



**TRANSAT A.T. INC.**  
2014 ANNUAL REPORT

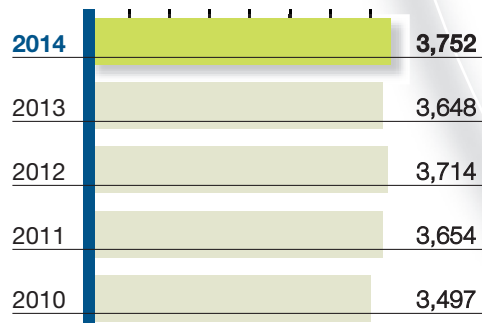
Welcome

Καλώς ήρθατε Bem-vindo  
Bienvenido Bienvenue  
Bem-vindo Welcome Willkommen  
Willkommen Bienvenido Benvenuto  
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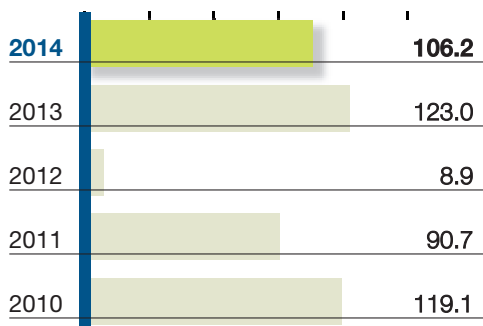
TRANSAT A.T. INC. IS AN INTEGRATED INTERNATIONAL TOUR OPERATOR THAT SPECIALIZES IN HOLIDAY TRAVEL. IT OFFERS MORE THAN 60 DESTINATION COUNTRIES AND DISTRIBUTES PRODUCTS IN APPROXIMATELY 50 COUNTRIES.



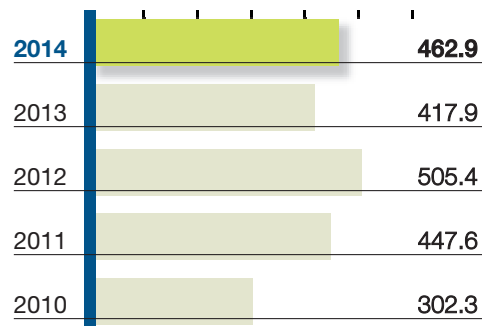
Revenues  
(In millions of dollars)



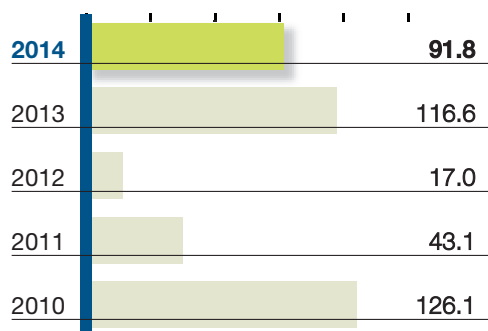
Cash flows related to operating activities  
(In millions of dollars)



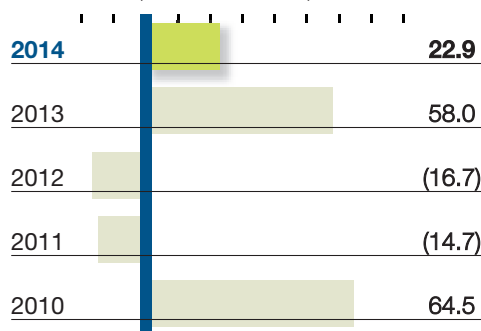
Aircraft fuel  
(In millions of dollars)



Adjusted operating income <sup>1</sup>  
(In millions of dollars)



Net income (loss) attributable to shareholders  
(In millions of dollars)



<sup>1</sup> See Non-IFRS Financial Measures section on page 7.



# HIGHLIGHTS

(In thousands of dollars, except per share amounts and ratios)

	2014	2013	Variance	Variance
			\$	%
Revenues	<b>3,752,198</b>	3,648,158	104,040	2.9
Adjusted operating income <sup>1</sup>	<b>91,835</b>	116,646	(24,811)	(21.3)
Net income	<b>26,066</b>	61,202	(35,136)	(57.4)
Net income attributable to shareholders	<b>22,875</b>	57,955	(35,080)	(60.5)
Diluted income per share	<b>0.59</b>	1.51	(1.00)	(60.8)
Cash flows relating to operating activities	<b>106,240</b>	123,039	(16,799)	(13.7)
Cash and cash equivalents	<b>308,887</b>	265,818	43,069	16.2
Total assets	<b>1,375,030</b>	1,290,073	84,957	6.6
Long-term debt (including current portion)	—	—	N.A.	N.A.
Debt ratio <sup>2</sup>	<b>0.65</b>	0.66	(0.01)	(1.5)
Return on average shareholders' equity (%) <sup>3</sup>	<b>4.9</b>	14.4	(9.5)	(66.0)
Book value per share <sup>4</sup>	<b>12.47</b>	11.47	1.00	8.7
Stock price as at October 31 (TRZ.B)	<b>8.60</b>	12.87	(4.27)	(33.2)
Outstanding shares, end of year (in thousands)	<b>38,742</b>	38,468	274	0.7

<sup>1</sup> Adjusted operating income: Operating income before depreciation and amortization expense, restructuring charge and other significant unusual items

<sup>2</sup> Debt ratio: Total liabilities divided by total assets

<sup>3</sup> Return on average shareholders' equity: Net income divided by average shareholders' equity

<sup>4</sup> Book value per share: Shareholders' equity divided by total number of shares outstanding

# FOCUSED ON THE FUTURE



Transat had a good year in 2014. As in 2013, however, the organization's winter and summer results were a reflection of the vastly different market dynamics that it faces depending on the season. Although we were unable to deliver a new record performance during the summer, as we did in 2013, we posted very good results for that period despite the oversupply on the transatlantic market, which represents the lion's share of our summer business. Our winter results would normally have shown significant year-over-year improvement, but a sudden, substantial and most untimely decline in the strength of the Canadian dollar exerted an adverse effect, which we were fortunately able to contain, in large part. We posted an adjusted operating income of \$120 million for the summer, and an adjusted operating loss of \$28 million for the winter. Our adjusted operating income for the fiscal year was \$92 million.

We continued implementing our cost-reduction plan, which is proceeding according to schedule and resulted in savings of \$20 million during 2014. The plan calls for recurring cost reductions with a cumulative impact of \$75 million over four years (2012–2015), and we expect to meet and possibly exceed that target.

In 2014, among other initiatives, we fully integrated the operations of Vacances Tours Mont-Royal, a company we acquired in 2012, as well as those of our

wholly owned business unit Transat Discoveries, into Transat Tours Canada. And, of course, we completed the implementation of Air Transat's flexible-fleet strategy, achieved notably via the introduction of narrow-body Boeing 737 aircraft. Other measures were taken, targeting greater flexibility for customers as well as improvements in our margins. On our Sun routes, passengers are now offered a buy-on-board bistro menu, which replaces free meal service. Moreover, as of fall 2014, all our flights now feature Eco Fares: three rate options for economy-class seating that mean more flexible conditions for passengers.

We have also taken several steps to more closely match product and service supply to consumers' evolving expectations, and to enhance their travel experience. We increased our supply of à la carte hotels, refined our collections, introduced our Club Lookéa beach resorts to Canadian travellers, and made considerable enhancements to our online shopping tools, which now stand out clearly from those of the competition. Our customers continue to be the prime focus of our concerns and strategies, in all facets of our work. In 2014, Air Transat was named Best North American Leisure Airline for the third year in a row at the annual Skytrax World Airline Awards, and was also second in the world in the same category.

In France, where the travel market remains demanding because of wavering economic conditions, our operations remain profitable, and we continue to stand out from our main competitors in that regard. We have maintained our extremely strong performance in the medium-haul segment, thanks in large part to our Lookéa product offering. The long-haul market has proved more challenging, but the outlook remains promising. In addition, for the past two years we have been expanding our activities in distribution, with enriched supply from other travel providers as part of a strategy





to build traveller loyalty. The year 2014 also saw Transat formally integrate its operations in France, following the merger of the Vacances Transat and Look Voyages business units in the fall of 2013.

For several years now, Transat has followed a multi-channel distribution strategy, which has clearly proven to be the right choice; we now plan to take that strategy to the next level. This major project has several components: bring more added value to our websites and improve their usability; develop and roll out a strategy for mobile devices; achieve ever greater customer proximity; grow the Transat Travel brand; and most important of all, enrich our offering per se, among other things by distributing products packaged by other travel companies.

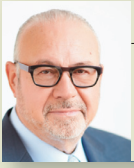
We remain steadfastly committed to sustainable development, and our efforts in this regard were acknowledged in 2014. Transat made the top 20 on the Corporate Knights organization's list of Canada's best corporate citizens. Air Transat, meanwhile, received an award for sustainable tourism innovation from French magazine L'Écho Touristique, and Quebec's Grand Prix Novae as corporate citizen of the year, in recognition of its pilot project, implemented with partners, for the green dismantling of end-of-life-cycle aircraft. Air Transat also became the first airline in North America to complete the first stage of the International Air Transport Association's (IATA) Environmental Assessment (IEnvA) certification. Air Transat has once again ranked as the most climate-efficient airline in North America, according to NGO atmosfair. To build on past accomplishments and structure its efforts going forward, Transat has made the decision to seek a tour operator and travel agent sustainability certification, beginning in 2015.

Our principal objectives for 2015 are as follows: continue with our cost-cutting and margin-improvement initiatives, which implies, among other things,

increasing ancillary revenues and more tightly managing hotel costs; enriching our product supply and developing new markets, both as a producer, with our own products, but also via a distribution strategy allowing for more marketing of products packaged by third parties; and optimizing our networks of agencies in Canada and France.

Economic ups and downs are inevitable—witness the continued uncertainty in Europe—but all signs point to the travel market continuing to grow at a steady pace. We have taken action, these past few years, to transform Transat. Some of these measures have yet to yield results, while others, like the upgrades to certain information systems, have yet to be fully implemented. But we are moving ahead with our plan, and the tangible results so far are encouraging. I thank all of our employees for their determination and open-mindedness, our partners and shareholders, and of course the members of the Board of Directors, for their continued invaluable support.

Jean-Marc Eustache  
Chairman of the Board,  
President and Chief Executive Officer  
December 12, 2014



**JEAN-MARC EUSTACHE**

Chairman of the Board  
President and Chief Executive Officer,  
Transat A.T. Inc.



**JEAN-YVES LEBLANC**

Lead Director  
Corporate Director



**RAYMOND BACHAND**

Strategic Advisor,  
Norton Rose Fulbright



**LOUIS-MARIE BEAULIEU**

Chairman of the Board and  
President and Chief Executive Officer,  
Groupe Desgagné inc.



**LINA DE CESARE**

Director



**JEAN PIERRE DELISLE**

Corporate Director  
and Executor of estates



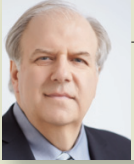
**W. BRIAN EDWARDS**

Corporate Director



**SUSAN KUDZMAN**

First Senior Vice-President,  
Human Resources,  
Banque Laurentienne



**TONY MIGNACCA**

Chief Executive Officer  
and Chairman of the Board,  
SAIL Outdoors Inc.



**JACQUES SIMONEAU**

President and CEO  
and Director Gestion Univalor, s.e.c.



**PHILIPPE SUREAU**

Director



**JEAN-MARC EUSTACHE**

Chairman of the Board  
President and Chief Executive Officer  
Transat A.T. Inc.



**JOSEPH ADAMO**

General Manager  
Transat Distribution Canada



**PATRICE CARADEE**

President and General Manager  
Transat France



**ANDRÉ DE MONTIGNY**

President, Transat International  
Vice-President, Corporate Development  
Transat A.T. Inc.



**ANNICK GUÉRARD**

General Manager  
Transat Tours Canada



**JEAN-FRANÇOIS LEMAY**

General Manager  
Air Transat



**MICHEL BELLEFEUILLE**

Vice-President  
and Chief Information Officer  
Transat A.T. Inc.



**BERNARD BUSSIÈRES**

Vice-President, General Counsel  
and Corporate Secretary  
Transat A.T. Inc.



**DANIEL GODBOUT**

Senior Vice-President,  
Transport and Yield Management  
Transat A.T. Inc.



**CHRISTOPHE HENNEBELLE**

Vice-President, Human Resources  
and Talent Management  
Transat A.T. Inc.



**MICHEL LEMAY**

Vice-President, Communications  
and Corporate Affairs  
and Chief Brand Officer, Transat A.T. Inc.



**DENIS PÉTRIN**

Vice-President, Finance and Administration  
and Chief Financial Officer  
Transat A.T. Inc.

**COMMITTEE**

**EXECUTIVE  
COMMITTEE**

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*(President)*  
W. Brian Edwards  
Jean-Yves Leblanc  
Jacques Simoneau

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RESOURCES AND  
COMPENSATION  
COMMITTEE**

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*(President)*  
Susan Kudzman  
Jean-Yves Leblanc

**AUDIT COMMITTEE**

Jean-Yves Leblanc  
*(President)*  
Jean Pierre Delisle  
Jacques Simoneau

**CORPORATE  
GOVERNANCE  
AND NOMINATING  
COMMITTEE**

Jacques Simoneau  
*(President)*  
Jean Pierre Delisle  
W. Brian Edwards



## 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 year ended October 31, 2014, compared with the year ended October 31, 2013, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 10, 2014. You will find more information about us on Transat's website at [www.transat.com](http://www.transat.com) and on SEDAR at [www.sedar.com](http://www.sedar.com), including the Attest Reports for the year ended October 31, 2014 and Annual Information Form.

Our 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.

**This Management's Discussion and Analysis consists of the following sections:**

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## 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 should have the resources it needs to meet its 2015 objectives and continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues to increase and total travellers to be lower compared with fiscal 2014.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2015.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately \$50.0 million.
- 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.

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.

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## 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 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 derivative financial instruments used for aircraft fuel purchases, 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 the Corporation uses to assess operational performance include adjusted operating income (loss), adjusted pre-tax income (loss) and adjusted net income (loss).

Management also uses total debt and total net debt to assess the Corporation's debt level, cash position, future cash needs and financial leverage ratio. Management believes these measures to be useful in assessing the Corporation's capacity to discharge its current and future financial obligations.

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

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<b>Adjusted operating income (loss)</b>	Operating income (loss) before depreciation and amortization expense, restructuring charge and other significant unusual items.
<b>Adjusted pre-tax income (loss)</b>	Income (loss) before income tax expense before change in fair value of derivative financial instruments used for aircraft fuel purchases, gain (loss) on investments in ABCP, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items.
<b>Adjusted net income (loss)</b>	Net income (loss) attributable to shareholders before change in fair value of derivative financial instruments used for aircraft fuel purchases, gain (loss) on investments in ABCP, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items, net of related taxes.
<b>Adjusted net income (loss) per share</b>	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
<b>Adjusted operating leases</b>	Aircraft rental expense for the past four quarters multiplied by 5.
<b>Total debt</b>	Long-term debt plus the amount for adjusted operating leases.
<b>Total net debt</b>	Total debt less cash and cash equivalents and investments in ABCP (the Corporation has had no investments in ABCP since November 9, 2012).

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The following table reconciles the non-IFRS financial measures to the most comparable IFRS financial measures:

	2014	2013	2012
(in thousands of Canadian dollars, except per share amounts)	\$	\$	\$
Operating income (loss)	38,746	71,838	(23,838)
Restructuring charge	6,387	5,740	—
Amortization	46,702	39,068	40,793
<b>Adjusted operating income</b>	<b>91,835</b>	<b>116,646</b>	<b>16,955</b>
Income (loss) before income tax expense	29,824	80,712	(16,950)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	23,822	493	(701)
Gain on investments in ABCP	—	—	(7,936)
Gain on disposal of a subsidiary	—	—	(5,655)
Write-off and impairment of goodwill	369	—	15,000
Restructuring charge	6,387	5,740	—
<b>Adjusted pre-tax income (loss)</b>	<b>60,402</b>	<b>86,945</b>	<b>(16,242)</b>
Net (income) loss attributable to shareholders	22,875	57,955	(16,669)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	23,822	493	(701)
Gain on investments in ABCP	—	—	(7,936)
Gain on disposal of a subsidiary	—	—	(5,655)
Write-off and impairment of goodwill	369	—	15,000
Restructuring charge	6,387	5,740	—
Tax impact	(8,211)	(1,621)	689
<b>Adjusted net income (loss)</b>	<b>45,242</b>	<b>62,567</b>	<b>(15,272)</b>
Adjusted net income (loss)	45,242	62,567	(15,272)
Adjusted weighted average number of outstanding shares used in computing earnings per share	39,046	38,472	38,142
<b>Adjusted net income (loss) per share</b>	<b>1.16</b>	<b>1.63</b>	<b>(0.40)</b>

	October 31, 2014	October 31, 2013	October 31, 2012
	\$	\$	\$
Aircraft rent	87,229	81,270	88,361
Multiple	5	5	5
<b>Adjusted operating leases</b>	<b>436,145</b>	<b>406,350</b>	<b>441,805</b>
Long-term debt	—	—	—
Adjusted operating leases	436,145	406,350	441,805
<b>Total debt</b>	<b>436,145</b>	<b>406,350</b>	<b>441,805</b>
Total debt	436,145	406,350	441,805
Cash and cash equivalents	(308,887)	(265,818)	(171,175)
Investments in ABCP	—	—	(27,350)
<b>Total net debt</b>	<b>127,258</b>	<b>140,532</b>	<b>243,280</b>

## FINANCIAL HIGHLIGHTS

	2014	2013	2012	Change	
				2014	2013
(in thousands of Canadian dollars, except per share amounts)	\$	\$	\$	%	%
<b>Consolidated Statements of Income</b>					
Revenues	3,752,198	3,648,158	3,714,219	2.9	(1.8)
Adjusted operating income <sup>(1)</sup>	91,835	116,646	16,955	(21.3)	588.0
Net income (loss) attributable to shareholders	22,875	57,955	(16,669)	(60.5)	447.7
Basic earnings (loss) per share	0.59	1.51	(0.44)	(60.9)	443.2
Diluted earnings (loss) per share	0.59	1.51	(0.44)	(60.9)	443.2
Adjusted net income (loss)	45,242	62,567	(15,272)	(27.7)	509.7
Adjusted net income (loss) per share <sup>(1)</sup>	1.16	1.63	(0.40)	(28.8)	506.2
<b>Consolidated Statements of Cash Flows</b>					
Operating activities	106,240	123,039	8,872	(13.7)	1,286.8
Investing activities	(61,100)	(28,289)	(11,024)	(116.0)	(156.6)
Financing activities	191	(1,817)	(4,361)	110.5	58.3
Effect of exchange rate changes on cash and cash equivalents	(2,262)	1,710	(3,888)	(232.3)	144.0
Net change in cash and cash equivalents	43,069	94,643	(10,401)	(54.5)	1,009.9
<b>Consolidated Statements of Financial Position</b>					
	As at	As at	As at	Change	Change
	October 31,	October 31,	October 31,	2014	2013
	2014	2013	2012	%	%
	\$	\$	\$		
Cash and cash equivalents	308,887	265,818	171,175	16.2	55.3
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	380,184	403,468	370,291	(5.8)	9.0
Investments in ABCP	—	—	27,350	—	(100.0)
	689,071	669,286	568,816	3.0	17.7
Total assets	1,375,030	1,290,073	1,163,301	6.6	10.9
Debt (current and non-current)	—	—	—	—	—
Total debt <sup>(1)</sup>	436,145	406,350	441,805	7.3	(8.0)
Total net debt <sup>(1)</sup>	127,258	140,532	243,280	(9.4)	(42.2)

<sup>1</sup> SEE NON-IFRS FINANCIAL MEASURES

## OVERVIEW

### HOLIDAY TRAVEL INDUSTRY

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

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, through travel agencies or via the Web. Incoming tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground transfers between airports and hotels. Travel agencies, operating independently or in networks, are distributors serving as intermediaries between tour operators and consumers. Air carriers sell seats through travel agencies or through tour operators that use them in building packages, or directly to consumers.

### CORE BUSINESS, VISION AND STRATEGY

#### CORE BUSINESS

Transat is one of the largest integrated tour operators in the world. We operate solely in the holiday travel industry and market our services mainly 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 bought 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 distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat offers destination services to Canada, Mexico, the Dominican Republic and Greece. Transat holds an interest in Caribbean Investments B.V. (operating under the Ocean Hotels banner), a hotel business which owns, operates or manages properties in Mexico, the Dominican Republic and Cuba.

#### 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 intends to continue: deriving synergies from its vertical integration model and particularly from its position as both a major producer and distributor in Canada, which distinguishes it from several of its rivals; growing its market share in France, where it ranks among the largest tour operators; and tapping into new markets or expanding operations in markets not yet fully served. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure to improve its operating income and maintain or grow market share in all its markets. Cost management remains a core strategic issue in light of the tourism industry's slim margins.

Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. Given this trend, Transat has undertaken to adopt avant-garde policies on corporate responsibility and sustainable tourism.



For fiscal 2015, Transat has set the following objectives:

1. Transat remains committed under a cost reduction and unit margin improvement program, which it expects to generate \$20 million in savings in fiscal 2015, compared with fiscal 2014. The Corporation aims to improve its winter results and maintain its summer profitability in fiscal 2015, in particular through improved efficiency.
2. Transat intends to develop new markets by launching new routes, entering new source markets, building out its existing source market offering and expanding its overall offering, including where applicable, by marketing third-party products.
3. Building on the successful launch of the Transat Travel banner as a Canadian distributor, Transat intends to improve its multi-channel distribution strategy, and particularly its online presence, to extend its consumer reach and enhance customer loyalty.
4. In fiscal 2015, Transat will begin structuring its sustainable development project to secure a certification for its tour operator and travel agency businesses.

## REVIEW OF 2014 OBJECTIVES AND ACHIEVEMENTS

The main goals and achievements for fiscal 2014 were as follows:

### 1. Reduce costs, improve winter results and maintain summer profitability.

The cost reduction and operating income improvement program generated cumulative improvements totalling \$20 million, \$35 million and \$55 million as at the end of fiscal 2012, 2013 and 2014, respectively, as anticipated.

The Corporation's airline strategy is a key element of the program. The Corporation and its unionized employees at its subsidiary Air Transat reached agreements in 2012 to transform a portion of fixed compensation into variable compensation, and further agreed to amend certain processes and procedures, resulting in substantial savings, without monetary concessions from staff. Following those negotiations, the Corporation moved to insource narrow-body aircraft operations to sun destinations, which had been outsourced since 2003. This move, completed in the summer 2014, has significantly curbed operating costs, as per the cost reduction and unit margin improvement program discussed above. Moreover, the Corporation renewed six wide-body aircraft leases in 2013 under terms that will further improve its cost structure.

For winter 2014, the Corporation reported an adjusted operating loss of \$27.8 million, compared with \$18.3 million in fiscal 2013. However, this increase in adjusted operating loss was completely attributable to the sudden mid-season weakening of Canada's currency against the U.S. dollar, which alone had a \$36 million adverse effect over the winter season. In summer 2014, the Corporation reported \$119.7 million in adjusted operating income, the third best summer performance in the Corporation's history, compared with \$134.9 million for the record summer of 2013.

### 2. Shift toward a flexible fleet.

The Corporation has completed its shift toward a flexible fleet at Air Transat, consisting of wide- and narrow-body aircraft, allowing it to (a) maximize the use of narrow-body aircraft to serve sun destinations, with a variable number of aircraft in line with seasonal demand; and (b) maximize the use of wide-body aircraft on transatlantic routes thereby minimizing their fixed costs in winter. The full effect of this shift will be reflected as of winter 2015.

### 3. Improve performance, efficiency and unit margins from a product and customer experience standpoint.

The Corporation generally provides customers with excellent value for money through a made-to-measure product offering tailored for tourists. In the transatlantic market, Transat offers a wide variety of competitively priced direct flights to or from Canada, complemented by top-quality destination services (such as excursions, hotels, cars and cruises). Over the years in this market segment, Transat has built well-established distribution networks in both Canada and Europe.

With regard to our sun destinations, our hotel partnership terms have been tightened, the collections have been adjusted as part of a focused segmentation review and the performance of customer relationship centres has been significantly improved, all of which has driven an improved customer experience. These initiatives are ongoing and should result in additional improvements in winter 2015 and thereafter.

#### 4. Refine our distribution strategy for enhanced customer proximity.

In 2014, Transat's ongoing implementation of a pilot project to introduce the Transat Travel banner to Canadian consumers has met with encouraging results. At the same time, the Corporation continued developing a distribution strategy moulded around an expanded offering to be implemented as of 2015. Alongside those initiatives, the Corporation continues to fine-tune its customer relationship management (CRM) strategy.

#### 5. Conduct a strategic review to revamp its organizational structure.

Transat made further integration inroads in fiscal 2014. As well, Tours Mont-Royal Holidays Inc. and Transat Discoveries were merged into Transat Tours Canada. In France, following the legal merger carried out in 2013, the integration of the entities has been completed.

### KEY PERFORMANCE DRIVERS

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

<b>ADJUSTED OPERATING INCOME</b>	Generate an adjusted operating income margin of 3%.
<b>MARKET SHARE</b>	Remain a leader in all Canadian provinces and increase market share in Ontario, in Canada and in Europe.
<b>REVENUE GROWTH</b>	Grow revenues by more than 3%, excluding acquisitions.

### ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

<b>Cash</b>	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled \$308.9 million as at October 31, 2014. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels.
<b>Credit facilities</b>	We can also draw on credit facilities in Canada and Europe totalling \$66.2 million.

Our non-financial resources include:

<b>Brand</b>	The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.
<b>Structure</b>	Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.
<b>Employees</b>	In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.
<b>Supplier relationships</b>	We have exclusive access to certain hotels at sun destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2015 objectives and continue building on its long-term strategies.

## CONSOLIDATED OPERATIONS

### REVENUES

Revenues by geographic area (in thousands of dollars)				Change	
	2014 \$	2013 \$	2012 \$	2014 %	2013 %
Americas	2,921,811	2,893,353	2,850,874	1.0	1.5
Europe	830,387	754,805	863,345	10.0	(12.6)
	<b>3,752,198</b>	<b>3,648,158</b>	<b>3,714,219</b>	<b>2.9</b>	<b>(1.8)</b>

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

For the year ended October 31, 2014, the Corporation's revenues were up \$104.0 million (2.9%), owing primarily to higher average selling prices and the strengthening of the euro and pound sterling against the dollar in both our winter and summer seasons. Generally speaking, average selling prices during the fiscal year were slightly higher than in 2013 while traveller volumes were down 0.3%. We reduced our sun destination product offering during the winter season by 1.9% compared with the same period of fiscal 2013. Our transatlantic offering during the summer season was trimmed 1.3% from the same period of 2013.

For fiscal 2015, we expect revenues to increase and total travellers to be lower compared with fiscal 2014, owing primarily to the Corporation's move to reduce winter-season capacity.



## OPERATING EXPENSES

Operating expenses				% of revenues			Change	
	2014	2013	2012	2014	2013	2012	2014	2013
(in thousands of dollars)	\$	\$	\$	%	%	%	%	%
Costs of providing tourism services	2,000,424	1,951,329	1,975,892	53.3	53.5	53.2	2.5	(1.2)
Aircraft fuel	462,942	417,891	505,422	12.3	11.5	13.6	10.8	(17.3)
Salaries and employee benefits	370,904	368,477	374,980	9.9	10.1	10.1	0.7	(1.7)
Commissions	170,724	163,606	158,357	4.5	4.5	4.3	4.4	3.3
Aircraft maintenance	128,892	106,732	119,613	3.4	2.9	3.2	20.8	(10.8)
Airport and navigation fees	105,440	95,635	108,112	2.8	2.6	2.9	10.3	(11.5)
Aircraft rent	87,229	81,270	88,361	2.3	2.2	2.4	7.3	(8.0)
Other	333,808	346,572	366,527	8.9	9.5	9.9	(3.7)	(5.4)
Amortization	46,702	39,068	40,793	1.2	1.1	1.1	19.5	(4.2)
Restructuring charge	6,387	5,740	—	0.2	0.2	—	11.3	—
<b>Total</b>	<b>3,713,452</b>	<b>3,576,320</b>	<b>3,738,057</b>	<b>99.0</b>	<b>98.0</b>	<b>100.6</b>	<b>3.8</b>	<b>(4.3)</b>

Total operating expenses for fiscal 2014 rose \$137.1 million (3.8%) from fiscal 2013, owing primarily to the dollar's depreciation against the U.S. dollar, the euro and the pound sterling and a slightly reduced seasonal source market product offering, relative to last year. In addition, during our summer season, we began operating four Boeing 737-800 narrow-body aircraft rather than outsource to an external air carrier. Apart from the anticipated cost savings, this initiative will prompt lower costs of providing tourism services and higher other operating expenses, excluding commissions.

### COSTS OF PROVIDING TOURISM SERVICES

The 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 air carriers other than Air Transat. Despite the decrease in our seasonal source market product offering, the costs of providing tourism services were up \$49.1 million (2.5%). The increase was driven mainly by the dollar's weakening against the U.S. dollar and the euro and higher hotel room costs, partially offset by reduced flight purchases from air carriers other than Air Transat with the start of our narrow-body Boeing 737-800 operations.

### AIRCRAFT FUEL

Aircraft fuel expense for the year was up \$45.1 million (10.8%) from the previous year, primarily as a result of the dollar's weakening against the U.S. dollar (fuel is paid mainly in U.S. dollar) and the commissioning of our narrow-body Boeing 737-800s, offset by lower fuel prices.

### SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the year ended October 31, 2014 rose \$2.4 million (0.7%) to \$370.9 million from the previous year. The increase stemmed from annual salary reviews and the weakening of the dollar against the euro, the pound sterling and the U.S. dollar, which was tempered by savings from workforce reductions in fiscal 2013 and 2014 and a decline in short- and long-term incentive program expense.

### COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the year amounted to \$170.7 million, up \$7.1 million (4.4%) from fiscal 2013. Commissions accounted for 4.5% of revenues, unchanged from the previous fiscal year.

#### AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Relative to fiscal 2013, they rose \$22.2 million (20.8%) during the year, owing primarily to the dollar's weakening against the U.S. dollar, two major breakdowns at the end of the fiscal year, the beginning of our narrow-body aircraft operations and the non-reoccurrence of aircraft maintenance repayments received by the Corporation in fiscal 2013.

#### AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Fees for the year were up \$9.8 million (10.3%) compared with 2013, resulting primarily from the addition of narrow-body aircraft to our fleet and the dollar's weakening against the U.S. dollar.

#### AIRCRAFT RENT

Aircraft rent for the year climbed \$6.0 million (7.3%) from a year earlier, due to addition four Boeing 737-800s to our fleet and the dollar's weakening against the U.S. dollar, partially offset by the effects of certain aircraft lease renewals under more favourable conditions.

#### OTHER

Other expenses for the year fell \$12.8 million (3.7%) compared with fiscal 2013, owing mainly to declines in marketing costs and other operating expenses.

#### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense, including the depreciation of property, plant and equipment and the amortization of intangible assets subject to amortization and deferred incentive benefits, was up \$7.6 million in fiscal 2014 from a year ago, due to a rise in additions to property, plant and equipment and intangible assets in recent fiscal years, consisting primarily of fleet upgrades, namely in connection with the reconfiguration of our Airbus A330s.

#### RESTRUCTURING CHARGE

In fiscal 2014, the Corporation continued its restructuring program aimed at cost reduction and margin improvement, initiated late in fiscal 2011. The restructuring charge for fiscal 2014 amounted to \$6.4 million, consisting of \$5.4 million in termination benefits, \$0.6 million in intangible assets written off and \$0.4 million in other expenses. Restructuring also resulted in a \$0.4 million write-off of goodwill, discussed under *Other expenses and revenues*, on the closure of our French Affair division, which specialized in villa rentals in certain areas of Europe. The restructuring charge for fiscal 2013 amounted to \$5.7 million and consisted of termination benefits.

#### OPERATING INCOME

In light of the foregoing, the Corporation recorded \$38.7 million (1.0%) in operating income for the year compared with \$71.8 million (2.0%) for the previous year. Those results reflect restructuring charges of \$6.4 million and \$5.7 million for fiscal 2014 and 2013, respectively. The deterioration in operating income arose from the dollar's weakening against the U.S. dollar, the effects of which selling price increases could not fully offset. The dollar's depreciation resulted in a \$69.0 million increase in operating expenses for the year, compared with fiscal 2013.

The Corporation reported \$91.8 million (2.4%) in adjusted operating income for the year compared with \$116.6 million (3.2%) in fiscal 2013. The decline in operating income was mainly attributable to the dollar's weakening against the U.S. dollar, the impact of which was not fully offset by selling price increases.

## GEOGRAPHIC AREAS

### AMERICAS

Americas				Change	
	2014	2013	2012	2014	2013
(in thousands of dollars)	\$	\$	\$	%	%
<b>Winter season</b>					
Revenues	1,662,652	1,635,128	1,727,821	1.7	(5.4)
Operating expenses	1,703,305	1,658,733	1,784,628	2.7	(7.1)
Operating loss	(40,653)	(23,605)	(56,807)	(72.2)	58.4
Operating loss (%)	(2.4)	(1.4)	(3.3)	(69.4)	56.1
<b>Summer season</b>					
Revenues	1,259,159	1,258,225	1,123,053	0.1	12.0
Operating expenses	1,200,129	1,170,459	1,074,913	2.5	8.9
Operating income	59,030	87,766	48,140	(32.7)	82.3
Operating income (%)	4.7	7.0	4.3	(32.8)	62.7

Winter-season revenues at our North American subsidiaries from sales in Canada and abroad were up \$27.5 million (1.7%) compared with 2013, driven by higher average selling prices, while total travellers fell 3.8%. In the winter season, we scaled back our sun destination product offering by 1.9% and transatlantic routes by 6.2% compared with fiscal 2013. We recognized an operating loss for the winter season amounting to \$40.7 million (2.4%), compared with an operating loss of \$23.6 million (1.4%) in 2013. The higher operating loss was mainly attributable to higher costs driven by the depreciation of the dollar against the U.S. dollar. The operating loss for the year included a \$2.2 million restructuring charge compared with a \$3.9 million charge in fiscal 2013.

Summer-season revenues were up \$0.9 million (0.1%) year over year. Summer-season capacity in our transatlantic segment, our main summer-season market, was 1.2% lower in fiscal 2014 than in fiscal 2013. Average selling prices were up 1.4%, whereas total travellers were 3.3% lower, compared with a year earlier. Our sun destination capacity was 7.5% higher than in fiscal 2013. Traveller volumes and selling prices were up 6.2% and 2.2%, respectively, from a year earlier. Our operating margin was \$59.0 million (4.7%), compared with \$87.8 million (7.0%) in fiscal 2013. The adverse change in operating income originated mainly from the rise in costs sparked by the dollar's depreciation against the U.S. dollar. Our second-half operating income included a \$4.2 million restructuring charge, compared with a \$1.8 million charge in the same period of 2013.

EUROPE

Europe	Change				
	2014	2013	2012	2014	2013
(in thousands of dollars)	\$	\$	\$	%	%
<b>Winter season</b>					
Revenues	303,190	277,410	313,901	9.3	(11.6)
Operating expenses	313,118	293,866	335,161	6.6	(12.3)
Operating loss	(9,928)	(16,456)	(21,260)	39.7	22.6
Operating loss (%)	(3.3)	(5.9)	(6.8)	44.8	12.4
<b>Summer season</b>					
Revenues	527,197	477,395	549,444	10.4	(13.1)
Operating expenses	496,900	453,262	543,355	9.6	(16.6)
Operating income	30,297	24,133	6,089	25.5	296.3
Operating income (%)	5.7	5.1	1.1	13.7	356.2

Fiscal 2014 winter-season revenues at our European subsidiaries were up \$25.8 million (9.3%) year over year, driven by the strength of the euro and the pound sterling against the dollar. In local currency terms, revenues of our European entities declined slightly following our decision to reduce our offering. For the winter season, total travellers were down 2.3%, with average selling prices relatively unchanged, compared with the winter season of fiscal 2013. Our European operations reported a winter-season operating loss of \$9.9 million (3.3%) in fiscal 2014, compared with \$16.5 million (5.9%) in fiscal 2013.

Summer-season revenues at our European subsidiaries were up \$49.8 million (10.4%) in fiscal 2014 compared with fiscal 2013, due to a 13.4% increase in total travellers, primarily to medium-haul destinations, and the strength of the euro and the pound sterling. Average selling prices in foreign currencies were down year over year, due to a shift in the sold product mix which saw medium-haul destinations log a higher increase in total travellers than long-haul destinations, resulting in a decline in the average selling price. Our European operations reported \$30.3 million (5.8%) in operating income in fiscal 2014, compared with \$24.1 million (5.1%) in fiscal 2013. The improvement in our operating income resulted primarily from sound management of our product offering bolstered by cost reduction initiatives.

OTHER EXPENSES AND REVENUES

	Change				
	2014	2013	2012	2014	2013
(in thousands of dollars)	\$	\$	\$	%	%
Financing costs	1,939	2,512	2,962	(22.8)	(15.2)
Financing income	(8,107)	(7,357)	(6,693)	10.2	9.9
Change in fair value of derivative financial instruments used for aircraft fuel purchases	23,822	493	(701)	4,732.0	170.3
Foreign exchange gain on non-current monetary items	(1,007)	(846)	(370)	19.0	128.6
Gain on investments in ABCP	—	—	(7,936)	—	(100.0)
Gain on disposal of a subsidiary	—	—	(5,655)	—	(100.0)
Write-off and impairment of goodwill	369	—	15,000	N/A	(100.0)
Share of net income of an associate	(8,094)	(3,676)	(3,495)	120.2	5.2

FINANCING COSTS

Financing costs include interest on long-term debt and other interest, standby fees as well as financial expenses. Financing costs for fiscal 2014 were down \$0.6 million from fiscal 2013.

FINANCING INCOME

Financing income for the year rose \$0.8 million from fiscal 2013, resulting in large part from higher cash balances than in fiscal 2013.

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#### CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS USED FOR AIRCRAFT FUEL PURCHASES

The change in fair value of derivative financial instruments used for aircraft fuel purchases 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. For the year, the fair value of derivative financial instruments used for aircraft fuel purchases was down \$23.8 million compared with a \$0.5 million decrease in fair value in fiscal 2013, in light of the recent drop in fuel prices.

#### FOREIGN EXCHANGE GAIN ON NON-CURRENT MONETARY ITEMS

The foreign exchange gain on non-current monetary items, which amounted to \$1.0 million for the year, arose mainly from a favourable foreign exchange effect on our foreign currency deposits. The Corporation no longer holds investments in ABCP.

#### GAIN ON INVESTMENTS IN ABCP

The gain on investments in ABCP results from the change in the fair value of investments in ABCP during the period. In the first quarter of fiscal 2013, the Corporation sold all of its investments in ABCP. The transaction triggered neither a gain nor a loss. In fiscal 2012, the gain on investments in ABCP amounted to \$7.9 million.

#### GAIN ON DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex. The Corporation reported a gain on disposal of a subsidiary of \$5.7 million.

#### WRITE-OFF AND IMPAIRMENT OF GOODWILL

Following the closure of its French Affair division, the Corporation wrote off \$0.4 million in related goodwill.

The Corporation performed an annual impairment test to determine whether the carrying amount of cash generating units (CGUs) were higher than their recoverable amount. On October 31, 2014, the Corporation concluded that no impairment losses need be recorded for fiscal 2014. The Corporation reached the same conclusion following impairment testing for the fiscal year ended October 31, 2013.

On October 31, 2012, after performing its annual impairment test, the Corporation recognized a \$15.0 million goodwill impairment loss in respect of one of its CGUs in France. The CGU in question includes outgoing tour operators that generate a significant percentage of their revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt, and a travel agency network. The impairment loss recognized resulted primarily from the decrease in the sale of products to North African countries and the CGU's lower profitability. In performing the test, management considered, among other factors, the potential impact on its future results of the political climate that prevailed in North Africa and economic conditions in Europe.

#### SHARE OF NET INCOME OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments ["CIBV"]. Our share of net income of an associate totalled \$8.1 million for the current fiscal year compared with \$3.7 million for fiscal 2013. The increase in our share of net income was driven primarily by improved operating profitability and by the reversal of deferred tax liabilities following amendments to Mexican tax legislation. The deferred tax liabilities had been recognized as of the coming into force, in 2008, of a piece of tax legislation in Mexico.

#### INCOME TAXES

Income tax expense for the fiscal year ended October 31, 2014 amounted to \$3.8 million compared with \$19.5 million for the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 17.3% for the fiscal year ended October 31, 2014 and 25.3% for the preceding year. The change in tax rates between fiscal 2014 and 2013 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.



## NET INCOME (LOSS) AND NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed under *Consolidated operations*, net income for the year ended October 31, 2014 amounted to \$26.1 million compared with \$61.2 million in fiscal 2013. Net income attributable to shareholders stood at \$22.9 million or \$0.59 per share (basic and diluted) compared with \$58.0 million or \$1.51 per share (basic and diluted) the previous fiscal year. The weighted average number of outstanding shares used to compute basic per share amounts was 38,644,000 for fiscal 2014 and 38,390,000 for fiscal 2013 (39,046,000 and 38,472,000, respectively, for diluted earnings per share).

For the year, the Corporation posted adjusted net income of \$45.2 million (\$1.16 per share) compared with \$62.6 million (\$1.63 per share) in fiscal 2013.

## 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 rose compared with the corresponding quarters. Average selling prices were higher, whereas total travellers declined for winter season and increased for the summer season. In terms of operating results, increases in average selling prices coupled with cost reduction and margin improvement initiatives were insufficient to offset the foreign exchange effect arising from the strength of the U.S. dollar, the euro and the pound sterling. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Q1-2014	Q2-2014	Q3-2014	Q4-2014
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	805,714	1,106,824	927,004	808,616	847,222	1,118,620	941,702	844,654
Aircraft rent	20,419	20,556	20,530	19,765	19,170	19,853	23,350	24,856
Operating income (loss)	(29,936)	(10,125)	41,803	70,096	(33,534)	(17,047)	35,100	54,227
Adjusted operating income (loss)	(21,017)	2,730	54,371	80,562	(23,812)	(4,014)	46,798	72,863
Net income (loss)	(13,940)	(21,556)	41,469	55,229	(24,860)	(6,606)	26,296	31,236
Net income (loss) attributable to shareholders	(15,137)	(22,760)	41,129	54,723	(25,649)	(7,903)	25,820	30,607
Basic earnings (loss) per share	(0.39)	(0.59)	1.07	1.42	(0.67)	(0.20)	0.67	0.79
Diluted earnings (loss) per share	(0.39)	(0.59)	1.07	1.40	(0.67)	(0.20)	0.66	0.79
Adjusted net income (loss)	(21,564)	(1,432)	30,759	54,804	(23,288)	(7,553)	26,730	49,353
Adjusted net income (loss) per share	(0.56)	(0.04)	0.80	1.40	(0.60)	(0.19)	0.69	1.27

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## FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated \$844.7 million in revenues, up \$36.0 million (4.5%), from \$808.6 million for the corresponding period of fiscal 2013. The increase stemmed primarily from higher average selling prices and the strengthening of the euro and the pound sterling against the dollar. Fourth-quarter total travellers rose 5.4% in fiscal 2014 compared with fiscal 2013.

In the Americas, fourth-quarter revenues were up \$28.8 million (5.0%) in fiscal 2014, compared with fiscal 2013, owing mainly to 3.3% overall growth in total travellers, as well as to higher average selling prices. On our transatlantic routes, our main market, fourth-quarter capacity in fiscal 2014 was relatively unchanged from fiscal 2013. Year over year in the transatlantic segment, average selling prices were up 0.3% while total travellers declined 1.4%. For sun destinations in the fourth quarter of fiscal 2014, our capacity, total travellers and selling prices increased 6.5%, 5.3% and 0.9%, respectively, compared with the same period of fiscal 2013. Our North American operations reported \$39.2 million in operating income, compared with \$59.6 million in the same period of fiscal 2013. The decline in operating income originated mainly from the rise in costs due to the Canadian dollar's depreciation against the U.S. dollar, which could not be offset by a matching rise in selling prices. Our fourth-quarter operating income also included a \$4.2 million restructuring charge in fiscal 2014, compared with a \$0.5 million charge in the same period of fiscal 2013.

Fourth-quarter revenues at our European subsidiaries were up \$7.2 million (3.0 %) in fiscal 2014 compared with fiscal 2013, due to a 15.1% increase in total travellers, primarily to medium-haul destinations, and the strength of the euro and the pound sterling. Europe average selling prices in foreign currencies were down year over year, due to a shift in the sold product mix which saw medium-haul destinations log a higher increase in total travellers than long-haul destinations, resulting in a decline in the average selling price. Our European operations reported \$15.0 million in operating income, compared with \$10.5 million in fiscal 2013. The improvement in our operating income resulted primarily from sound management of our product offering bolstered by cost reduction initiatives.

The Corporation's fourth-quarter operating income totalled \$54.2 million (6.4%) in fiscal 2014, compared with \$70.1 million (8.7%) in fiscal 2013. The year-over-year decline in quarterly operating income was mainly attributable to the dollar's weakening against the U.S. dollar, the impact of which was not fully offset by selling price increases. The dollar's depreciation resulted in a \$15.0 million increase in operating expenses for the period, compared with the fourth quarter of fiscal 2013.

The Corporation recorded fourth-quarter net income amounting to \$31.2 million in fiscal 2014, compared with \$55.2 million a year earlier. Fourth-quarter net income attributable to shareholders stood at \$30.6 million (\$0.79 per share basic and diluted) in fiscal 2014 compared with \$54.7 million (\$1.40 per share basic and diluted) in the previous fiscal year.

The Corporation's fourth-quarter net adjusted income totalled \$49.4 million (\$1.27 per share) in fiscal 2014 compared with \$54.8 million (\$1.40 per share) in fiscal 2013.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2014, cash and cash equivalents totalled \$308.9 million compared with \$265.8 million as at October 31, 2013. As at the end of fiscal 2014, cash and cash equivalents held in trust or otherwise reserved amounted to \$380.2 million compared with \$403.5 million as at October 31, 2013. The Corporation's statement of financial position for fiscal 2014 reflected \$96.0 million in working capital, for a ratio of 1.12, compared with \$81.1 million in working capital and a ratio of 1.10 as at October 31, 2013.

Total assets grew \$85.0 million (6.6%) to \$1,375.0 million as at October 31, 2014 from \$1,290.1 million as at October 31, 2013, driven primarily by a \$43.1 million increase in cash and cash equivalents, an increase in investments and other assets owing to the strength of the U.S. dollar and increases in property, plant and equipment. The Corporation recorded a \$41.6 million increase in equity to \$482.9 million as at October 31, 2014 from \$441.4 million as at October 31, 2013, resulting essentially from the recognition of \$26.1 million in net income and a \$8.2 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

### CASH FLOWS

				Change	
	2014	2013	2012	2014	2013
(in thousands of dollars)	\$	\$	\$	%	%
Cash flows related to operating activities	106,240	123,039	8,872	(13.7)	1,286.8
Cash flows related to investing activities	(61,100)	(28,289)	(11,024)	(116.0)	(156.6)
Cash flows related to financing activities	191	(1,817)	(4,361)	110.5	58.3
Effect of exchange rate changes on cash	(2,262)	1,710	(3,888)	(232.3)	144.0
Net change in cash	43,069	94,643	(10,401)	(54.5)	1,009.9

#### OPERATING ACTIVITIES

Operating activities generated \$106.2 million in cash flows, compared with \$123.0 million in fiscal 2013. The \$16.8 million decrease for the year resulted mainly from our \$19.4 million decrease in profitability compared with fiscal 2013.

We expect to continue to generate positive cash flows from our operating activities in fiscal 2015.

#### INVESTING ACTIVITIES

Cash flows used in investing activities totalled \$61.1 million for the current year, up \$32.8 million from fiscal 2013. Compared with fiscal 2013, additions to property, plant and equipment and other intangible assets rose \$9.5 million to \$65.0 million and consisted mainly of purchases of computer hardware and software and aircraft enhancements following our cabin refurbishment program. In fiscal 2013, we also received \$27.4 million following the sale of our last investments in ABCP.

In fiscal 2015, additions to property, plant and equipment and intangible assets could amount to approximately \$50.0 million.

#### FINANCING ACTIVITIES

Cash flows generated by financing activities totalled \$0.2 million for year, up \$2.0 million from cash flows used in financing activities of \$1.8 million in fiscal 2013, owing to \$3.0 million in share issuances in fiscal 2014, compared with \$1.0 million in fiscal 2013.

CONSOLIDATED FINANCIAL POSITION

	October 31, 2014 \$	October 31, 2013 \$	Difference \$	Main reasons for significant differences
<b>Assets</b>				
Cash and cash equivalents	308,887	265,818	43,069	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	380,184	403,468	(23,284)	Decrease in balances pledged as collateral security against letters of credit
Trade and other receivables	123,489	112,738	10,751	Increase in cash security deposits receivable from lessors following aircraft maintenance
Income taxes receivable	3,329	5,645	(2,316)	Decrease in income taxes recoverable given subsidiaries' taxable income
Inventories	10,434	13,143	(2,709)	No significant difference
Prepaid expenses	74,932	73,453	1,479	No significant difference
Derivative financial instruments	16,596	7,720	8,876	Favorable change in fuel prices with respect to forward contracts entered into
Deposits	43,932	36,575	7,357	Increase in deposits paid to certain service providers
Deferred tax assets	30,051	22,048	8,003	Increase in deferred tax related to derivative financial instruments, provision for overhaul of leased aircraft and employee retirement benefits
Property, plant and equipment	128,560	115,025	13,535	Additions during the year, offset by depreciation
Goodwill	95,601	94,723	878	Foreign exchange difference
Intangible assets	72,769	67,333	5,436	Additions during the year, offset by depreciation
Investments and other assets	86,266	72,384	13,882	Share of net income of an associate and foreign exchange difference
<b>Liabilities</b>				
Trade and other payables	338,633	326,687	11,946	Foreign exchange difference
Provision for overhaul of leased aircraft	36,312	28,057	8,255	Increase in the number of aircraft and impact of the repair schedule
Income taxes payable	1,721	19,729	(18,008)	Decrease following payment of tax instalments related to fiscal 2014 income tax expense
Customer deposits and deferred revenues	424,468	410,340	14,128	Increase in average selling prices and foreign exchange difference
Derivative financial instruments	24,679	4,675	20,004	Unfavorable change in the exchange rate between the Canadian dollar and the US dollar with respect to forward contracts entered into
Other liabilities	53,926	48,096	5,830	Increase in present value of defined benefit obligation
Deferred tax liabilities	12,345	11,096	1,249	No significant difference
<b>Equity</b>				
Share capital	224,679	221,706	2,973	Issued from treasury
Share-based payment reserve	15,444	15,391	53	Share-based payment expense
Retained earnings	227,872	206,835	21,037	Net income
Unrealized gain (loss) on cash flow hedges	11,712	2,380	9,332	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	3,239	(4,919)	8,158	Foreign exchange gain on translation of financial statements of foreign subsidiaries

## FINANCING

As at December 10, 2014, the Corporation had several types of financing, consisting primarily of a revolving term credit facility as well as lines of credit for issuing letters of credit.

On November 14, 2014, the Corporation renewed its \$50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2019, 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 a 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 October 31, 2014, all the financial ratios and criteria were met and the credit facility was undrawn.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [\$16.2 million].

### 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 reflected as liabilities in the consolidated financial statements. The Corporation did not report any obligations in the statements of financial position as at October 31, 2014 and October 31, 2013.

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

- Guarantees (see notes 15 and 24 to the audited consolidated financial statements)
- Operating leases (see note 23 to the audited consolidated financial statements)
- Purchase obligations (see note 23 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated amounted to approximately \$936.3 million as at October 31, 2014 (\$853.8 million as at October 31, 2013), and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	2014 \$	2013 \$
<b>Guarantees</b>		
Irrevocable letters of credit	31,267	21,850
Collateral security contracts	1,361	1,137
<b>Operating leases</b>		
Obligations under operating leases	657,639	632,804
<b>Agreements with suppliers</b>	246,056	198,007
	<b>936,323</b>	<b>853,798</b>

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

The Corporation has a \$75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2014, \$59.5 million had been drawn down.



The Corporation has a \$35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2014, \$20.2 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its French operations, the Corporation has guarantee lines of credit amounting to €20.1 million [\$28.4 million], of which €7.5 million had been drawn down [\$10.6 million].

For its French operations, the Corporation also has access to bank lines of credit for issuing letters of credit secured by deposits. As at October 31, 2014, €5.3 million had been drawn down [\$7.5 million].

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £18.1 million [\$32.7 million], which has been fully drawn down.

As at October 31, 2014, off-balance sheet arrangements had increased by \$82.5 million, due to entering into seasonal lease agreements for eight Boeing 737-800s and the dollar's weakening against the U.S. dollar, offset by repayments made during the year.

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

CONTRACTUAL OBLIGATIONS BY YEAR	2015	2016	2017	2018	2019	2020	Total
						and beyond	
Year ending October 31	\$	\$	\$	\$	\$	\$	\$
<b>Contractual obligations</b>							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	102,487	94,169	87,642	86,851	63,839	54,154	489,142
Leases (other)	29,893	22,314	19,697	14,798	11,896	69,899	168,497
Agreements with suppliers and other obligations	193,994	42,759	14,299	2,099	2,165	26,612	281,928
	<b>326,374</b>	<b>159,242</b>	<b>121,638</b>	<b>103,748</b>	<b>77,900</b>	<b>150,665</b>	<b>939,567</b>

#### DEBT LEVELS

The Corporation did not report any debt on its statement of financial position while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, rose \$34.5 million to \$690.3 million as at October 31, 2014 from \$655.8 million as at October 31, 2013, due to entering into aircraft lease agreements during the year and the dollar's weakening against the U.S. dollar, offset by repayments made during the year.

The Corporation's total debt rose by \$29.8 million to \$436.1 million as at October 31, 2014 from its October 31, 2013 level, owing primarily to the strength of the U.S. dollar and higher aircraft rent following the addition of Boeing 737s to our aircraft fleet. Total net debt fell \$13.3 million to \$127.3 million as at October 31, 2014 from \$140.5 million as at October 31, 2013. The decline in total net debt stemmed from higher cash and cash equivalent balances at year-end than as at October 31, 2013.

#### SHARES ISSUED AND OUTSTANDING

As at October 31, 2014, 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 bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at November 28, 2014, there were 1,663,027 Class A Variable Voting Shares outstanding and 37,090,686 Class B Voting Shares outstanding.

#### STOCK OPTIONS

As at December 10, 2014, there were a total of 2,654,817 stock options outstanding, 1,262,520 of which were exercisable.

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## OTHER

### FLEET

Air Transat's fleet currently consists of twelve Airbus A330s (345 seats), nine Airbus A310s (250 seats) and four Boeing 737-800s (189 seats).

The Corporation also has seasonal winter rentals for eight Boeing 737-800s and two Boeing 737-700s (149 seats). Therefore, with respect to current agreements, eight Boeing 737s will be added to the fleet for the fiscal 2015 winter season, five in fiscal 2016, six in fiscal 2017, seven in fiscal 2018 and eight in fiscal 2019.

## ACCOUNTING

### CRITICAL ACCOUNTING ESTIMATES

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

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

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

### DEPRECIATION AND AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

#### GOODWILL AND INTANGIBLE ASSETS

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

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

The Corporation performed an impairment test as at October 31, 2014 to determine whether the carrying amount of CGUs were higher than their recoverable amount. No impairment was identified. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and strategic plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

An after-tax discount rate of 10.3% was used for testing the other CGUs for impairment as at October 31, 2014 [10.5% as at October 31, 2013]. The perpetual growth rate used for impairment testing was 1% as at October 31, 2014 [1% as at October 31, 2013].

On October 31, 2014, a 1% increase in the after-tax discount rate used for impairment tests, assuming that all other variables had remained the same, would not have required any other impairment charge.

On October 31, 2014, a 1% decrease in the long-term growth rate used for impairment tests, assuming that all other variables had remained the same, would not have required any other impairment charge.

On October 31, 2014, a 10% decrease in the cash flows used for impairment tests, assuming that all other variables had remained the same, would not have required any other impairment charge.

#### PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

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

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major class of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal. The amortization period is determined based on the fleet renewal schedule, currently slated for completion by 2018. The estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. Generally speaking, the main assumptions would have to be reduced by 10% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

No event or change in situation arising during the year ended October 31, 2014 could have required an impairment of property, plant and equipment and intangible assets with finite lives.

#### FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

#### PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, and other facts and reasonable assumptions in the circumstances. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by 5% to 15% to result in additional expenses that could have a material impact on our results, financial position and cash flows.

#### NON-CONTROLLING INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Generally speaking, the main assumptions used to calculate this provision would have to be adversely changed by between 25% and 50% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

#### EMPLOYEE FUTURE BENEFITS

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

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

	Cost of retirement benefits for the year ended October 31, 2014	Retirement benefit obligations as at October 31, 2014
Increase (decrease)	\$	\$
Discount rate	(4)	(1,033)
Rate of increase in eligible earnings	9	38

#### TAXES

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the fiscal treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment were received subsequent to year end. No provisions are made for this situation, which could result in future cash outflows of approximately \$16,000, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome.

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## FINANCIAL INSTRUMENTS

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

### FOREIGN EXCHANGE RISK MANAGEMENT

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas less than 10% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 15 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The Corporation documents its derivative financial instruments related to foreign currencies as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These derivative financial instruments are designated as cash flow hedges.

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

### MANAGEMENT OF FUEL PRICE RISK

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 15 months.

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



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#### CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled \$70.9 million as at October 31, 2014. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2014, approximately 7% of accounts receivable were over 90 days past due, whereas approximately 79% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2014, these deposits totalled \$29.8 million and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled \$14.2 million as at October 31, 2014 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2014, the cash security deposits with lessors that had been claimed totalled \$20.2 million and are included under Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2014 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by Dominion Bond Rating Service [DBRS]], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2014.

#### LIQUIDITY RISK

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

#### INTEREST RATE RISK

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

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

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## RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are carried out at arm's length. During the year, the Corporation recorded \$13.7 million in person-nights purchased at hotels belonging to its associate CIBV, compared with \$13.6 million in 2013. As at October 31, 2014 and 2013, a \$0.2 million amount payable to CIBV was included under Trade and other payables.

## CHANGES IN ACCOUNTING POLICIES

### IFRS 10, CONSOLIDATED FINANCIAL STATEMENTS

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation: Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of an entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 became effective on November 1, 2013. Adoption of this standard had no impact on the Corporation's financial statements.

### IFRS 12, DISCLOSURE OF INTERESTS IN OTHER ENTITIES

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off-balance sheet vehicles. The standard requires an entity to disclose information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 became effective on November 1, 2013. Except for additional disclosures, adoption of this standard had no impact on the Corporation's financial statements.

### IFRS 13, FAIR VALUE MEASUREMENT

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 became effective on November 1, 2013. Adoption of this standard had no impact on the Corporation's financial statements.

### IAS 19, EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which improves comparability and faithfulness of presentation. The amendments also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements arising from changes in estimates to be presented in other comprehensive income (loss), thereby separating those changes from changes that are often perceived as resulting from the Corporation's day-to-day operations. The amendments also require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations. Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on plan assets. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that the Corporation is exposed to through participation in those plans. The amendments made to IAS 19 became effective on November 1, 2013. Except for additional disclosures, adoption of this standard had no impact on the Corporation's financial statements.

## 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 (loss) rather than in the statement of income (loss).

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 from 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 informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled 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 Adoption of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2017, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

## RISKS AND UNCERTAINTIES

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

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

- Promote a culture of risk awareness at the head office and in subsidiaries;
- Integrate risk management into strategic, financial and operating objectives;
- For each risk, designate an owner responsible and accountable for designing and implementing measures to mitigate the consequences of risks and/or limit the likelihood of risks materializing.

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

Business risks are classified to facilitate an overall understanding of risks to which the Corporation is exposed. The different types of business risks are discussed below:

## ECONOMIC AND GENERAL RISKS

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

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

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

## COMPETITION RISKS

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

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

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

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

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## REPUTATION RISK

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

## FINANCIAL RISKS

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

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

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

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

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

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

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

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



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## KEY SUPPLIES AND SUPPLIER RISKS

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

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

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

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

## AVIATION RISKS

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

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

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

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

With the privatization of airports and air navigation authorities over the past decade in Canada, new airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees. This is particularly the case given that some of those airports are located in U.S. cities in close proximity to the Canadian border and are not subject to such fees. If these user and navigation fees were to increase substantially, our business, financial position and operating results could be adversely affected, which would result in certain routes being conceded to our U.S. competitors.

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## TECHNOLOGICAL RISKS

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

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

Furthermore, several of those information technology systems depend on third-party providers. If those providers were to become incapable of maintaining or improving the efficient technology solutions in a profitable and timely manner, the Corporation would be unable to react effectively to the information security attacks, obtain new systems to meet growth in its customer base or support new products offered by the Corporation. Consequently, such situations could generate additional expenses, which would unfavourably impact the Corporation's financial position.

## REGULATORY RISKS

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

Numerous jurisdictions around the world are seeking to implement measures, particularly taxes, to penalize greenhouse gas emissions, which cover the airline industry, with a view to fighting climate change. In light of its airline operations, the Corporation is directly exposed to such measures, which generally give rise to additional costs that the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

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

## HUMAN RESOURCE RISKS

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

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

As at October 31, 2014, the Corporation had approximately 5,200 employees, 50% or more of whom are unionized personnel covered by six collective agreements. Negotiations to renew some of those collective agreements could give rise to work stoppages or slowdowns or higher labour costs that could unfavourably impact our operations and operating income.

## INSURANCE COVERAGE RISKS

In the wake of the terrorist attacks of September 11, 2001, the airline insurance market for risks associated with war and terrorist acts has undergone several changes. The limit on third-party civil liability coverage related to damages resulting from injury or death of passengers, is US\$1.25 billion, with the exception of War Risk Bodily Injury/Property Damage to Third Parties excluding passengers where the limit is US\$150 million for any single event and in the aggregate. As a result, governments are still required to cover air carriers above this US\$150 million limit until commercial insurers do so at a reasonable cost. The Canadian government covers domestic air carriers accordingly. In addition, some insurers that could provide coverage in excess of US\$150 million are not licensed to transact business in Canada, which further limits availability.

The Canadian government continues to cover its air carriers, prompted by the licensing situation and by the U.S. government's decision to continue covering its own carriers against such risks. However, there can be no assurance that the Canadian government will not withdraw its coverage, particularly if the U.S. government were to change its position. If that were to happen, we would be required to deal with private insurers to attempt to secure such coverage, and there could be no assurance that we would be able to secure coverage providing favourable levels and conditions at an acceptable cost.

We feel that we and our suppliers have adequate liability insurance to cover risks arising in the normal course of business, including claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying our customers. Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

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## CONTROLS AND PROCEDURES

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

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

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

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

### EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 1992) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2014.

Lastly, no significant changes in ICFR occurred during the year ended October 31, 2014 that materially affected, or are likely to materially affect, the Corporation's ICFR.

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## OUTLOOK

On the Sun destinations market outbound from Canada, Transat's capacity is approximately 6% lower than that offered last year and 41% of that capacity has been sold. Load factors are up 1.2% and selling prices are 1.4% higher compared to last year at the same date.

On the transatlantic market, where it is low season, Transat's capacity is down 2% compared to that offered last winter. To date, 44% of that capacity has been sold. Load factors are up 2% and selling prices are similar.

In France, also in low season in winter, bookings are down 5% and selling prices are similar, compared with last year at the same date.

The impact of the weaker Canadian dollar, net from lower fuel costs, will be a 1.3% increase in operating costs if the dollar and fuel costs stay at their current level.

In summary, the sun destinations market, where margins are especially thin and volatile, accounts for a very significant portion of Transat's business in the winter. The following factors make forecast difficult: the overall supply is more than 10% superior to the previous year, a significant portion of the capacity remains to be sold, bookings are last-minute, the Canadian dollar is weakening, and fuel costs are decreasing. To date, margins are similar to those of the previous year at the same date. A sudden decrease of the Canadian dollar, which started at the end of December last year, had a significant negative impact on the Corporation's results in 2014, making any comparative forecast for the winter difficult.

## MANAGEMENT'S REPORT

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

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

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

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



Jean-Marc Eustache  
Chairman of the Board, President and Chief Executive Officer



Denis Pétrin  
Vice-President, Finance and Administration and Chief Financial Officer



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Transat A.T. Inc.

We have audited the accompanying consolidated financial statements of Transat A.T. Inc., which comprise the consolidated statements of financial position as at October 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditors' responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transat A.T. Inc. as at October 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Ernst & Young S.R.L./S.E.N.C.R.L.<sup>1</sup>*

Montréal, Canada  
December 10, 2014

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A121006

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

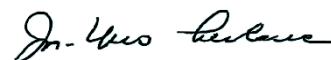
As at October 31 (in thousands of Canadian dollars)	2014 \$	2013 \$
<b>ASSETS</b>		
Cash and cash equivalents	308,887	265,818
Cash and cash equivalents in trust or otherwise reserved <i>[note 6]</i>	340,704	361,743
Trade and other receivables <i>[note 7]</i>	123,489	112,738
Income taxes receivable	3,329	5,645
Inventories	10,434	13,143
Prepaid expenses	74,932	73,453
Derivative financial instruments <i>[note 8]</i>	16,596	7,720
Current portion of deposits	17,833	13,267
<b>Current assets</b>	<b>896,204</b>	<b>853,527</b>
Cash and cash equivalents reserved <i>[note 6]</i>	39,480	41,725
Deposits <i>[note 9]</i>	26,099	23,308
Deferred tax assets <i>[note 20]</i>	30,051	22,048
Property, plant and equipment <i>[note 10]</i>	128,560	115,025
Goodwill <i>[note 11]</i>	95,601	94,723
Intangible assets <i>[note 11]</i>	72,769	67,333
Investments and other assets <i>[note 12]</i>	86,266	72,384
<b>Non-current assets</b>	<b>478,826</b>	<b>436,546</b>
	<b>1,375,030</b>	<b>1,290,073</b>
<b>LIABILITIES</b>		
Trade and other payables <i>[note 13]</i>	338,633	326,687
Current portion of provision for overhaul of leased aircraft	10,674	11,029
Income taxes payable	1,721	19,729
Customer deposits and deferred revenues	424,468	410,340
Derivative financial instruments <i>[note 8]</i>	24,679	4,675
<b>Current liabilities</b>	<b>800,175</b>	<b>772,460</b>
Provision for overhaul of leased aircraft <i>[note 14]</i>	25,638	17,028
Other liabilities <i>[note 16]</i>	53,926	48,096
Deferred tax liabilities <i>[note 20]</i>	12,345	11,096
<b>Non-current liabilities</b>	<b>91,909</b>	<b>76,220</b>
<b>EQUITY</b>		
Share capital <i>[note 17]</i>	224,679	221,706
Share-based payment reserve	15,444	15,391
Retained earnings	227,872	206,835
Unrealized gain on cash flow hedges	11,712	2,380
Cumulative exchange differences	3,239	(4,919)
	<b>482,946</b>	<b>441,393</b>
	<b>1,375,030</b>	<b>1,290,073</b>

Commitments and contingencies *[note 23]*  
See accompanying notes to consolidated financial statements

On behalf of the Board,



Director



Director

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

Years ended October 31 (in thousands of Canadian dollars, except per share amounts)	2014 \$	2013 \$
<b>Revenues</b>	<b>3,752,198</b>	<b>3,648,158</b>
Operating expenses		
Costs of providing tourism services	2,000,424	1,951,329
Aircraft fuel	462,942	417,891
Salaries and employee benefits <i>[notes 18 and 21]</i>	370,904	368,477
Commissions	170,724	163,606
Aircraft maintenance	128,892	106,732
Airport and navigation fees	105,440	95,635
Aircraft rent	87,229	81,270
Other	333,808	346,572
Depreciation and amortization <i>[note 18]</i>	46,702	39,068
Restructuring <i>[note 19]</i>	6,387	5,740
	<b>3,713,452</b>	<b>3,576,320</b>
<b>Operating results</b>	<b>38,746</b>	<b>71,838</b>
Financing costs	1,939	2,512
Financing income	(8,107)	(7,357)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	23,822	493
Foreign exchange gain on non-current monetary items	(1,007)	(846)
Write-off of goodwill <i>[note 19]</i>	369	—
Share of net income of an associate <i>[note 12]</i>	(8,094)	(3,676)
<b>Income before income tax expense</b>	<b>29,824</b>	<b>80,712</b>
Income taxes (recovery) <i>[note 20]</i>		
Current	13,430	18,512
Deferred	(9,672)	998
	<b>3,758</b>	<b>19,510</b>
<b>Net income for the year</b>	<b>26,066</b>	<b>61,202</b>
<b>Net income attributable to:</b>		
Shareholders	22,875	57,955
Non-controlling interests	3,191	3,247
	<b>26,066</b>	<b>61,202</b>
Earnings per share <i>[note 17]</i>		
Basic	0.59	1.51
Diluted	0.59	1.51

See accompanying notes to consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	2014 \$	2013 \$
<b>Net income for the year</b>	<b>26,066</b>	<b>61,202</b>
<b>Other comprehensive income (loss)</b>		
<b>Items that will be reclassified to net income</b>		
Change in fair value of derivatives designated as cash flow hedges	(1,677)	2,786
Reclassification to net income	14,599	1,027
Deferred taxes <i>[note 20]</i>	(3,590)	(958)
	<b>9,332</b>	<b>2,855</b>
Foreign exchange gain on translation of financial statements of foreign subsidiaries	8,158	7,550
<b>Items that will never be reclassified to net income</b>		
Retirement benefits – Net actuarial gains and losses <i>[note 22]</i>	(3,431)	2,986
Deferred taxes <i>[note 20]</i>	912	(806)
	<b>(2,519)</b>	<b>2,180</b>
Total other comprehensive income	<b>14,971</b>	<b>12,585</b>
<b>Comprehensive income for the year</b>	<b>41,037</b>	<b>73,787</b>
<b>Attributable to:</b>		
Shareholders	36,474	69,891
Non-controlling interests	4,563	3,896
	<b>41,037</b>	<b>73,787</b>

See accompanying notes to consolidated financial statements

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

	Accumulated other comprehensive income (loss)					Total	Non- controlling interests	Total equity
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences			
(in thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at October 31, 2012</b>	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326
Net income for the year	—	—	57,955	—	—	57,955	3,247	61,202
Other comprehensive income	—	—	2,180	2,855	6,901	11,936	649	12,585
Comprehensive income for the year	—	—	60,135	2,855	6,901	69,891	3,896	73,787
Issued from treasury	965	—	—	—	—	965	—	965
Exercise of options	5	—	—	—	—	5	—	5
Share-based payment expense	—	2,055	—	—	—	2,055	—	2,055
Dividends	—	—	—	—	—	—	(2,787)	(2,787)
Other changes in non-controlling interest liabilities	—	—	1,502	—	—	1,502	(1,502)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,042	1,042
Reclassification of non-controlling interest exchange difference	—	—	—	—	649	649	(649)	—
	970	2,055	1,502	—	649	5,176	(3,896)	1,280
<b>Balance as at October 31, 2013</b>	<b>221,706</b>	<b>15,391</b>	<b>206,835</b>	<b>2,380</b>	<b>(4,919)</b>	<b>441,393</b>	<b>—</b>	<b>441,393</b>
Net income for the year	—	—	22,875	—	—	22,875	3,191	26,066
Other comprehensive income (loss)	—	—	(2,519)	9,332	6,786	13,599	1,372	14,971
Comprehensive income for the year	—	—	20,356	9,332	6,786	36,474	4,563	41,037
Issued from treasury	857	—	—	—	—	857	—	857
Exercise of options	2,116	(679)	—	—	—	1,437	—	1,437
Share-based payment expense	—	732	—	—	—	732	—	732
Dividends	—	—	—	—	—	—	(2,782)	(2,782)
Other changes in non-controlling interest liabilities	—	—	681	—	—	681	(681)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	272	272
Reclassification of non-controlling interest exchange difference	—	—	—	—	1,372	1,372	(1,372)	—
	2,973	53	681	—	1,372	5,079	(4,563)	516
<b>Balance as at October 31, 2014</b>	<b>224,679</b>	<b>15,444</b>	<b>227,872</b>	<b>11,712</b>	<b>3,239</b>	<b>482,946</b>	<b>—</b>	<b>482,946</b>

See accompanying notes to consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	2014 \$	2013 \$
<b>OPERATING ACTIVITIES</b>		
Net income for the year	26,066	61,202
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	46,702	39,068
Change in fair value of derivative financial instruments used for aircraft fuel purchases	23,822	493
Foreign exchange gain on non-current monetary items	(1,007)	(846)
Write-off of goodwill and other intangible assets	1,601	—
Share of net income of an associate	(8,094)	(3,676)
Deferred taxes	(9,672)	998
Employee benefits	2,307	2,561
Share-based payment expense	732	2,055
	<b>82,457</b>	<b>101,855</b>
Net change in non-cash working capital balances related to operations	12,972	27,330
Net change in provision for overhaul of leased aircraft	8,255	(3,812)
Net change in other assets and liabilities related to operations	2,556	(2,334)
<b>Cash flows related to operating activities</b>	<b>106,240</b>	<b>123,039</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment and other intangible assets	(64,976)	(55,457)
Increase in cash and cash equivalent reserved	876	(3,913)
Net proceeds from disposal of subsidiary	3,000	3,000
Proceeds from sale of investments in ABCP	—	27,350
Dividend received from an associate	—	731
<b>Cash flows related to investing activities</b>	<b>(61,100)</b>	<b>(28,289)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	2,973	970
Dividends paid by a subsidiary to a non-controlling shareholder	(2,782)	(2,787)
<b>Cash flows related to financing activities</b>	<b>191</b>	<b>(1,817)</b>
Effect of exchange rate changes on cash and cash equivalents	(2,262)	1,710
<b>Net change in cash and cash equivalents</b>	<b>43,069</b>	<b>94,643</b>
Cash and cash equivalents, beginning of year	265,818	171,175
<b>Cash and cash equivalents, end of year</b>	<b>308,887</b>	<b>265,818</b>
<b>Supplementary information (as reported in operating activities)</b>		
Income taxes paid (recovered)	28,359	(6,146)
Interest paid	680	841

See accompanying notes to consolidated financial statements



October 31, 2014 and 2013

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

## 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*. The Class A variable voting shares and Class B voting shares are listed on the Toronto Stock Exchange.

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 tour operators based in Canada and Europe which are vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations, and accommodations.

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2014 were approved by the Corporation's Board of Directors on December 10, 2014.

## Note 2 SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

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

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

### BASIS OF CONSOLIDATION

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

### SUBSIDIARIES

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

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

- Cost is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of income (loss);
- Contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the statement of income (loss) when the contingent consideration is a financial liability;
- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income (loss); and

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

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

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

#### INVESTMENT IN AN ASSOCIATE

An associate is an entity over which the Corporation has significant influence, but no control. The Corporation's investment in an associate is accounted for using the equity method as follows:

- Investment is initially recognized at cost;
- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;
- The Corporation's share of post-acquisition net income (loss) is recognized in the statement of income (loss) and is also added to (netted against) the carrying amount of the investment; and
- Gains on transactions between the Corporation and its equity method investee are eliminated to the extent of the Corporation's interest in this entity and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### **FOREIGN CURRENCY TRANSLATION**

##### TRANSACTIONS AND BALANCES

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

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

##### GROUP COMPANIES

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

#### **CASH EQUIVALENTS**

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

## INVENTORIES

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

## PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

## GOODWILL

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

## INTANGIBLE ASSETS

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

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

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

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

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

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

Software	3–10 years
Customer lists	7–10 years

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

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

#### OPERATING LEASE AND DEFERRED LEASE INDUCEMENTS

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

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

#### FINANCIAL INSTRUMENTS

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

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

#### CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

##### Loans and receivables and other financial liabilities

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

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DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

These derivative financial instruments are designated as cash flow hedges.

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

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

In the normal course of business and to manage exposure to fuel pricing instability, the Corporation also enters into derivative financial instruments used for aircraft fuel purchases that have not been designated for hedge accounting. These derivatives are measured at fair value at the end of each period, and the unrealized gains or losses on remeasurement are recorded and presented under Change in fair value of derivative financial instruments used for aircraft fuel purchases in the consolidated statement of income (loss). When realized at maturity of these derivative financial instruments, any gains or losses are reclassified to Aircraft fuel.

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

TRANSACTION COSTS

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

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FAIR VALUE

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

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

- Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets accessible to the Corporation at the measurement date.
- Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.
- Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

**IMPAIRMENT OF FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES**

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

**IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

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

GOODWILL

Goodwill is tested annually [as at October 31] for impairment and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU [or group of CGUs] to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment annually [as at October 31] either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.



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REVERSAL OF IMPAIRMENT LOSSES

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

**PROVISIONS**

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

**EMPLOYEE FUTURE BENEFITS**

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

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

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

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

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## REVENUE RECOGNITION

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

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

## INCOME TAXES

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

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

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

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

## SHARE-BASED PAYMENT PLANS

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

### EQUITY-SETTLED TRANSACTIONS

For equity-settled share-based compensation [stock option plan], the expense is based on the grant date fair value of the awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. The value of the compensation is measured using a Black-Scholes option pricing model. For awards with graded vesting, the fair value of each tranche is recognized through profit or loss over its respective vesting period. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to share-based payment reserve are credited to share capital.

### CASH-SETTLED TRANSACTIONS

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

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EMPLOYEE SHARE PURCHASE PLANS

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

**EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is computed based on net earnings (loss) attributable to shareholders of the Corporation, divided by the weighted-average number of Class A variable voting shares and Class B voting shares outstanding during the year.

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

**Note 3      SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

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

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

**DEPRECIATION AND AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS**

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the various CGUs, including a sensitivity analysis, are discussed in note 11.

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

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

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#### FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

#### PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

#### NON-CONTROLLING INTERESTS

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

#### EMPLOYEE FUTURE BENEFITS

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

#### TAXES

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

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

## Note 4 CHANGES IN ACCOUNTING POLICIES

### IFRS 10, CONSOLIDATED FINANCIAL STATEMENTS

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation: Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of an entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 became effective on November 1, 2013. Adoption of this standard had no impact on the Corporation's financial statements.

### IFRS 12, DISCLOSURE OF INTERESTS IN OTHER ENTITIES

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off-balance sheet vehicles. The standard requires an entity to disclose information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 became effective on November 1, 2013. Except for additional disclosures, adoption of this standard had no impact on the Corporation's financial statements.

### IFRS 13, FAIR VALUE MEASUREMENT

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 became effective on November 1, 2013. Adoption of this standard had no impact on the Corporation's financial statements.

### IAS 19, EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which improves comparability and faithfulness of presentation. The amendments also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements arising from changes in estimates to be presented in other comprehensive income (loss), thereby separating those changes from changes that are often perceived as resulting from the Corporation's day-to-day operations. The amendments also require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations. Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on plan assets. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that the Corporation is exposed to through its participation in those plans. The amendments made to IAS 19 became effective on November 1, 2013. Except for additional disclosures, adoption of this standard had no impact on the Corporation's financial statements.

## Note 5 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 (loss) rather than in the statement of income (loss).

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 from 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 informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled 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, 2017, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

#### Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2014, cash and cash equivalents in trust or otherwise reserved included \$276,964 [\$294,473 as at October 31, 2013] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for some of which the availability 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 \$103,220, of which \$39,480 was recorded as non-current assets [\$108,995 as at October 31, 2013, of which \$41,725 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

#### Note 7 TRADE AND OTHER RECEIVABLES

	2014	2013
	\$	\$
Trade receivables	70,892	66,921
Due from government	15,182	17,402
Other receivables	37,415	28,415
	<b>123,489</b>	<b>112,738</b>



**Note 8 FINANCIAL INSTRUMENTS**

**CLASSIFICATION OF FINANCIAL INSTRUMENTS**

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

	Carrying amount			Total \$	Fair value \$
	Financial assets/liabilities at fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$		
<b>As at October 31, 2014</b>					
<b>Financial assets</b>					
Cash and cash equivalents	308,887	—	—	308,887	308,887
Cash and cash equivalents in trust or otherwise reserved	380,184	—	—	380,184	380,184
Trade and other receivables	—	108,307	—	108,307	108,307
Deposits on leased aircraft and engines	—	14,178	—	14,178	14,178
	<b>689,071</b>	<b>122,485</b>	<b>—</b>	<b>811,556</b>	<b>811,556</b>
<b>Financial liabilities</b>					
Trade and other payables	—	—	307,461	307,461	307,461
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial statements	24,383	—	—	24,383	24,383
Non-controlling interests	—	—	24,900	24,900	24,900
	<b>24,383</b>	<b>—</b>	<b>332,361</b>	<b>356,744</b>	<b>356,744</b>

	Carrying amount				Fair value \$
	Financial assets/liabilities at fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$	Total \$	
	<b>As at October 31, 2013</b>				
<b>Financial assets</b>					
Cash and cash equivalents	265,818	—	—	265,818	265,818
Cash and cash equivalents in trust or	403,468	—	—	403,468	403,468
Trade and other receivables	—	95,336	—	95,336	95,336
Deposits on leased aircraft and engines	—	12,384	—	12,384	12,384
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial statements	1,220	—	—	1,220	1,220
	<b>670,506</b>	<b>107,720</b>	<b>—</b>	<b>778,226</b>	<b>778,226</b>
<b>Financial liabilities</b>					
Trade and other payables	—	—	298,780	298,780	298,780
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial statements	1,790	—	—	1,790	1,790
Non-controlling interests	—	—	23,800	23,800	23,800
	<b>1,790</b>	<b>—</b>	<b>322,580</b>	<b>324,370</b>	<b>324,370</b>

#### DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair value of non-controlling interests in respect of which non-controlling shareholders hold an option to require the Corporation to buy back their shares corresponds to their redemption price. The redemption price is based either on a formula that factors in financial and non-financial indicators or on the fair value of shares held, which is determined using a discounted cash flow model similar to that used for the goodwill impairment test [see note 11].

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

	Quoted prices in active markets (Level 1) \$	Other observable inputs (Level 2) \$	Unobservable inputs (Level 3) \$	Total \$
<b>As at October 31, 2014</b>				
<b>Financial assets</b>				
Derivative financial instruments				
- Foreign exchange forward contracts – designated as cash flow hedges	—	16,596	—	16,596
	—	16,596	—	16,596
<b>Financial liabilities</b>				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	24,383	—	24,383
- Foreign exchange forward contracts – designated as cash flow hedges	—	296	—	296
Non-controlling interests	—	—	24,900	24,900
	—	24,679	24,900	49,579

	Quoted prices in active markets (Level 1) \$	Other observable inputs (Level 2) \$	Unobservable inputs (Level 3) \$	Total \$
<b>As at October 31, 2013</b>				
<b>Financial assets</b>				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	1,220	—	1,220
- Foreign exchange forward contracts – designated as cash flow hedges	—	6,500	—	6,500
	—	7,720	—	7,720
<b>Financial liabilities</b>				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	1,790	—	1,790
- Foreign exchange forward contracts – designated as cash flow hedges	—	2,885	—	2,885
Non-controlling interests	—	—	23,800	23,800
	—	4,675	23,800	28,475

The changes in non-controlling interests are as follows:

	2014 \$	2013 \$
Balance, beginning of year	23,800	24,193
Net income	3,191	3,247
Other comprehensive income	1,372	649
Dividends	(2,782)	(2,787)
Change in fair value of non-controlling interest	(681)	(1,502)
	24,900	23,800

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## MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

### CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included under Trade and other receivables in the consolidated statements of financial position totalled \$70,892 as at October 31, 2014 [\$66,921 as at October 31, 2013]. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2014 and 2013. As at October 31, 2014, approximately 7% [approximately 5% as at October 31, 2013] of accounts receivable were over 90 days past due, whereas approximately 79% [approximately 82% as at October 31, 2013] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled \$29,754 as at October 31, 2014 [\$24,191 as at October 31, 2013] and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled \$14,178 as at October 31, 2014 [\$12,384 as at October 31, 2013] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2014, the cash security deposits with lessors that have been claimed totalled \$20,169 [\$9,549 as at October 31, 2013] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claimed cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2014 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by Dominion Bond Rating Service [DBRS]], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2014.

## LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

The maturities of the Corporation's financial liabilities as at October 31, 2014 are summarized in the following table:

	Maturing in under 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Contractual cash flows Total	Carrying amount Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	307,461	—	—	307,461	307,461
Non-controlling interests	23,780	—	1,120	24,900	24,900
Derivative financial instruments	24,720	—	—	24,720	24,679
<b>Total</b>	<b>355,961</b>	<b>—</b>	<b>1,120</b>	<b>357,081</b>	<b>357,040</b>

## MARKET RISK

### FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas less than 10% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts and other types of derivative financial instruments, expiring in generally less than 15 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
	\$	\$	\$	\$	\$	\$
<b>2014</b>						
Financial statement measurement currency of the group's companies						
Euro	(27,262)	—	(368)	(521)	10	(28,141)
Pound sterling	4	310	—	468	—	782
Canadian dollar	(13,094)	(804)	2,381	—	(235)	(11,752)
Other currencies	(554)	406	—	(9)	1,291	1,134
<b>Total</b>	<b>(40,906)</b>	<b>(88)</b>	<b>2,013</b>	<b>(62)</b>	<b>1,066</b>	<b>(37,977)</b>

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other Currencies	Total
	\$	\$	\$	\$	\$	\$
<b>2013</b>						
Financial statement measurement currency of the group's companies						
Euro	(7,847)	—	(12)	1,532	(746)	(7,073)
Pound sterling	14	191	—	625	—	830
Canadian dollar	(2,075)	(8,082)	(608)	—	(80)	(10,845)
Other currencies	(283)	57	—	—	1,142	916
<b>Total</b>	<b>(10,191)</b>	<b>(7,834)</b>	<b>(620)</b>	<b>2,157</b>	<b>316</b>	<b>(16,172)</b>

On October 31, 2014, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a \$194 increase or decrease [\$188 as at October 31, 2013], respectively, in the Corporation's net income for the year ended October 31, 2014, whereas other comprehensive income would have decreased or increased by \$2,738 [\$1,135 as at October 31, 2013], respectively.

As at October 31, 2014, 46% of estimated fuel requirements for fiscal 2015 were covered by fuel-related derivative financial instruments [36% of estimated requirements for fiscal 2014 were covered as at October 31, 2013].

#### RISK OF FLUCTUATIONS IN FUEL PRICES

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 15 months.

On October 31, 2014, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a \$12,722 increase or decrease [\$15,983 as at October 31, 2013], respectively, in the Corporation's net income for the year ended October 31, 2014.

As at October 31, 2014, 42% of estimated requirements for fiscal 2015 were covered by fuel-related derivative financial instruments [46% of estimated requirements for fiscal 2014 were covered as at October 31, 2013].

#### INTEREST RATE RISK

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

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

For the year ended October 31, 2014, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a \$1,772 increase or decrease [\$1,165 in 2013], respectively, in the Corporation's net income.

#### CAPITAL RISK MANAGEMENT

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

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

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

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

	2014	2013
	\$	\$
<b>Net debt</b>		
Long-term debt	—	—
Adjusted operating leases	436,145	406,350
Cash and cash equivalents	(308,887)	(265,818)
	127,258	140,532
Equity	482,946	441,393
Debt/equity ratio	26.4%	31.8%

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2014, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

## Note 9 DEPOSITS

	2014	2013
	\$	\$
Deposits on leased aircraft and engines	14,178	12,384
Deposits with suppliers	29,754	24,191
	43,932	36,575
Less current portion	17,833	13,267
	26,099	23,308



Note 10 PROPERTY, PLANT AND EQUIPMENT

	Fleet	Aircraft equipment	Office furniture and equipment	Building and leasehold improvements	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
Balance as at October 31, 2013	289,036	80,401	74,527	44,956	488,920
Additions	35,044	4,269	6,666	2,632	48,611
Write-off	(46,167)	—	(9,747)	(1,084)	(56,998)
Exchange difference	—	—	161	25	186
<b>Balance as at October 31, 2014</b>	<b>277,913</b>	<b>84,670</b>	<b>71,607</b>	<b>46,529</b>	<b>480,719</b>
<i>Accumulated depreciation</i>					
Balance as at October 31, 2013	214,184	67,567	62,068	30,076	373,895
Amortization	23,686	2,469	6,131	2,715	35,001
Write-off	(46,167)	—	(9,747)	(1,084)	(56,998)
Exchange difference	—	—	251	10	261
<b>Balance as at October 31, 2014</b>	<b>191,703</b>	<b>70,036</b>	<b>58,703</b>	<b>31,717</b>	<b>352,159</b>
<b>Net book value as at October 31, 2014</b>	<b>86,210</b>	<b>14,634</b>	<b>12,904</b>	<b>14,812</b>	<b>128,560</b>

	Fleet	Aircraft equipment	Office furniture and equipment	Building and leasehold improvements	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
Balance as at October 31, 2012	254,917	78,088	67,918	43,551	444,474
Additions	34,119	2,313	7,899	1,187	45,518
Write-off	—	—	(2,210)	(957)	(3,167)
Exchange difference	—	—	920	1,175	2,095
<b>Balance as at October 31, 2013</b>	<b>289,036</b>	<b>80,401</b>	<b>74,527</b>	<b>44,956</b>	<b>488,920</b>
<i>Accumulated depreciation</i>					
Balance as at October 31, 2012	198,769	64,200	57,407	27,683	348,059
Amortization	15,415	3,367	6,053	2,898	27,733
Write-off	—	—	(2,210)	(957)	(3,167)
Exchange difference	—	—	818	452	1,270
<b>Balance as at October 31, 2013</b>	<b>214,184</b>	<b>67,567</b>	<b>62,068</b>	<b>30,076</b>	<b>373,895</b>
<b>Net book value as at October 31, 2013</b>	<b>74,852</b>	<b>12,834</b>	<b>12,459</b>	<b>14,880</b>	<b>115,025</b>

**Note 11 GOODWILL AND OTHER INTANGIBLE ASSETS**

	Goodwill	Software	Trademarks	Customer lists	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
Balance as at October 31, 2013	109,723	128,103	19,711	12,554	270,091
Additions	—	16,365	—	—	16,365
Write-off	(369)	(1,557)	(262)	(270)	(2,458)
Exchange difference	1,247	(269)	980	759	2,717
<b>Balance as at October 31, 2014</b>	<b>110,601</b>	<b>142,642</b>	<b>20,429</b>	<b>13,043</b>	<b>286,715</b>
<i>Accumulated amortization and impairment</i>					
Balance as at October 31, 2013	15,000	83,359	—	9,676	108,035
Amortization	—	9,643	—	1,068	10,711
Write-off	—	(857)	—	—	(857)
Exchange difference	—	(49)	—	505	456
<b>Balance as at October 31, 2014</b>	<b>15,000</b>	<b>92,096</b>	<b>—</b>	<b>11,249</b>	<b>118,345</b>
<b>Net book value as at October 31, 2014</b>	<b>95,601</b>	<b>50,546</b>	<b>20,429</b>	<b>1,794</b>	<b>168,370</b>

	Goodwill	Software	Trademarks	Customer lists	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
Balance as at October 31, 2012	106,494	117,674	19,232	12,187	255,587
Additions	—	9,892	—	—	9,892
Write-off	—	(956)	—	—	(956)
Exchange difference	3,229	1,493	479	367	5,568
<b>Balance as at October 31, 2013</b>	<b>109,723</b>	<b>128,103</b>	<b>19,711</b>	<b>12,554</b>	<b>270,091</b>
<i>Accumulated amortization and impairment</i>					
Balance as at October 31, 2012	15,000	74,325	—	8,237	97,562
Amortization	—	9,172	—	1,172	10,344
Write-off	—	(956)	—	—	(956)
Exchange difference	—	818	—	267	1,085
<b>Balance as at October 31, 2013</b>	<b>15,000</b>	<b>83,359</b>	<b>—</b>	<b>9,676</b>	<b>108,035</b>
<b>Net book value as at October 31, 2013</b>	<b>94,723</b>	<b>44,744</b>	<b>19,711</b>	<b>2,878</b>	<b>162,056</b>

The aggregate carrying amounts of goodwill and trademarks allocated to each CGU are as follows:

	2014		2013	
	Goodwill	Trademarks	Goodwill	Trademarks
	\$	\$	\$	\$
Canada – United Kingdom – Netherlands	65,235	20,429	64,399	19,711
France	19,855	—	19,913	—
Other *	10,511	—	10,411	—
<b>Net book value</b>	<b>95,601</b>	<b>20,429</b>	<b>94,723</b>	<b>19,711</b>

\* Multiple individual CGUs

#### IMPAIRMENT TEST IN 2014

The Corporation performed an impairment test as at October 31, 2014 to determine whether the carrying amount of CGUs was higher than their recoverable amount. No impairment was detected.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and three-year plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

An after-tax discount rate of 10.3% was used for testing the various CGUs for impairment as at October 31, 2014 [10.5% as at October 31, 2013]. The perpetual growth rate used for impairment reviews was 1% as at October 31, 2014 [1% as at October 31, 2013].

On October 31, 2014, a 1% increase in the after-tax discount rate used for impairment tests, assuming that all other variables had remained the same, would not have required any impairment charge.

On October 31, 2014, a 1% decrease in the long-term growth rate used for impairment tests, assuming that all other variables had remained the same, would not have required any impairment charge.

On October 31, 2014, a 10% decrease in the cash flows used for impairment tests, assuming that all other variables had remained the same, would not have required any impairment charge.

As permitted under IAS 36, *Impairment of assets*, the Corporation deferred its 2014 annual impairment test for trademarks that do not generate cash inflows that are largely independent of those of other assets of CGUs to which they relate. Management is of the opinion that no reasonable change in the key assumptions used in the prior period annual impairment test could have produced carrying amounts for trademarks that are significantly higher than the calculated fair values [see note 19].

#### Note 12 INVESTMENTS AND OTHER ASSETS

	2014	2013
	\$	\$
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	83,949	70,041
Deferred costs, unamortized	484	639
Sundry	1,833	1,704
	<b>86,266</b>	<b>72,384</b>

Transat has a 35% interest in CIBV, which owns and operates hotels in Mexico, the Dominican Republic and Cuba. CIBV's fiscal year-end is December 31 and the Corporation recognizes its investment using the equity method and results for the 12-month period ended September 30 of each year.

The change in the investment in CIBV is detailed as follows:

	2014	2013
	\$	\$
Balance, beginning of year	70,041	64,189
Share of net income	8,094	3,676
Dividend received	—	(731)
Translation adjustment	5,814	2,907
	<b>83,949</b>	<b>70,041</b>

The financial information regarding CIBV as at September 30 is summarized in the following table:

	2014	2013
	\$	\$
<b>Statement of financial position:</b>		
Current assets	53,819	33,839
Non-current assets	333,906	310,366
Current liabilities	50,046	42,206
Non-current liabilities	97,824	101,881
<b>Net assets of CIBV</b>	<b>239,855</b>	<b>200,118</b>
<b>Carrying amount of investment in CIBV (35% of net assets)</b>	<b>83,949</b>	<b>70,041</b>
<b>Statement of comprehensive</b>		
Revenues	104,316	91,260
Net income and comprehensive	23,126	10,503
<b>Share of net income</b>	<b>8,094</b>	<b>3,676</b>

### Note 13 TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Trade payables	180,283	167,782
Accrued expenses	69,740	76,777
Salaries and employee benefits payable	57,438	54,221
Non-controlling interests <i>[note 16]</i>	23,780	22,680
Amounts due to the government	7,392	5,227
	<b>338,633</b>	<b>326,687</b>

**Note 14 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT**

	\$
<b>Balance as at October 31, 2013</b>	<b>28,057</b>
Additional provisions	15,299
Utilization of provisions	(6,614)
Unused amounts released	(430)
<b>Balance as at October 31, 2014</b>	<b>36,312</b>
Current provisions	10,674
Non-current provisions	25,638
<b>Balance as at October 31, 2014</b>	<b>36,312</b>

	\$
<b>Balance as at October 31, 2012</b>	<b>31,869</b>
Additional provisions	13,016
Utilization of provisions	(14,821)
Unused amounts released	(2,007)
<b>Balance as at October 31, 2013</b>	<b>28,057</b>
Current provisions	11,029
Non-current provisions	17,028
<b>Balance as at October 31, 2013</b>	<b>28,057</b>

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.

**Note 15 LONG-TERM DEBT**

On November 14, 2014, the Corporation renewed its \$50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2019, the Corporation may increase the credit limit to \$100,000, with the approval of lenders. 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 a 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 October 31, 2014, 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 October 31, 2014, \$59,545 had been drawn down under the facility [\$58,503 as at October 31, 2013].

Operating lines of credit totalling €11,500 [\$16,246] [€11,500 [\$16,304] in 2013] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2014 and 2013.

**Note 16 OTHER LIABILITIES**

	2014	2013
	\$	\$
Employee benefits <i>[note 22]</i>	35,872	30,940
Deferred lease inducements	16,934	16,036
Non-controlling interests <i>[note 8]</i>	24,900	23,800
	77,706	70,776
Less non-controlling interests included in Trade and other payables	(23,780)	(22,680)
	53,926	48,096

**NON-CONTROLLING SHAREHOLDERS**

- (a) The minority shareholder in the subsidiary Jonview Canada Inc., which is also a shareholder of the Corporation, may require the Corporation to buy its Jonview Canada Inc. shares at a price equal to their fair market value. The price paid may be settled, at the Corporation's option, in cash or by a share issue. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.
- (b) Between 2015 and 2018, the minority shareholders of the subsidiary Travel Superstore Inc. could require that the Corporation purchase their Travel Superstore Inc. shares at a price equal to their fair market value, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.
- (c) The minority shareholder of the subsidiary Trafictours Canada Inc. could require that the Corporation purchase its Trafictours Canada Inc. shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

**Note 17 EQUITY**

**AUTHORIZED SHARE CAPITAL**

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled 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 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	\$
<b>Balance as at October 31, 2012</b>	38,295,668	220,736
Issued from treasury	171,503	965
Exercise of options	1,316	5
<b>Balance as at October 31, 2013</b>	38,468,487	221,706
Issued from treasury	96,328	857
Exercise of options	176,712	2,116
<b>Balance as at October 31, 2014</b>	<b>38,741,527</b>	<b>224,679</b>

As at October 31, 2014, the number of Class A Shares and Class B Shares stood at 1,663,027 and 37,078,500, respectively [672,404 and 37,796,083 as at October 31, 2013]

SUBSCRIPTION RIGHTS PLAN

At the Annual General Meeting ["AGM"] held on March 13, 2014, the shareholders ratified the shareholders' subscription rights plan amended and updated on December 11, 2013 [the "rights plan"]. The rights plan entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider alternatives, thus allowing shareholders to receive full and fair value for their shares. The rights plan will terminate on the day after the 2017 shareholders' AGM, unless terminated prior to said AGM.

STOCK OPTION PLAN

Under the stock option plan, the Corporation may grant up to a maximum of 1,945,000 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted are exercisable over a maximum ten-year period, provided the performance criteria are met. The option exercise period and the performance criteria are determined on each grant. The remaining options available for grant under the former plan totalled 99,039. The options granted are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. The options are exercisable over a ten-year period or a seven-year period, respectively, depending on whether they were granted prior to or after October 31, 2013. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

Under the former stock option plan, the Corporation may grant up to a maximum of 260,337 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Under the plan, cancelled options will be available for grant in future. Options granted are exercisable over a maximum period of ten years. Options granted after October 31, 2013 are exercisable over a seven-year period, provided the performance criteria determined on each grant are met. The option exercise period and the performance criteria are determined on each grant. Options granted prior to October 31, 2013 are exercisable over a ten-year period with no performance criteria; a maximum of one third of options is exercisable in the second year after the grant date, a maximum of two thirds of options in the third year subsequent to the grant, with all options exercisable at the outset of the fourth year.



The following tables summarize all outstanding options:

	2014		2013	
	Number of options	Weighted average price \$	Number of options	Weighted average price \$
Beginning of year	2,692,544	12.18	2,199,810	13.99
Granted	374,374	12.49	766,620	6.01
Exercised	(176,712)	8.15	(1,316)	3.80
Cancelled	(206,506)	13.01	(272,570)	9.47
Expired	(28,883)	15.68	—	—
<b>End of year</b>	<b>2,654,817</b>	<b>12.39</b>	<b>2,692,544</b>	<b>12.18</b>
<b>Options exercisable, end of year</b>	<b>1,262,520</b>	<b>15.25</b>	<b>928,192</b>	<b>18.35</b>

Range of exercise price \$	Outstanding options			Options exercisable	
	Number of options outstanding as at October 31, 2014	Weighted average remaining life	Weighted average price \$	Number of options exercisable as at October 31, 2014	Weighted average price \$
6.01 to 7.48	1,089,090	7.7	6.69	329,788	6.72
10.52 to 12.49	984,367	5.5	12.05	456,975	11.63
15.68 to 19.24	159,280	6.2	19.24	53,677	19.24
21.36 to 24.78	329,096	2.3	21.94	329,096	21.94
37.25	92,984	2.5	37.25	92,984	37.25
	<b>2,654,817</b>	<b>5.9</b>	<b>12.39</b>	<b>1,262,520</b>	<b>15.25</b>

#### COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2014, the Corporation granted 374,374 stock options [766,620 in 2013] to certain key executives and employees. The average fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

	2014	2013
Risk-free interest rate	2.72%	1.61%
Expected life	4 years	6 years
Expected volatility	58.6%	54.8%
Dividend yield	—	—
Weighted average fair value at date of grant	\$4.53	\$2.59

During the year ended October 31, 2014, the Corporation recorded a compensation expense of \$732 [\$2,055 in 2013] for its stock option plan.

#### STOCK PURCHASE PLAN

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2014, the Corporation was authorized to issue up to 117,346 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 96,328 Class B Shares [171,503 Class B Shares in 2013] for a total of \$857 [\$965 in 2013] under the share purchase plan.

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#### STOCK OWNERSHIP INCENTIVE AND CAPITAL ACCUMULATION PLAN

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of Class B Shares, the aggregate purchase price of which is equal to an amount ranging from 20% to 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest gradually to the eligible officer, subject to the eligible officer's retaining, during the first six months of the vesting period, all the shares purchased under the Corporation's share purchase plan.

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

During the year ended October 31, 2014, the Corporation accounted for a compensation expense of \$105 [\$115 in 2013] for its stock ownership incentive and capital accumulation plan.

#### PERMANENT STOCK OWNERSHIP INCENTIVE PLAN

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

During the year ended October 31, 2014, the Corporation accounted for a compensation expense of \$241 [\$284 in 2013] for its permanent stock ownership incentive plan.

#### DEFERRED SHARE UNIT PLAN

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

As at October 31, 2014, the number of DSUs awarded amounted to 108,031 [132,566 as at October 31, 2013]. During the year ended October 31, 2014, subsequent to the decline in its share prices, the Corporation recorded a reversal of compensation expense of \$276 [compensation expense of \$1,220 in 2013] for its deferred share unit plan.

#### RESTRICTED SHARE UNIT PLAN

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

As at October 31, 2014, the number of RSUs awarded amounted to 844,582 [744,212 as at October 31, 2013]. For the year ended October 31, 2014, the Corporation recognized a compensation expense of \$128 [\$3,003 in 2013] for its restricted share unit plan.

EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

	2014	2013
	\$	\$
[In thousands, except per share amounts]		
<b>NUMERATOR</b>		
Net income attributable to shareholders of the Corporation used in computing basic and diluted earnings per share	22,875	57,955
<b>DENOMINATOR</b>		
Adjusted weighted average number of outstanding shares	38,644	38,390
<b>Effect of dilutive securities</b>		
Stock options	402	82
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	39,046	38,472
<b>Earnings per share</b>		
Basic	0.59	1.51
Diluted	0.59	1.51

For the purposes of calculating diluted earnings per share for the year ended October 31, 2014, 1,565,727 outstanding stock options [2,010,909 in 2013] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

**Note 18**    **ADDITIONAL DISCLOSURE ON EXPENSES**

SALARIES AND EMPLOYEE BENEFITS

	2014	2013
	\$	\$
Salaries and other employee benefits	367,865	363,861
Long-term employee benefits [note 22]	2,307	2,561
Share-based payment expense	732	2,055
	370,904	368,477

DEPRECIATION AND AMORTIZATION

	2014	2013
	\$	\$
Property, plant and equipment	35,001	27,733
Intangible assets subject to amortization	10,711	10,344
Other assets	1,230	1,231
Deferred lease inducements	(240)	(240)
	46,702	39,068

## Note 19 RESTRUCTURING CHARGE

During the years ended October 31, 2014 and 2013, the Corporation developed restructuring plans mainly aimed at reducing direct costs and operating expenses, and improving its margins. Accordingly, the Corporation reviewed its processes and reduced its headcount. Under these plans, the Corporation recorded a total restructuring charge of \$6,756 for the year ended October 31, 2014 [\$5,740 for the year ended October 31, 2013]. The restructuring charge consists of termination benefits totalling \$5,855 payable in cash, of which an amount of \$2,220 was unpaid as at October 31, 2014 and included under accounts payable and accrued liabilities [\$1,328 in 2013]. The 2014 restructuring charge also includes write-offs of trademarks and client lists (\$532) and goodwill (\$369) as a result of the closure of the French Affair division, which specialized in the rental of villas in certain regions of Europe, among other factors.

## Note 20 INCOME TAXES

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

Consolidated statements of income	2014	2013
	\$	\$
<b>Current</b>		
Current income taxes	14,759	18,004
Adjustment to taxes payable for prior years	(1,329)	508
	13,430	18,512
<b>Deferred</b>		
Relating to temporary differences	(9,672)	998
<b>Income tax expense</b>	<b>3,758</b>	<b>19,510</b>

Income taxes on items in other comprehensive income are:

Consolidated statements of comprehensive income	2014	2013
	\$	\$
<b>Deferred</b>		
Change in fair value of derivatives designated as cash flow hedges	3,590	958
Change in defined benefit plans		
- Actuarial gain (loss) on the obligation	(912)	806
<b>Income tax expense on comprehensive income</b>	<b>2,678</b>	<b>1,764</b>

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

	2014		2013	
	%	\$	%	\$
Income taxes at the statutory rate	26.9	8,022	26.9	21,711
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	(7.2)	(2,152)	(2.5)	(1,993)
Non-deductible items	0.7	228	3.0	2,372
Recognition of previously unrecorded tax benefits	—	—	(0.9)	(733)
Unrecognized tax benefits	0.3	81	0.7	590
Adjustments for prior years	(6.5)	(1,945)	(2.0)	(1,676)
Effect of tax rate changes	(1.6)	(476)	(1.0)	(775)
Other	—	—	—	14
	12.6	3,758	24.2	19,510

The applicable statutory income tax rate was 26.9% for the years ended October 31, 2014 and 2013. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate. The change in statutory tax rates is caused by

the decrease in the federal corporate tax rate.

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

	Consolidated statements of financial position		Consolidated statements of income	
	2014	2013	2014	2013
	\$	\$	\$	\$
Deferred tax losses	11,445	12,511	(1,066)	(3,326)
Excess of tax value over net carrying value of:				
Property, plant and equipment and software	(7,443)	(8,390)	947	(702)
Intangible assets, excluding software	(3,062)	(3,008)	(54)	433
Derivative financial instruments	2,433	(633)	6,656	136
Other financial assets and other assets	138	(1,243)	1,381	2,236
Provisions	3,141	1,543	1,839	(5)
Employee benefits	9,613	8,283	418	416
Other financial liabilities and other liabilities	1,441	1,889	(449)	(186)
<b>Net deferred tax assets</b>	<b>17,706</b>	<b>10,952</b>	<b>9,672</b>	<b>(998)</b>

The changes in net deferred tax assets are as follows:

	2014	2013
	\$	\$
Balance, beginning of year	10,952	13,070
Recognized in the consolidated statements of income (loss)	9,672	(998)
Recognized under other comprehensive income in the consolidated statements of comprehensive income	(2,678)	(1,764)
Other	(240)	644
	<b>17,706</b>	<b>10,952</b>

The deferred tax assets are detailed below:

	2014	2013
	\$	\$
Deferred tax assets	30,051	22,048
Deferred tax liabilities	(12,345)	(11,096)
<b>Net deferred tax assets</b>	<b>17,706</b>	<b>10,952</b>

As at October 31, 2014, non-capital losses carried forward and other tax deductions for which a write-down was recorded, available to reduce future taxable income of certain subsidiaries in Mexico, totalled MXP 81,802 [\$6,840] [MXP 79,667 [\$5,918] as at October 31, 2013]. These losses and deductions expire in 2020 and thereafter.

The Corporation did not recognize any deferred tax liability on retained earnings of its foreign subsidiaries and its associate company as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad. Taxable temporary differences for which no income tax liability has been recognized amount to approximately \$1,241.

**Note 21 RELATED PARTY TRANSACTIONS AND BALANCES**

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

	Country of incorporation	Interest (%)	
		2014	2013
Air Transat A.T. Inc.	Canada	100	100
Vacances Tours Mont-Royal	Canada	100	100
Transat Tours Canada Inc.	Canada	100	100
Transat Distribution Canada inc.	Canada	100	100
Jonview Canada Inc.	Canada	80.1	80.1
Travel Superstore inc.	Canada	64.6	64.6
The Airline Seat Company Ltd.	United Kingdom	100	100
Transat France S.A.S.	France	99.7	100
Look Voyages S.A.	France	—	99.7
Vacances Transat S.A.S	France	—	100
Eurocharter S.A.S.	France	—	100
L'Européenne de Tourisme S.A.	France	—	100
Tourgreece Tourist Enterprises S.A.	Greece	100	100
Air Consultant Europe B.V.	Netherlands	100	100
Caribbean Investments B.V.	Netherlands	35	35
Caribbean Transportation Inc.	Barbados	70	70
CTI Logistics Inc.	Barbados	70	70
Sun Excursion Caribbean Inc.	Barbados	70	70
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	70	70
Trafictours de Mexico S.A. de C.V.	Mexico	70	70
Promotura Turistica Regiona S.A. de C.V.	Mexico	100	100

On November 1, 2013, the companies Look Voyages S.S., Vacances Transat S.A.S., Eurocharter S.A.S. and L'Européenne de Tourisme S.A. were merged with Transat France S.A.S.

The Corporation enters into transactions in the normal course of business with its associate. These transactions are carried out at arm's length. Significant transactions are as follows:

	2014	2013
	\$	\$
Costs of providing tourism services	13,693	13,616

Outstanding balances with our associate are as follows:

	2014	2013
	\$	\$
Trade and other payables	195	208

#### COMPENSATION OF KEY SENIOR EXECUTIVES

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

	2014	2013
	\$	\$
Salaries and other employee benefits	6,237	6,643
Long-term employee benefits	821	883
Share-based payment expense	757	985

#### Note 22 EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees. Employees in some foreign subsidiaries benefit from certain post-employment benefits.

#### DEFINED BENEFIT ARRANGEMENTS AND POST-EMPLOYMENT BENEFITS

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. The post-employment benefits that employees in some foreign subsidiaries are entitled to comprise an allowance paid upon retirement. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a \$37,600 letter of credit to the trustee [see note 6]. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation and in the other post-employment benefit obligation:

	Retirement benefits		Other benefits		Total	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Present value of obligations, beginning of year	28,973	30,350	1,967	1,611	30,940	31,961
Current service cost	977	1,066	—	133	977	1,199
Cost of plan amendments	—	131	—	—	—	131
Financial costs	1,330	1,163	—	68	1,330	1,231
Benefits paid	(799)	(751)	—	—	(799)	(751)
Experience gains	(273)	(429)	—	—	(273)	(429)
Actuarial loss (gain) on obligation	3,704	(2,557)	—	—	3,704	(2,557)
Effect of exchange rate changes	—	—	(7)	155	(7)	155
<b>Present value of obligations, end of year</b>	<b>33,912</b>	<b>28,973</b>	<b>1,960</b>	<b>1,967</b>	<b>35,872</b>	<b>30,940</b>



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

	Retirement benefits		Other benefits		Total	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Current service cost	977	1,066	—	133	977	1,199
Cost of plan amendments	—	131	—	—	—	131
Interest cost	1,330	1,163	—	68	1,330	1,231
<b>Total cost of retirement benefits</b>	<b>2,307</b>	<b>2,360</b>	<b>—</b>	<b>201</b>	<b>2,307</b>	<b>2,561</b>

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

	\$
Under one year	799
One to five years	8,461
Between five and 10 years	11,281
Between 10 and 15 years	12,384
Between 15 and 20 years	12,729
	<b>45,654</b>

The weighted average duration of the defined benefit obligation related to pension arrangements was 11.6 years as at October 31, 2014.

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

	2014	2013
	%	%
<b>Retirement benefit obligation</b>		
Discount rate	4.00	4.50
Rate of increase in eligible earnings	2.75	2.75
<b>Retirement benefit cost</b>		
Discount rate	4.50	3.75
Rate of increase in eligible earnings	2.75	2.25

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

	Retirement benefit expense for the year ended October 31, 2014	Retirement benefit obligations as at October 31, 2014
	\$	\$
Increase (decrease)		
Discount rate	(4)	(1,033)
Rate of increase in eligible earnings	9	38

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

	2014	2013
	\$	\$
Plan assets at fair value	—	—
Accrued benefit obligation	33,912	28,973
<b>Retirement benefit deficit</b>	<b>33,912</b>	<b>28,973</b>

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

	\$
Gains (losses)	
<b>October 31, 2012</b>	<b>(7,492)</b>
Actuarial gains	2,986
Income taxes	(806)
<b>October 31, 2013</b>	<b>(5,312)</b>
Actuarial losses	<b>(3,431)</b>
Income taxes	912
<b>October 31, 2014</b>	<b>(7,831)</b>

#### DEFINED CONTRIBUTION PENSION PLANS

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

Contributions to defined contribution pension plans, which are recognized at cost, amounted to \$9,608 for the year ended October 31, 2014 [\$8,186 for the year ended October 31, 2013].

## Note 23 COMMITMENTS AND CONTINGENCIES

#### OPERATING LEASES

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

	2014	2013
	\$	\$
Under one year	132,380	117,347
One to five years	401,206	412,115
Over five years	124,053	103,342
	<b>657,639</b>	<b>632,804</b>

The lease expense totalled \$113,884 for the year ended October 31, 2014 [\$104,441 for the year ended October 31, 2013].

#### OTHER COMMITMENTS

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

	2014	2013
	\$	\$
Under one year	193,195	178,399
One to five years	52,861	19,608
Over five years	—	—
	<b>246,056</b>	<b>198,007</b>

#### LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position.

#### OTHER

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the fiscal treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment were received subsequent to year end. No provisions are made for this situation, which could result in future cash outflows of approximately \$16,000, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome.

#### Note 24 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 6, 15, 16, 22 and 23 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

#### OPERATING LEASES

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

#### COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it has guaranteed 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 October 31, 2014, these guarantees totalled \$1,361. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2014, 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. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2014, \$20,195 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €20,120 [\$28,424] [€11,206 [\$15,886] in 2013]. As at October 31, 2014, letters of guarantee had been issued totalling €7,518 [\$10,621] [€3,833 [\$5,434] in 2013].

### Note 25 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and Europe. Sales between geographic areas are accounted for at prices that take into account market conditions and other considerations.

	Americas \$	Europe \$	Total \$
<b>2014</b>			
Revenues from third parties	2,921,811	830,387	3,752,198
Operating expenses	2,903,434	810,018	3,713,452
	18,377	20,369	38,746
<b>2013</b>			
Revenues from third parties	2,893,353	754,805	3,648,158
Operating expenses	2,829,192	747,128	3,576,320
	64,161	7,677	71,838

	Revenues <sup>(1)</sup>		Property, plant and equipment, goodwill and other intangible assets	
	2014 \$	2013 \$	2014 \$	2013 \$
Canada	2,871,887	2,839,701	200,863	187,103
France	728,112	657,626	46,965	42,059
United Kingdom	79,189	80,851	34,273	33,073
Other	73,010	69,980	14,829	14,846
	3,752,198	3,648,158	296,930	277,081

<sup>(1)</sup> Revenues are allocated based on the subsidiary's country of domicile.

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

	2014	2013	2012	2011	2010 <sup>(4)</sup>
	IFRS	IFRS	IFRS	IFRS	(restated) GAAP
<b>Consolidated statements of income</b>					
Revenues	3,752,198	3,648,158	3,714,219	3,654,167	3,497,408
Operating expenses	3,660,363	3,531,512	3,697,264	3,621,141	3,371,295
Amortization	46,702	39,068	40,793	43,814	48,662
Restructuring	6,387	5,740	—	16,543	—
<b>Operating income (loss)</b>	<b>38,746</b>	<b>71,838</b>	<b>(23,838)</b>	<b>(27,331)</b>	<b>77,451</b>
Financing costs	1,939	2,512	2,962	3,499	4,584
Financing income	(8,107)	(7,357)	(6,693)	(7,395)	(3,036)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	23,822	493	(701)	1,278	(9,341)
Foreign exchange (gain) loss on non current monetary items	(1,007)	(846)	(370)	1,654	(1,109)
Restructuring charge – loss (gain) on disposal of assets and impairment of goodwill	369	—	15,000	—	(1,157)
Gain on investments in ABCP	—	—	(7,936)	(8,113)	(4,648)
Gain on disposal of a subsidiary and repurchase of preferred shares of a subsidiary	—	—	(5,655)	—	—
Share of net (income) loss of associates	(8,094)	(3,676)	(3,495)	(827)	490
<b>Income (loss) before income tax expense</b>	<b>29,824</b>	<b>80,712</b>	<b>(16,950)</b>	<b>(17,427)</b>	<b>91,668</b>
Income taxes (recovery)	3,758	19,510	(3,414)	(5,775)	23,398
Non-controlling interest in subsidiaries' results	(3,191)	(3,247)	(3,133)	(3,059)	(3,724)
<b>Net income (loss) for the year attributable to shareholders</b>	<b>22,875</b>	<b>57,955</b>	<b>(16,669)</b>	<b>(14,711)</b>	<b>64,546</b>
<b>Basic earnings (loss) per share</b>	<b>0.59</b>	<b>1.51</b>	<b>(0.44)</b>	<b>(0.39)</b>	<b>1.71</b>
<b>Diluted earnings (loss) per share</b>	<b>0.59</b>	<b>1.51</b>	<b>(0.44)</b>	<b>(0.39)</b>	<b>1.70</b>
<b>Cash flows related to:</b>					
Operating activities	106,240	123,039	8,872	90,673	119,131
Investing activities	(61,100)	(28,289)	(11,024)	(56,683)	(27,819)
Financing activities	191	(1,817)	(4,361)	(29,470)	(81,034)
Effect of exchange rate changes on cash and cash equivalents	(2,262)	1,710	(3,888)	(3,571)	(10,203)
<b>Net change in cash and cash equivalents</b>	<b>43,069</b>	<b>94,643</b>	<b>(10,401)</b>	<b>949</b>	<b>75</b>
<b>Cash and cash equivalents, end of year</b>	<b>308,887</b>	<b>265,818</b>	<b>171,175</b>	<b>181,576</b>	<b>180,627</b>
Total assets	1,375,030	1,290,073	1,165,301	1,226,570	1,193,184
Long-term debt (including current portion)	—	—	—	—	29,059
Equity	482,946	441,393	366,326	384,241	403,902
Debt ratio <sup>(1)</sup>	0.65	0.66	0.69	0.69	0.66
Book value per share <sup>(2)</sup>	12.47	11.47	9.57	10.11	10.67
Return on average equity <sup>(3)</sup>	4.9%	14.4%	(4.4%)	(3.7%)	16.7%
<b>Shareholding statistics (in thousands)</b>					
Outstanding shares, end of year	38,742	38,468	38,296	38,022	37,850
Weighted average number of shares outstanding:					
Undiluted	38,644	38,390	38,142	37,930	37,796
Diluted	39,046	38,472	38,142	37,930	37,993

<sup>(1)</sup> Total liabilities divided by total assets.

<sup>(2)</sup> Total equity divided by the number of outstanding shares.

<sup>(3)</sup> Net income (loss) divided by average equity.

<sup>(4)</sup> The consolidated statements of financial position items are as of November 1, 2010 and are reported under IFRS.

# INFORMATION

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## INFORMATION

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*Ce rapport annuel est disponible en français.*

## STOCK EXCHANGE

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## AUDITORS

Ernst & Young LLP  
Montréal, Québec



## ANNUAL GENERAL MEETING OF SHAREHOLDERS

Thursday, March 12, 2015,  
10:00 a.m.  
McGill – New Residence Hall  
Ballroom  
3625 Avenue du Parc  
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