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, 2016 and 2015, and the consolidated statements of income (loss), comprehensive income (loss), 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

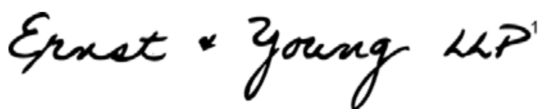
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

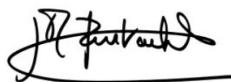


Montréal, Canada
December 14, 2016
[1] CPA auditor, CA, public accountancy permit No. A121006

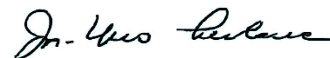
TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at October 31 (in thousands of Canadian dollars)	2016 $	2015 $
ASSETS		
Cash and cash equivalents	**363,664**	336,423
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	**292,131**	367,199
Trade and other receivables *[note 6]*	**105,003**	129,223
Income taxes receivable	**24,758**	1,800
Inventories	**12,354**	9,079
Prepaid expenses	**58,657**	80,318
Derivative financial instruments *[note 7]*	**18,318**	25,277
Current portion of deposits	**13,067**	18,298
Current assets	**887,952**	967,617
Cash and cash equivalents reserved *[note 5]*	**46,450**	44,900
Deposits *[note 8]*	**28,977**	40,603
Income taxes receivable *[note 21]*	**15,100**	15,100
Deferred tax assets *[note 21]*	**15,055**	32,939
Property, plant and equipment *[note 11]*	**134,959**	133,502
Goodwill *[note 12]*	**—**	99,527
Intangible assets *[note 12]*	**50,327**	79,863
Derivative financial instruments *[note 7]*	**199**	296
Investment in an associate *[note 13]*	**97,668**	97,897
Other assets	**733**	1,520
Non-current assets	**389,468**	546,147
	1,277,420	1,513,764
LIABILITIES		
Trade and other payables *[note 14]*	**247,795**	355,656
Current portion of provision for overhaul of leased aircraft	**16,232**	17,281
Income taxes payable	**976**	1,431
Customer deposits and deferred revenues	**409,045**	489,622
Derivative financial instruments *[note 7]*	**21,358**	23,188
Current liabilities	**695,406**	887,178
Provision for overhaul of leased aircraft *[note 15]*	**24,629**	25,681
Other liabilities *[note 17]*	**88,011**	52,026
Derivative financial instruments *[note 7]*	**—**	15
Deferred tax liabilities *[note 21]*	**4,988**	11,612
Non-current liabilities	**117,628**	89,334
EQUITY		
Share capital *[note 18]*	**214,250**	218,134
Share-based payment reserve	**17,849**	17,105
Retained earnings	**218,821**	263,812
Unrealized gain on cash flow hedges	**2,211**	14,960
Cumulative exchange differences	**11,255**	23,241
	464,386	537,252
	1,277,420	1,513,764

Commitments and contingencies *[note 24]*
See accompanying notes to consolidated financial statements
On behalf of the Board,



Director



Director

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

(in thousands of Canadian dollars, except per share amounts)	2016 $	2015 $
Continuing operations		
Revenues	**2,889,646**	2,897,950
Operating expenses		
Costs of providing tourism services	**1,309,430**	1,260,250
Salaries and employee benefits *[notes 19 and 23]*	**346,899**	340,280
Aircraft fuel	**329,784**	440,804
Aircraft maintenance	**178,317**	146,006
Aircraft rent	**135,813**	98,859
Airport and navigation fees	**128,695**	117,862
Commissions	**92,018**	95,170
Other	**341,504**	305,156
Share of net income of an associate *[note 13]*	**(6,342)**	(7,045)
Depreciation and amortization *[note 19]*	**50,038**	45,817
Special items *[note 20]*	**13,825**	—
	2,919,981	2,843,159
Operating income (loss)	**(30,335)**	54,791
Financing costs	**1,669**	1,775
Financing income	**(6,996)**	(7,576)
Change in fair value of fuel-related derivatives and other derivatives	**(6,901)**	1,391
Foreign exchange gain on non-current monetary items	**(1,284)**	(2,531)
Loss on disposal of a subsidiary *[note 10]*	**843**	—
Asset impairment *[note 12]*	**79,708**	—
Income (loss) before income tax expense	**(97,374)**	61,732
Income taxes (recovery) *[note 21]*		
Current	**(17,188)**	14,041
Deferred	**6,345**	(1,628)
	(10,843)	12,413
Net income (loss) from continuing operations	**(86,531)**	49,319
Discontinued operations		
Net income (loss) from discontinued operations *[note 9]*	**49,772**	(2,355)
Net income (loss) for the year	**(36,759)**	46,964
Net income (loss) attributable to:		
Shareholders	**(41,748)**	42,565
Non-controlling interests	**4,989**	4,399
	(36,759)	46,964
Earnings (loss) per share from continuing operations *[note 18]*		
Basic	**(2.48)**	1.17
Diluted	**(2.48)**	1.16
Earnings (loss) per share *[note 18]*		
Basic	**(1.13)**	1.11
Diluted	**(1.13)**	1.10

See accompanying notes to consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	2016 $	2015 $
Net income (loss) from continuing operations	**(86,531)**	49,319
Other comprehensive income (loss) from continuing operations		
Items that will be reclassified to net income (loss)		
Change in fair value of derivatives designated as cash flow hedges	**(42,803)**	(65,478)
Reclassification to net income (loss)	**25,723**	70,944
Deferred taxes *[note 21]*	**4,589**	(1,506)
	(12,491)	3,960
Foreign exchange gain on translation of financial statements of foreign subsidiaries	**(13,673)**	19,707
Items that will never be reclassified to net income (loss)		
Retirement benefits – Net actuarial losses *[note 23]*	**(3,230)**	388
Deferred taxes *[note 21]*	**870**	(101)
	(2,360)	287
Total other comprehensive income (loss) from continuing operations	**(28,524)**	23,954
Comprehensive income (loss) from continuing operations	**(115,055)**	73,273
Net income (loss) from discontinued operations *[note 9]*	**49,772**	(2,355)
Other comprehensive income (loss) from discontinued operations	**1,093**	(1,241)
Comprehensive income (loss) from discontinued operations	**50,865**	(3,596)
Comprehensive income (loss) for the year	**(64,190)**	69,677
Attributable to:		
Shareholders	**(69,811)**	61,738
Non-controlling interests	**5,621**	7,939
	(64,190)	69,677

See accompanying notes to consolidated financial statements

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

				Accumulated other comprehensive income (loss)					
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Reserve related to assets held for sale	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$	$
Balance as at October 31, 2014	224,679	15,444	227,872	11,712	3,239	—	482,946	—	482,946
Net income for the year	—	—	42,565	—	—	—	42,565	4,399	46,964
Other comprehensive income (loss)	—	—	(537)	3,248	16,462	—	19,173	3,540	22,713
Comprehensive income for the year	—	—	42,028	3,248	16,462	—	61,738	7,939	69,677
Issued from treasury	973	—	—	—	—	—	973	—	973
Share-based payment expense	—	1,661	—	—	—	—	1,661	—	1,661
Repurchase of shares	(7,518)	—	(1,906)	—	—	—	(9,424)	—	(9,424)
Dividends	—	—	—	—	—	—	—	(4,221)	(4,221)
Fair value changes in non-controlling interest liabilities	—	—	(4,182)	—	—	—	(4,182)	4,182	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(4,360)	(4,360)
Reclassification of non-controlling interest exchange difference	—	—	—	—	3,540	—	3,540	(3,540)	—
	(6,545)	1,661	(6,088)	—	3,540	—	(7,432)	(7,939)	(15,371)
Balance as at October 31, 2015	**218,134**	**17,105**	**263,812**	**14,960**	**23,241**	**—**	**537,252**	**—**	**537,252**
Net income (loss) for the year	—	—	(41,748)	—	—	—	(41,748)	4,989	(36,759)
Other comprehensive income (loss)	—	—	(2,360)	(12,491)	(14,305)	1,093	(28,063)	632	(27,431)
Comprehensive income (loss) for the year	—	—	(44,108)	(12,491)	(14,305)	1,093	(69,811)	5,621	(64,190)
Issued from treasury	1,219	—	—	—	—	—	1,219	—	1,219
Exercise of options	577	(177)	—	—	—	—	400	—	400
Share-based payment expense	—	921	—	—	—	—	921	—	921
Repurchase of shares	(5,680)	—	(1,427)	—	—	—	(7,107)	—	(7,107)
Dividends	—	—	—	—	—	—	—	(4,335)	(4,335)
Discontinued operations	—	—	(336)	(258)	1,687	(1,093)	—	—	—
Fair value changes in non-controlling interest liabilities	—	—	1,049	—	—	—	1,049	(1,049)	—
Other changes in non-controlling interest liabilities	—	—	(169)	—	—	—	(169)	169	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	226	226
Reclassification of non-controlling interest exchange difference	—	—	—	—	632	—	632	(632)	—
	(3,884)	744	(883)	(258)	2,319	(1,093)	(3,055)	(5,621)	(8,676)
Balance as at October 31, 2016	**214,250**	**17,849**	**218,821**	**2,211**	**11,255**	**—**	**464,386**	**—**	**464,386**

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)	2016 $	2015 $
OPERATING ACTIVITIES		
Net income (loss) for the year	**(86,531)**	49,319
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	**50,038**	45,817
Change in fair value of fuel-related derivatives and other derivatives	**(6,901)**	1,391
Foreign exchange gain on non-current monetary items	**(1,284)**	(2,531)
Loss on disposal of a subsidiary	**843**	—
Asset impairment	**79,708**	—
Share of net income of an associate	**(6,342)**	(7,045)
Deferred taxes	**6,345**	(1,628)
Employee benefits	**2,657**	2,602
Share-based payment expense	**921**	1,661
	39,454	89,586
Net change in non-cash working capital balances related to operations	**5,181**	2,731
Net change in provision for overhaul of leased aircraft	**(2,101)**	13,841
Net change in other assets and liabilities related to operations	**1,027**	2,834
Cash flows related to operating activities	**43,561**	108,992
INVESTING ACTIVITIES		
Additions to property, plant and equipment and other intangible assets	**(70,754)**	(55,140)
Increase in cash and cash equivalent reserved	**(1,550)**	(5,420)
Net proceeds from disposal of subsidiary	**200**	—
Proceeds from sale of discontinued operations *[note 9]*	**68,048**	—
Dividend received from an associate	**9,149**	6,706
Cash flows related to investing activities	**5,093**	(53,854)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	**1,619**	973
Repurchase of shares	**(7,107)**	(9,424)
Dividends paid by a subsidiary to a non-controlling shareholder	**(4,335)**	(4,221)
Cash flows related to financing activities	**(9,823)**	(12,672)
Effect of exchange rate changes on cash and cash equivalents	**(12,132)**	3,402
Net change in cash and cash equivalents related to continuing operations	**26,699**	45,868
Net cash flows related to discontinued operations *[note 9]*	**542**	(18,332)
Cash and cash equivalents, beginning of year	**336,423**	308,887
Cash and cash equivalents, end of year	**363,664**	336,423
Supplementary information (as reported in operating activities)		
Income taxes paid	**8,162**	24,952
Interest paid	**514**	513

See accompanying notes to consolidated financial statements

October 31, 2016 and 2015
[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. Since November 16, 2015, Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single symbol, namely "TRZ."

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. As at October 31, 2016, the core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2016 were approved by the Corporation's Board of Directors on December 14, 2016.

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

- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income; and
- For each business combination including 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 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, except for qualifying cash flow hedges, which are deferred and presented as Unrealized gain (loss) on cash flow hedges in Accumulated other comprehensive income (loss) in the statement of changes in equity.

GROUP COMPANIES

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

CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

GOODWILL

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

INTANGIBLE ASSETS

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

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

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

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

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

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

Software	3–10 years
Customer lists	7–10 years

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

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

OPERATING LEASE AND DEFERRED LEASE INDUCEMENTS

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

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

FINANCIAL INSTRUMENTS

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

Loans and receivables and other financial liabilities

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

These derivative financial instruments are designated as cash flow hedges.

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

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

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

TRANSACTION COSTS

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

FAIR VALUE

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

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

GOODWILL

Goodwill is tested annually [as at April 30] 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 April 30] either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

REVERSAL OF IMPAIRMENT LOSSES

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

PROVISIONS

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

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

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

REVENUE RECOGNITION

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

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

INCOME TAXES

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

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

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

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

SHARE-BASED PAYMENT PLANS

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

EQUITY-SETTLED TRANSACTIONS

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

CASH-SETTLED TRANSACTIONS

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

EMPLOYEE SHARE PURCHASE PLANS

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

EARNINGS (LOSS) PER SHARE

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

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

Note 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of 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 amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the various CGUs, including a sensitivity analysis, are discussed in note 12.

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.

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 FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

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

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

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

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

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

IFRS 16, *LEASES*

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

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

Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2016, cash and cash equivalents in trust or otherwise reserved included $254,311 [$310,883 as at October 31, 2015] in funds received from customers, consisting primarily of Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $84,270, of which $46,450 was recorded as non-current assets [$101,216 as at October 31, 2015, of which $44,900 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 TRADE AND OTHER RECEIVABLES

	2016 $	2015 $
Trade receivables	**39,571**	68,695
Government receivables	**15,262**	23,400
Other receivables	**50,170**	37,128
	105,003	129,223

Note 7 FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Carrying amount				
	Financial assets/liabilities at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Fair value
	$	$	$	$	$
As at October 31, 2016					
Financial assets					
Cash and cash equivalents	363,664	—	—	363,664	363,664
Cash and cash equivalents in trust or otherwise reserved	338,581	—	—	338,581	338,581
Trade and other receivables	—	89,741	—	89,741	89,741
Deposits on leased aircraft and engines	—	20,043	—	20,043	20,043
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,614	—	—	8,614	8,614
-Other foreign currency derivatives	2,208	—	—	2,208	2,208
	713,067	109,784	—	822,851	822,851
Financial liabilities					
Trade and other payables	—	—	227,862	227,862	227,862
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	2,619	—	—	2,619	2,619
-Other foreign currency derivatives	13,878	—	—	13,878	13,878
Non-controlling interests	—	—	29,984	29,984	29,984
	16,497	—	257,846	274,343	274,343

	Carrying amount				
	Financial assets/liabilities at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Fair value
	$	$	$	$	$
As at October 31, 2015					
Financial assets					
Cash and cash equivalents	336,423	—	—	336,423	336,423
Cash and cash equivalents in trust or	412,099	—	—	412,099	412,099
Trade and other receivables	—	105,823	—	105,823	105,823
Deposits on leased aircraft and engines	—	16,530	—	16,530	16,530
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	180	—	—	180	180
-Other foreign currency derivatives	142	—	—	142	142
	748,844	122,353	—	871,197	871,197
Financial liabilities					
Trade and other payables	—	—	312,964	312,964	312,964
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	17,953	—	—	17,953	17,953
-Other foreign currency derivatives	1,344	—	—	1,344	1,344
Non-controlling interests	—	—	32,800	32,800	32,800
	19,297	—	345,764	365,061	365,061

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 12].*

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
	$	$	$	$
As at October 31, 2016				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	8,614	—	8,614
-Foreign exchange forward contracts and other foreign currency derivatives	—	9,903	—	9,903
	—	18,517	—	18,517
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	2,619	—	2,619
-Foreign exchange forward contracts and other foreign currency derivatives	—	18,739	—	18,739
Non-controlling interests	—	—	29,984	29,984
	—	21,358	29,984	51,342

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
	$	$	$	$
As at October 31, 2015				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	180	—	180
-Foreign exchange forward contracts and other foreign currency derivatives	—	25,393	—	25,393
	—	25,573	—	25,573
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	17,953	—	17,953
-Foreign exchange forward contracts and other foreign currency derivatives	—	5,250	—	5,250
Non-controlling interests	—	—	32,800	32,800
	—	23,203	32,800	56,003

The changes in non-controlling interests are as follows:

	2016	2015
	$	$
Balance, beginning of year	**32,800**	24,900
Net income	**4,989**	4,399
Other comprehensive income	**632**	3,540
Dividends	**(4,335)**	(4,221)
Disposal of subsidiaries	**(3,053)**	—
Change in fair value of non-controlling interests	**(1,049)**	4,182
	29,984	32,800

MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $39,571 as at October 31, 2016 [$68,695 as at October 31, 2015]. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2016 and 2015. As at October 31, 2016, approximately 8% [approximately 3% as at October 31, 2015] of accounts receivable were over 90 days past due, whereas approximately 75% [approximately 82% as at October 31, 2015] 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 $22,001 as at October 31, 2016 [$42,371 as at October 31, 2015] and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $20,043 as at October 31, 2016 [$16,530 as at October 31, 2015] 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, 2016, the cash security deposits with lessors that have been claimed totalled $21,277 [$21,587 as at October 31, 2015] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2016 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, 2016.

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 maturities of the Corporation's financial liabilities as at October 31, 2016 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	227,862	—	—	227,862	227,862
Non-controlling interests	4,984	—	25,000	29,984	29,984
Derivative financial instruments	21,344	—	—	21,344	21,358
Total	**254,190**	**—**	**25,000**	**279,190**	**279,204**

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 61% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 17% 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 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
	$	$	$	$	$	$
2016						
Financial statement measurement currency of the group's companies						
Euro	9,356	—	—	—	—	9,356
Pound sterling	(4,155)	100,963	—	671	—	97,479
Canadian dollar	(10,296)	(6,862)	3,287	—	(1,339)	(15,210)
Other currencies	(673)	19	—	(6)	876	216
Total	(5,768)	94,120	3,287	665	(463)	91,841

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other Currencies	Total
	$	$	$	$	$	$
2015						
Financial statement measurement currency of the group's companies						
Euro	(34,967)	—	(446)	(1,886)	11	(37,288)
Pound sterling	97	238	—	(215)	—	120
Canadian dollar	8,839	2,974	(3,868)	—	(220)	7,725
Other currencies	(333)	102	—	(18)	1,884	1,635
Total	(26,364)	3,314	(4,314)	(2,119)	1,675	(27,808)

As at October 31, 2016, the proceeds of disposal of subsidiaries Transat France and Tourgreece were received in euros by a subsidiary in the United Kingdom.

For the year ended October 31, 2016, 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 $3,199 increase or decrease [$1,307 in 2015], respectively, in the Corporation's net income for the year, whereas other comprehensive loss would have decreased or increased by $3,085 [$2,213 in 2015], respectively.

As at October 31, 2016, 37% of estimated requirements for fiscal 2016 were covered by foreign currency derivatives [45% of estimated requirements for fiscal 2015 were covered as at October 31, 2015].

RISK OF FLUCTUATIONS IN FUEL PRICES

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

For the year ended October 31, 2016, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $6,170 decrease or increase [$3,322 in 2015], respectively, in the Corporation's net income for the year.

As at October 31, 2016, 48% of estimated requirements for fiscal 2016 were covered by fuel-related derivative financial instruments [36% of estimated requirements for fiscal 2015 were covered as at October 31, 2015].

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, 2016, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $1,727 increase or decrease [$1,815 in 2015], respectively, in the Corporation's net income.

CAPITAL RISK MANAGEMENT

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

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

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

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

	2016 $	2015 $
Net debt		
Long-term debt	—	—
Adjusted operating leases	**679,065**	494,295
Cash and cash equivalents	**(363,664)**	(336,423)
	315,401	157,872
Equity	**464,386**	537,252
Adjusted debt/equity ratio	**67.9%**	29.4%

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, 2016, 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 8 DEPOSITS

	2016	2015
	$	$
Deposits on leased aircraft and engines	**20,043**	16,530
Deposits with suppliers	**22,001**	42,371
	42,044	58,901
Less current portion	**13,067**	18,298
	28,977	40,603

Note 9 DISCONTINUED OPERATIONS

On October 31, 2016, the Corporation completed the sale of its tour operating business in France (Transat France) and Greece (Tourgreece) for an amount of €63,428 ($93,254) to TUI AG, a multinational tourism company. The price could be adjusted at the final closing of accounts and completion of the audit within 90 business days following the sale, due to a working capital adjustment.

As at October 31, 2015, the tour operating businesses in France and Greece were not identified as discontinued operations or as assets held for sale. The Corporation announced on January 12, 2016 the initiation of a process to seek interest from third parties that could potentially lead to the sale of certain assets held by the Corporation outside Canada, namely its tour operators in France and Greece. Accordingly, the comparative consolidated statements of income (loss) and comprehensive income (loss) were restated to present after-tax income or loss from discontinued operations as a single amount, separately from continuing operations. Unless otherwise specified, all other notes to consolidated financial statements include amounts from continuing operations.

A gain on disposal of $49,692, net of transaction costs of $7,073, was also recognized in the consolidated statement of income (loss) and the proceeds of disposal $93,254, net of cash disposed of, of are shown in the consolidated statement of cash flows.

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

	2016	2015
	$	$
Revenues	**685,780**	668,418
Operating expenses and other expenses	**683,709**	672,823
Income (loss) from operating activities	**2,071**	(4,405)
Income tax expense (recovery)	**1,677**	(2,050)
Net income (loss) from operating activities	**394**	(2,355)
Gain on disposal of discontinued operations	**49,692**	—
Foreign exchange loss on disposal of discontinued operations	**(854)**	—
Foreign exchange gain realized on disposal of discontinued operations	**540**	—
Net income (loss) from discontinued operations	**49,772**	(2,355)
Earnings (loss) per share from discontinued operations		
Basic	**1.35**	(0.06)
Diluted	**1.35**	(0.06)

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

	2016	2015
	$	$
Cash flows related to operating activities	**4,811**	(14,992)
Cash flows related to investing activities	**(4,269)**	(4,155)
Effect of exchange rate changes on cash and cash equivalents	**—**	815
Net cash flows related to discontinued operations	**542**	(18,332)

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

	2016
	$
Cash and cash equivalents	(22,978)
Cash and cash equivalents in trust or otherwise reserved	(3,893)
Trade and other receivables	(32,590)
Income taxes receivable	(2,666)
Prepaid expenses	(14,731)
Derivative financial instruments	(567)
Deposits	(18,489)
Deferred tax assets	(9,322)
Property, plant and equipment	(9,229)
Goodwill	(31,255)
Intangible assets	(18,869)
Trade and other payables	83,857
Customer deposits and deferred revenues	38,701
Other liabilities	5,111
Deferred tax liabilities	431
Net assets disposed of	**(36,489)**
Consideration received, satisfied in cash	93,254
Transaction costs, satisfied in cash	(2,228)
Cash and cash equivalents disposed of	(22,978)
Net cash inflow	**68,048**

Note 10 DISPOSAL OF A SUBSIDIARY

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

Note 11 PROPERTY, PLANT AND EQUIPMENT

	Fleet	Aircraft equipment	Office furniture and equipment	Building and leasehold improvements	Total
	$	$	$	$	$
Cost					
Balance as at October 31, 2015	303,925	88,893	64,943	46,939	504,700
Additions	35,524	8,884	5,035	3,676	53,119
Disposals of subsidiaries	—	—	(11,362)	(16,423)	(27,785)
Write-off	—	—	(9,043)	(722)	(9,765)
Exchange difference	—	—	(687)	—	(687)
Balance as at October 31, 2016	339,449	97,777	48,886	33,470	519,582
Accumulated amortization					
Balance as at October 31, 2015	215,357	72,299	51,413	32,129	371,198
Amortization	30,537	3,559	4,654	1,919	40,669
Disposals of subsidiaries	—	—	(9,306)	(7,763)	(17,069)
Write-off	—	—	(9,043)	(722)	(9,765)
Exchange difference	—	—	(410)	—	(410)
Balance as at October 31, 2016	245,894	75,858	37,308	25,563	384,623
Net book value as at October 31, 2016	93,555	21,919	11,578	7,907	134,959

	Fleet	Aircraft equipment	Office furniture and equipment	Building and leasehold improvements	Total
	$	$	$	$	$
Cost					
Balance as at October 31, 2014	277,913	84,670	71,607	46,529	480,719
Additions	28,274	4,371	6,569	2,582	41,796
Write-off	(2,262)	(148)	(14,103)	(2,511)	(19,024)
Exchange difference	—	—	870	339	1,209
Balance as at October 31, 2015	303,925	88,893	64,943	46,939	504,700
Accumulated amortization					
Balance as at October 31, 2014	191,703	70,036	58,703	31,717	352,159
Amortization	25,916	2,411	6,234	2,753	37,314
Write-off	(2,262)	(148)	(14,103)	(2,511)	(19,024)
Exchange difference	—	—	579	170	749
Balance as at October 31, 2015	215,357	72,299	51,413	32,129	371,198
Net book value as at October 31, 2015	88,568	16,594	13,530	14,810	133,502

Note 12 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at October 31, 2015	114,527	158,913	22,041	14,262	309,743
Additions	—	17,635	—	—	17,635
Disposals of subsidiaries	(47,087)	(35,525)	—	—	(82,612)
Write-off and impairment	—	(124)	—	—	(124)
Exchange difference	(3,541)	(84)	(1,791)	(2,043)	(7,459)
Balance as at October 31, 2016	63,899	140,815	20,250	12,219	237,183
Accumulated amortization and impairment					
Balance as at October 31, 2015	15,000	101,950	—	13,403	130,353
Amortization	—	8,591	—	775	9,366
Disposals of subsidiaries	(15,000)	(15,484)	—	—	(30,484)
Write-off and impairment	63,899	(124)	15,809	—	79,584
Exchange difference	—	(4)	—	(1,959)	(1,963)
Balance as at October 31, 2016	63,899	94,929	15,809	12,219	186,856
Net book value as at October 31, 2016	—	45,886	4,441	—	50,327

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at October 31, 2014	110,601	142,642	20,429	13,043	286,715
Additions	—	17,499	—	—	17,499
Write-off	—	(1,877)	—	—	(1,877)
Exchange difference	3,926	649	1,612	1,219	7,406
Balance as at October 31, 2015	114,527	158,913	22,041	14,262	309,743
Accumulated amortization and impairment					
Balance as at October 31, 2014	15,000	92,096	—	11,249	118,345
Amortization	—	11,356	—	1,061	12,417
Write-off	—	(1,877)	—	—	(1,877)
Exchange difference	—	375	—	1,093	1,468
Balance as at October 31, 2015	15,000	101,950	—	13,403	130,353
Net book value as at October 31, 2015	99,527	56,963	22,041	859	179,390

IMPAIRMENT TEST IN 2016

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

The $79,708 asset impairment charge consists of impairment of goodwill and trademarks of $63,899 and $15,809, respectively.

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

	2016		2015	
	Goodwill	Trademarks	Goodwill	Trademarks
	$	$	$	$
Canada – United Kingdom – Netherlands	—	**4,441**	67,537	22,041
France	—	—	21,016	—
Other *	—	—	10,974	—
Net book value	—	**4,441**	99,527	22,041

* Multiple individual CGUs

INTANGIBLE ASSETS

The Corporation performed its annual impairment test as at April 30, 2016 to determine whether the carrying amount of trademarks was higher than their recoverable amount.

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

Following the introduction of its new reservation platform which, for European travellers, favours the purchasing of seats directly from Air Transat instead of through its U.K. subsidiary, the Corporation concluded that the recoverable amount of its Canadian Affair trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $9,726.

Implementation of the Corporation's integrated strategy to further expand the Transat brand will result in the discontinuation of its Vacances Tours Mont-Royal ("TMR") brand, which the Corporation uses for the sale of sun packages outbound from Canada. As this brand is no longer used, the Corporation has recorded an impairment charge of $4,483, which corresponds to its carrying amount.

Also as part of the implementation of the Corporation's distribution and brand strategy aiming to further expand the Transat brand, the Corporation is currently changing its wholly owned Marlin Travel agency banners to Voyages Transat. Following these changes, the Corporation concluded that the recoverable amount of its Marlin Travel trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $1,600.

As at April 30, 2016, after-tax discount rates used for impairment testing for trademarks ranged from 10.3% to 18.0% [10.3% as at April 30, 2015].

As at April 30, 2016, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all others variables remained the same, would have resulted in an additional impairment charge of $200.

As at April 30, 2016, a 10% decrease in the cash flows used for impairment testing, assuming that all other variables remained the same, would have resulted in an additional impairment charge of $300.

As at October 31, 2016, there was no indication suggesting that the conclusions of trademarks impairment test might have changed since April 30, 2016.

GOODWILL

The Corporation performed its annual impairment test as at April 30, 2016 to determine whether a CGU's carrying amount was higher than its recoverable amount. No impairment of goodwill was identified by the Corporation as at that date.

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the recent deterioration in results of the summer season have led management to review the assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63,899 which corresponds to the balance of goodwill of its sole CGU as at October 31, 2016.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each CGU, as well as the most recent economic indicators. 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.

As at April 30, 2016 and October 31, 2016, an after-tax discount rate of 10.1% was used for testing the various CGUs for impairment [10.3% as at April 30, 2015]. The perpetual growth rate used for impairment testing was 1% [1% as at April 30, 2015].

As at October 31, 2016, reasonable changes in the assumptions used in the goodwill impairment test would not lead to an additional impairment charge related to the assets.

Note 13 INVESTMENTS AND OTHER ASSETS

	2016	2015
	$	$
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	**97,668**	97,897
Deferred costs, unamortized	**299**	355
Sundry	**434**	1,165
	98,401	99,417

Transat has a 35% interest in CIBV, which 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:

	2016	2015
	$	$
Balance, beginning of year	**97,897**	83,949
Share of net income	**6,342**	7,045
Dividend received	**(9,149)**	(6,706)
Translation adjustment	**2,578**	13,609
	97,668	97,897

The following table shows the condensed financial information regarding CIBV as at September 30:

	2016	2015
	$	$
Statement of financial position:		
Current assets	**47,811**	56,987
Non-current assets	**386,903**	375,441
Current liabilities	**46,795**	49,619
Non-current liabilities	**108,867**	103,102
Net assets of CIBV	**279,052**	279,707
Carrying amount of investment in CIBV (35% of net assets)	**97,668**	97,897
Statement of comprehensive		
Revenues	**131,889**	116,389
Net income and comprehensive	**18,120**	20,129
Share of net income	**6,342**	7,045

Note 14 TRADE AND OTHER PAYABLES

	2016 $	2015 $
Trade payables	**117,258**	184,357
Accrued expenses	**58,133**	68,970
Salaries and employee benefits payable	**52,471**	59,637
Government remittances	**14,949**	9,892
Non-controlling interests *[note 17]*	**4,984**	32,800
	247,795	355,656

Note 15 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

	$
Balance as at October 31, 2015	**42,962**
Additional provisions	**19,192**
Utilization of provisions	**(18,264)**
Unused amounts released	**(3,029)**
Balance as at October 31, 2016	**40,861**
Current provisions	**16,232**
Non-current provisions	**24,629**
Balance as at October 31, 2016	**40,861**

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 16 LONG-TERM DEBT

On February 19, 2016, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2020, 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 the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its 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, 2016, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2016, $66,220 had been drawn down under the facility [$66,943 as at October 31, 2015], of which $46,450 is to guarantee the benefits to participants under senior executives defined benefit pension agreements; such irrevocable letters of credit are held by a third-party trustee. In the event of a change of control, the irrevocable letters of credit issued to guarantee the benefits to participants under the senior executives defined benefit pension agreements will be drawn down.

Note 17 OTHER LIABILITIES

	2016 $	2015 $
Employee benefits *[note 23]*	**40,400**	39,265
Deferred lease inducements	**22,611**	12,761
Non-controlling interests *[note 7]*	**29,984**	32,800
	92,995	84,826
Less non-controlling interests included in Trade and other payables *[note 14]*	**(4,984)**	(32,800)
	88,011	52,026

NON-CONTROLLING INTERESTS

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

Note 18 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	$
Balance as at October 31, 2014	38,741,527	224,679
Issued from treasury	145,310	973
Repurchase and cancellation of shares	(1,296,090)	(7,518)
Balance as at October 31, 2015	37,590,747	218,134
Issued from treasury	**187,359**	**1,219**
Repurchase and cancellation of shares	**(978,831)**	**(5,680)**
Exercise of options	**59,890**	**577**
Balance as at October 31, 2016	**36,859,165**	**214,250**

On April 10, 2015, the Corporation announced that it had received the required regulatory approvals to go forward with a normal course issuer bid for a 12-month period.

Pursuant to its normal course issuer bid, the Corporation was authorized to purchase for cancellation up to a maximum of 2,274,921 Class A Shares and Class B Shares, representing approximately 10% of the public float of Class A Shares and Class B Shares.

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; as of that date, the Corporation had repurchased a total of 2,274,921 Class B Shares for a total cash consideration of $16,531. The Corporation repurchased 978,831 Class B Shares during the year ended October 31, 2016, for a cash consideration of $7,107.

As at October 31, 2016, the number of Class A Shares and Class B Shares stood at 2,476,020 and 34,383,145, respectively [1,410,985 and 36,179,762 as at October 31, 2015].

SUBSCRIPTION RIGHTS PLAN

The shareholders' subscription 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' annual general meeting ("AGM"), unless terminated prior to said AGM.

STOCK OPTION PLAN

At the AGM held on March 12, 2015, the shareholders approved the implementation of a new reserve of 850,000 shares issuable in addition to the balance remaining under the stock option plan. Under this plan, the Corporation may grant up to a maximum of 1,122,337 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. The option exercise period and the performance criteria are determined on each grant. The options granted between January 14, 2009 and October 31, 2015 are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. For options granted starting November 1, 2015, vesting will no longer depend on meeting performance criteria. The options granted before October 31, 2013 are exercisable over a ten-year period, whereas those granted after that date are exercisable over or a seven-year period, respectively. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

The following tables summarize all outstanding options:

	2016		2015	
	Number of options	Weighted average price	Number of options	Weighted average price
		$		$
Beginning of year	2,741,856	11.81	2,654,817	12.39
Granted	—	—	236,447	8.73
Exercised	(59,890)	6.68	—	—
Cancelled	(70,075)	11.10	(74,184)	12.19
Expired	—	—	(75,224)	22.34
End of year	2,611,891	11.94	2,741,856	11.81
Options exercisable, end of year	2,400,323	12.08	1,807,423	12.89

	Outstanding options			Options exercisable	
Range of exercise price	Number of options outstanding as at October 31, 2016	Weighted average remaining life	Weighted average price	Number of options exercisable as at October 31, 2016	Weighted average price
$			$		$
6.01 to 7.48	1,009,856	5.7	6.69	1,009,856	6.69
8.73 to 11.22	447,374	3.7	10.13	329,825	10.63
12.25 to 12.49	667,041	3.8	12.36	573,022	12.34
19.24 to 24.78	396,414	2.2	20.84	396,414	20.84
37.25	91,206	0.5	37.25	91,206	37.25
	2,611,891	4.2	11.94	2,400,323	12.08

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2016, the Corporation granted nil stock options [236,447 in 2015] to certain key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

	2016	2015
Risk-free interest rate	—	1.33%
Expected life	—	4 years
Expected volatility	—	58.2%
Dividend yield	—	—
Weighted average fair value at date of grant	—	$ 3.52

During the year ended October 31, 2016, the Corporation recorded a compensation expense of $401 [$1,110 in 2015] for its stock option plan.

PERFORMANCE SHARE UNIT PLAN

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

As at October 31, 2016, the number of PSUs awarded amounted to 168,794. For the year ended October 31, 2016, the Corporation recognized a compensation expense of $520 [$551 in 2015] for its performance share unit plan.

SHARE PURCHASE PLAN

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. At the AGM held March 12, 2015, shareholders approved the implementation of a new reserve of 525,000 shares issuable in addition to the remaining balance under the plan. Under the plan, as at October 31, 2016, the Corporation was authorized to issue up to 309,677 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 187,359 Class B Shares [145,310 Class B Shares in 2015] for a total of $1,219 [$973 in 2015] under the share purchase plan.

STOCK OWNERSHIP INCENTIVE AND CAPITAL ACCUMULATION PLAN

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of Class B Shares, the aggregate purchase price of which is equal to an amount of 30% or 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest to the eligible employee, subject to the 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, 2016, the Corporation accounted for a compensation expense of $189 [$166 in 2015] 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, 2016, the Corporation accounted for a compensation expense of $242 [$231 in 2015] for its permanent stock ownership incentive plan.

DEFERRED SHARE UNIT PLAN

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

As at October 31, 2016, the number of DSUs awarded amounted to 190,611 [146,641 as at October 31, 2015]. For the year ended October 31, 2016, the Corporation recognized a compensation expense of $55 [$224 in 2015] for its deferred share unit plan.

RESTRICTED SHARE UNIT PLAN

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

As at October 31, 2016, the number of RSUs awarded amounted to 1,098,377 [815,249 as at October 31, 2015]. During the year ended October 31, 2016, the Corporation recorded a compensation expense reversal of $977 [compensation expense of $1,428 in 2015] for its restricted share unit plan.

EARNINGS (LOSS) PER SHARE

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

[In thousands, except per share amounts]	2016 $	2015 $
NUMERATOR		
Net income (loss) attributable to shareholders	**(41,748)**	42,565
Net income (loss) from discontinued operations	**49,772**	(2,355)
Net income (loss) from continuing operations attributable to shareholders	**(91,520)**	44,920
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**36,899**	38,442
Effect of dilutive securities		
Stock options	**—**	116
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**36,899**	38,558
Earnings (loss) per share		
Basic	**(1.13)**	1.11
Diluted	**(1.13)**	1.10
Earnings (loss) per share from continuing operations		
Basic	**(2.48)**	1.17
Diluted	**(2.48)**	1.16

Given the loss recorded for the year ended October 31, 2016, all 2,611,891 outstanding stock options [1,672,110 in 2015] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

Note 19 ADDITIONAL DISCLOSURE ON EXPENSES

SALARIES AND EMPLOYEE BENEFITS

	2016 $	2015 $
Salaries and other employee benefits	**343,321**	336,017
Long-term employee benefits *[note 23]*	**2,657**	2,602
Share-based payment expense	**921**	1,661
	346,899	340,280

DEPRECIATION AND AMORTIZATION

	2016 $	2015 $
Property, plant and equipment	**40,669**	35,515
Intangible assets subject to amortization	**9,366**	9,959
Other assets	**243**	583
Deferred lease inducements	**(240)**	(240)
	50,038	45,817

Note 20 SPECIAL ITEMS

Special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the year ended October 31, 2016, lump-sum payments in the amount of $7,263 were recognized in connection with the renewal of the collective agreement with the cabin crews, in addition to the restructuring charge of $6,562, comprising mainly termination benefits, related to the closure of call centres and a tour operator in the Netherlands, of which an amount of $5,919 was unpaid as at October 31, 2016 and included under accounts payable and accrued liabilities.

Note 21 INCOME TAXES

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

Consolidated statements of income (loss)	2016 $	2015 $
Current		
Current income taxes	(16,555)	13,951
Adjustment to taxes payable for prior years	(633)	90
	(17,188)	14,041
Deferred		
Relating to temporary differences	6,345	(1,628)
Income tax expense	(10,843)	12,413

Income taxes on items in other comprehensive income (loss) are:

Consolidated statements of comprehensive income (loss)	2016 $	2015 $
Deferred		
Change in fair value of derivatives designated as cash flow hedges	(4,589)	1,506
Change in defined benefit plans - Actuarial loss on the obligation	(870)	101
Income tax expense (recovery) on comprehensive income (loss)	(5,459)	1,607

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

	2016		2015	
	%	$	%	$
Income taxes at the statutory rate	26.9	(26,194)	26.9	16,605
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	3.4	(3,347)	(5.6)	(3,450)
Non-deductible items	(19.3)	18,809	1.6	1,018
Derecognition of a future income tax asset	(0.9)	824	—	(2)
Adjustments for prior years	0.8	(787)	(2.9)	(1,785)
Effect of tax rate changes	0.1	(86)	—	33
Other	0.1	(62)	—	(6)
	11.1	(10,843)	20.0	12,413

The applicable statutory income tax rate was 26.9% for the years ended October 31, 2016 and 2015. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate.

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

	Consolidated statements of financial position		Consolidated statements of income (loss)	
	2016	2015	2016	2015
	$	$	$	$
Deferred tax losses	**112**	7,041	**(128)**	(1,548)
Excess of tax value over net carrying value of:				
Property, plant and equipment and software	**(13,537)**	(9,599)	**(2,001)**	(2,156)
Intangible assets, excluding software	**922**	(1,469)	**4,735**	(751)
Derivative financial instruments	**1,804**	1,201	**(5,045)**	1,316
Other financial assets and other assets	**953**	1,901	**(948)**	1,713
Provisions	**8,288**	11,115	**(3,293)**	4,006
Employee benefits	**10,868**	10,686	**68**	38
Other financial liabilities and other liabilities	**657**	451	**267**	(990)
Net deferred tax assets	**10,067**	21,327	**(6,345)**	1,628

The changes in net deferred tax assets are as follows:

	2016	2015
	$	$
Balance, beginning of year	**21,327**	17,706
Recognized in the consolidated statements of income (loss) as continuing operations	**(6,345)**	1,628
Recognized in the consolidated statements of income (loss) as discontinued operations	**(1,246)**	2,775
Recognized in other comprehensive income (loss) as continuing operations	**5,459**	(1,607)
Recognized in other comprehensive income (loss) as discontinued operations	**(81)**	797
Disposal of discontinued operations	**(9,502)**	—
Other	**455**	28
	10,067	21,327

The deferred tax assets are detailed below:

	2016	2015
	$	$
Deferred tax assets	**15,055**	32,939
Deferred tax liabilities	**(4,988)**	(11,612)
Net deferred tax assets	**10,067**	21,327

As at October 31, 2016, non-capital losses carried forward and other tax deductions for which a valuation allowance was recorded, available to reduce future taxable income of certain subsidiaries in Mexico, totalled MXP 87,451 [$6,191] [MXP 85,585 [$6,840] as at October 31, 2015]. 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. As of October 31, 2016, there are no taxable temporary differences for which no deferred income tax liability were recorded.

Note 22 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 (%) 2016	2015
Air Transat A.T. inc.	Canada	**100.0**	100.0
Transat Tours Canada inc.	Canada	**100.0**	100.0
Transat Distribution Canada inc.	Canada	**100.0**	100.0
Jonview Canada Inc.	Canada	**80.1**	80.1
Travel Superstore inc. *[note 10]*	Canada	**—**	64.6
The Airline Seat Company Ltd.	United Kingdom	**100.0**	100.0
Air Consultants France S.A.S.	France	**100.0**	—
Transat France S.A.S. *[note 9]*	France	**—**	99.7
Tourgreece Tourist Enterprises S.A. *[note 9]*	Greece	**—**	100.0
Air Consultant Europe B.V.	Netherlands	**100.0**	100.0
Caribbean Investments B.V.	Netherlands	**35.0**	35.0
Caribbean Transportation Inc.	Barbados	**70.0**	70.0
CTI Logistics Inc.	Barbados	**70.0**	70.0
Sun Excursion Caribbean Inc.	Barbados	**70.0**	70.0
Servicios y Transportes Punta Cana S.R.L.	Dominican Republic	**70.0**	70.0
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	**70.0**	70.0
Turissimo Jamaica Ltd.	Jamaica	**70.0**	—
Trafictours de Mexico S.A. de C.V.	Mexico	**70.0**	70.0
Promotura Turistica Regiona S.A. de C.V.	Mexico	**100.0**	100.0

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:

	2016 $	2015 $
Costs of providing tourism services	**32,250**	17,914

Outstanding balances with our associate are as follows:

	2016 $	2015 $
Trade and other payables	**869**	256

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:

	2016	2015
	$	$
Salaries and other employee benefits	**3,235**	4,562
Long-term employee benefits	**1,055**	974
Share-based payment expense	**605**	1,022

Note 23 EMPLOYEE FUTURE BENEFITS

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

DEFINED BENEFIT ARRANGEMENTS AND POST-EMPLOYMENT BENEFITS

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $46,450 letter of credit to the trustee *[see note 5]*. 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: The other benefits are related to termination benefits for the subsidiaries Transat France and Tourgreece which were disposed of on October 31, 2016 *[see note 9]*. The amount of the obligation related to other benefits included in the consolidated statement of financial position therefore amounted to nil as at October 31, 2016.

	Retirement benefits		Other benefits		Total	
	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
Present value of obligations, beginning of year	**35,327**	33,912	**3,938**	1,960	**39,265**	35,872
Current service cost	**1,212**	1,204	**296**	625	**1,508**	1,829
Financial costs	**1,445**	1,398	**85**	76	**1,530**	1,474
Benefits paid	**(814)**	(799)	**—**	—	**(814)**	(799)
Experience losses (gains)	**3,191**	(629)	**—**	—	**3,191**	(629)
Actuarial loss on obligation	**39**	241	**517**	1,267	**556**	1,508
Effect of exchange rate changes	**—**	—	**67**	10	**67**	10
Disposal of subsidiaries	**—**	—	**(4,903)**	—	**(4,903)**	—
Present value of obligations, end of year	**40,400**	35,327	**—**	3,938	**40,400**	39,265

The following table provides the components of retirement benefit expense for the years ended October 31. The costs of other benefits are included under discontinued operations in the consolidated statements of income (loss):

	Retirement benefits		Other benefits		Total	
	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
Current service cost	**1,212**	1,204	**296**	625	**1,508**	1,829
Interest cost	**1,445**	1,398	**85**	76	**1,530**	1,474
Total cost of retirement benefits	**2,657**	2,602	**381**	701	**3,038**	3,303

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2016:

	$
Under one year	**847**
One to five years	**9,500**
Between five and 10 years	**12,324**
Between 10 and 15 years	**11,590**
Between 15 and 20 years	**10,140**
	44,401

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.6 years as at October 31, 2016.

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

	2016 **%**	**2015** **%**
Retirement benefit obligation		
Discount rate	**3.25**	4.00
Rate of increase in eligible earnings	**2.75**	2.75
Retirement benefit cost		
Discount rate	**4.00**	4.00
Rate of increase in eligible earnings	**2.75**	2.75

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

Increase (decrease)	Retirement benefit expense for the year ended October 31, 2016 $	Retirement benefit obligations as at October 31, 2016 $
Discount rate	**(9)**	**(1,248)**
Rate of increase in eligible earnings	**11**	**52**

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

	2016 **$**	**2015** **$**
Plan assets at fair value	**—**	—
Accrued benefit obligation	**40,400**	35,327
Retirement benefit deficit	**40,400**	35,327

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

Gains (losses)	$
October 31, 2014	(7,831)
Actuarial losses	(879)
Income taxes	342
October 31, 2015	(8,368)
Actuarial losses	**(3,747)**
Income taxes	**1,051**
Discontinued operations	**1,160**
October 31, 2016	**(9,904)**

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 $10,534 for the year ended October 31, 2016 [$9,400 for the year ended October 31, 2015].

Note 24 COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

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

	2016	2015
	$	$
Under one year	**168,975**	161,702
One to five years	**415,317**	425,023
Over five years	**107,549**	88,660
	691,841	675,385

The lease expense totalled $160,659 for the year ended October 31, 2016 [$123,683 for the year ended October 31, 2015].

OTHER COMMITMENTS

The Corporation also has purchase obligations under various contracts entered into in the normal course of business. The decrease in purchase obligations is due to the disposal of the Transat France subsidiary. The purchase obligations are as follows:

	2016	2015
	$	$
Under one year	**109,845**	200,505
One to five years	**—**	84,373
Over five years	**—**	—
	109,845	284,878

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 in this regard were received during the year. No provisions are made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this situation resulted in outflows of $15,100 during the year ended October 31, 2015. This amount is recognized as income taxes receivable as at October 31, 2016 and 2015.

Note 25 GUARANTEES

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

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

Notes 5, 7, 16, 23 and 24 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 guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2016, these guarantees totalled $721. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2016, 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, 2016, $17,723 had been drawn down under the facility.

Note 26 SEGMENTED DISCLOSURE

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