2,082,402	12.21

LOSS PER SHARE

Basic and diluted loss per share were computed as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2017	2016	2017	2016
(in thousands of dollars, except per share data)	$	$	$	$
NUMERATOR				
Net income (loss) attributable to shareholders	(8,354)	(24,952)	(40,427)	(86,107)
Net income (loss) from discontinued operations	—	381	—	(7,380)
Net income (loss) from continuing operations attributable to shareholders	(8,354)	(25,333)	(40,427)	(78,727)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	36,937	36,736	36,909	36,999
Effect of dilutive securities				
Stock options	—	—	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	36,937	36,736	36,909	36,999
Earnings (loss) per share				
Basic	(0.23)	(0.68)	(1.10)	(2.33)
Diluted	(0.23)	(0.68)	(1.10)	(2.33)
Earnings (loss) per share from continuing operations				
Basic	(0.23)	(0.69)	(1.10)	(2.13)
Diluted	(0.23)	(0.69)	(1.10)	(2.13)

In light of the net loss recognized for the quarters and six-month periods ended April 30, 2017 and 2016, respectively, all 2,293,970 and 2,663,029 outstanding stock options were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 13 GUARANTEES

The Corporation has entered into agreements in the normal course of business 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 5, 7, 16, 23, 24 and 25 to the financial statements for the fiscal year ended October 31, 2016 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; moreover, the Corporation and its subsidiaries 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 licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at April 30, 2017, guarantees unsecured by deposits totalled $725. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2017, no amounts have been accrued with respect to the above-mentioned agreements.

Irrevocable credit facility unsecured by deposits

The Corporation has a $35,000 guarantee facility renewable annually in February. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at April 30, 2017, $26,915 had been drawn down under the facility.

Note 14 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 (loss) and consolidated statements of financial position include all the required information.

transat