MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2014, compared with the year ended October 31, 2013, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 10, 2014. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2014 and Annual Information Form.

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

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, statutory changes, adverse regulatory developments or procedures, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

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

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

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

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

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

By excluding from results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect the Corporation's operating performance for the period, such as the change in fair value of derivative financial instruments used for aircraft fuel purchases, restructuring charges, impairment of goodwill, depreciation and amortization and other significant unusual items, we believe this MD&A helps users to better analyze the Corporation's results and ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

The non-IFRS measures the Corporation uses to assess operational performance include adjusted operating income (loss), adjusted pre-tax income (loss) and adjusted net income (loss).

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2014 $	2013 $	2012 $	Change 2014 %	Change 2013 %
Consolidated Statements of Income					
Revenues	**3,752,198**	3,648,158	3,714,219	2.9	(1.8)
Adjusted operating income[1]	**91,835**	116,646	16,955	(21.3)	588.0
Net income (loss) attributable to shareholders	**22,875**	57,955	(16,669)	(60.5)	447.7
Basic earnings (loss) per share	**0.59**	1.51	(0.44)	(60.9)	443.2
Diluted earnings (loss) per share	**0.59**	1.51	(0.44)	(60.9)	443.2
Adjusted net income (loss)	**45,242**	62,567	(15,272)	(27.7)	509.7
Adjusted net income (loss) per share[1]	**1.16**	1.63	(0.40)	(28.8)	506.2
Consolidated Statements of Cash Flows					
Operating activities	**106,240**	123,039	8,872	(13.7)	1,286.8
Investing activities	**(61,100)**	(28,289)	(11,024)	(116.0)	(156.6)
Financing activities	**191**	(1,817)	(4,361)	110.5	58.3
Effect of exchange rate changes on cash and cash equivalents	**(2,262)**	1,710	(3,888)	(232.3)	144.0
Net change in cash and cash equivalents	**43,069**	94,643	(10,401)	(54.5)	1,009.9

	As at October 31, 2014 $	As at October 31, 2013 $	As at October 31, 2012 $	Change 2014 %	Change 2013 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**308,887**	265,818	171,175	16.2	55.3
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**380,184**	403,468	370,291	(5.8)	9.0
Investments in ABCP	**—**	—	27,350	—	(100.0)
	689,071	669,286	568,816	3.0	17.7
Total assets	**1,375,030**	1,290,073	1,163,301	6.6	10.9
Debt (current and non-current)	**—**	—	—	—	—
Total debt[1]	**436,145**	406,350	441,805	7.3	(8.0)
Total net debt[1]	**127,258**	140,532	243,280	(9.4)	(42.2)

[1] SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

Transat is one of the largest integrated tour operators in the world. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them primarily in Canada, France, the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat offers destination services to Canada, Mexico, the Dominican Republic and Greece. Transat holds an interest in Caribbean Investments B.V. (operating under the Ocean Hotels banner), a hotel business which owns, operates or manages properties in Mexico, the Dominican Republic and Cuba.

VISION

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

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

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

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

For fiscal 2015, Transat has set the following objectives:

1. Transat remains committed under a cost reduction and unit margin improvement program, which it expects to generate $20 million in savings in fiscal 2015, compared with fiscal 2014. The Corporation aims to improve its winter results and maintain its summer profitability in fiscal 2015, in particular through improved efficiency.

2. Transat intends to develop new markets by launching new routes, entering new source markets, building out its existing source market offering and expanding its overall offering, including where applicable, by marketing third-party products.

3. Building on the successful launch of the Transat Travel banner as a Canadian distributor, Transat intends to improve its multi-channel distribution strategy, and particularly its online presence, to extend its consumer reach and enhance customer loyalty.

4. In fiscal 2015, Transat will begin structuring its sustainable development project to secure a certification for its tour operator and travel agency businesses.

REVIEW OF 2014 OBJECTIVES AND ACHIEVEMENTS

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

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

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

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

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

2. Shift toward a flexible fleet.

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

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

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

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

4. Refine our distribution strategy for enhanced customer proximity.

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

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

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

KEY PERFORMANCE DRIVERS

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

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

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

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

Our non-financial resources include:

Brand The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.

Structure Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.

Employees In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.

Supplier relationships We have exclusive access to certain hotels at sun destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

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

CONSOLIDATED OPERATIONS

REVENUES

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

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

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

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

OPERATING EXPENSES

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

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

COSTS OF PROVIDING TOURISM SERVICES

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

AIRCRAFT FUEL

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

SALARIES AND EMPLOYEE BENEFITS

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

COMMISSIONS

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

AIRCRAFT MAINTENANCE

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

AIRPORT AND NAVIGATION FEES

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

AIRCRAFT RENT

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

OTHER

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

DEPRECIATION AND AMORTIZATION

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

RESTRUCTURING CHARGE

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

OPERATING INCOME

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

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

GEOGRAPHIC AREAS

AMERICAS

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

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

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

EUROPE

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

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

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

OTHER EXPENSES AND REVENUES

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

FINANCING COSTS

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

FINANCING INCOME

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

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices. For the year, the fair value of derivative financial instruments used for aircraft fuel purchases was down $23.8 million compared with a $0.5 million decrease in fair value in fiscal 2013, in light of the recent drop in fuel prices.

FOREIGN EXCHANGE GAIN ON NON-CURRENT MONETARY ITEMS

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

GAIN ON INVESTMENTS IN ABCP

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

GAIN ON DISPOSAL OF A SUBSIDIARY

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

WRITE-OFF AND IMPAIRMENT OF GOODWILL

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

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

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

SHARE OF NET INCOME OF AN ASSOCIATE

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

INCOME TAXES

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues rose compared with the corresponding quarters. Average selling prices were higher, whereas total travellers declined for winter season and increased for the summer season. In terms of operating results, increases in average selling prices coupled with cost reduction and margin improvement initiatives were insufficient to offset the foreign exchange effect arising from the strength of the U.S. dollar, the euro and the pound sterling. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information

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

FOURTH-QUARTER HIGHLIGHTS

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

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

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

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

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

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

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

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

CASH FLOWS

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

OPERATING ACTIVITIES

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

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

INVESTING ACTIVITIES

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

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

FINANCING ACTIVITIES

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

CONSOLIDATED FINANCIAL POSITION

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

FINANCING

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

On November 14, 2014, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2019, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2014, all the financial ratios and criteria were met and the credit facility was undrawn.

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

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the consolidated financial statements. The Corporation did not report any obligations in the statements of financial position as at October 31, 2014 and October 31, 2013.

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	2014 $	2013 $
Guarantees		
Irrevocable letters of credit	**31,267**	21,850
Collateral security contracts	**1,361**	1,137
Operating leases		
Obligations under operating leases	**657,639**	632,804
	690,267	655,791
Agreements with suppliers	**246,056**	198,007
	936,323	853,798

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

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

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

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

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

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

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

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

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

DEBT LEVELS

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

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

SHARES ISSUED AND OUTSTANDING

As at October 31, 2014, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

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

STOCK OPTIONS

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

OTHER

FLEET

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

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

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

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

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

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

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

NON-CONTROLLING INTERESTS

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

EMPLOYEE FUTURE BENEFITS

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

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

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

TAXES

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

FINANCIAL INSTRUMENTS

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

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

MANAGEMENT OF FUEL PRICE RISK

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

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

CREDIT AND COUNTERPARTY RISK

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

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

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

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

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

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

LIQUIDITY RISK

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

INTEREST RATE RISK

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

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

RELATED PARTY TRANSACTIONS AND BALANCES

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

CHANGES IN ACCOUNTING POLICIES

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

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

IFRS 13, *FAIR VALUE MEASUREMENT*

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

IAS 19, *EMPLOYEE BENEFITS*

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

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

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

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

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of Adoption of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2017, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

RISKS AND UNCERTAINTIES

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

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

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

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

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

ECONOMIC AND GENERAL RISKS

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

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

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

COMPETITION RISKS

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

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

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

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

REPUTATION RISK

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

KEY SUPPLIES AND SUPPLIER RISKS

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

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

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

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

AVIATION RISKS

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

REGULATORY RISKS

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

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

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

HUMAN RESOURCE RISKS

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

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

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

INSURANCE COVERAGE RISKS

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

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

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

CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

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

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

OUTLOOK

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

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

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

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

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

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

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

(1) Total liabilities divided by total assets.
(2) Total equity divided by the number of outstanding shares.
(3) Net income (loss) divided by average equity.
(4) The consolidated statements of financial position items are as of November 1, 2010 and are reported under IFRS.