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, 2016, compared with the year ended October 31, 2015, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 14, 2016. 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, 2016 and Annual Information Form.

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

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

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 2017 objectives and continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues to increase and total travellers to remain stable compared with fiscal 2016.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2017.
- 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.
- The outlook whereby operating income for the winter may show improvement over last year.

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

The non-IFRS measures 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, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of a subsidiary, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of a subsidiary, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period, net of related taxes.
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 (described above) less cash and cash equivalents.

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)	2016 $	2015 $	2014 $
Operating income (loss)	(30,335)	54,791	36,401
Lump-sum payments related to collective agreements	7,263	—	—
Restructuring charge	6,562	—	6,387
Depreciation and amortization	50,038	45,817	43,581
Premium related to fuel-related derivatives and other derivatives matured during the year	(7,752)	—	—
Adjusted operating income	25,776	100,608	86,369
Income (loss) before income tax expense	(97,374)	61,732	21,508
Lump-sum payments related to collective agreements	7,263	—	—
Restructuring charge	6,562	—	6,387
Change in fair value of fuel-related derivatives and other derivatives	(6,901)	1,391	21,978
Loss on disposal of a subsidiary	843	—	—
Asset impairment	79,708	—	369
Premium related to fuel-related derivatives and other derivatives matured during the year	(7,752)	—	—
Adjusted pre-tax income (loss)	(17,651)	63,123	50,242
Net income (loss) attributable to shareholders	(41,748)	42,565	22,875
Net loss (income) from discontinued operations	(49,772)	2,355	(6,282)
Lump-sum payments related to collective agreements	7,263	—	—
Restructuring charge	6,562	—	6,387
Change in fair value of fuel-related derivatives and other derivatives	(6,901)	1,391	21,978
Loss on disposal of a subsidiary	843	—	—
Asset impairment	79,708	—	369
Premium related to fuel-related derivatives and other derivatives matured during the year	(7,752)	—	—
Tax impact	(3,745)	(397)	(7,566)
Adjusted net income (loss)	(15,542)	45,914	37,761
Adjusted net income (loss)	(15,542)	45,914	37,761
Adjusted weighted average number of outstanding shares used in computing earnings per share	36,899	38,558	39,046
Adjusted net income (loss) per share	(0.42)	1.19	0.97

	October 31, 2016 $	October 31, 2015 $	October 31, 2014 $
Aircraft rent	135,813	98,859	87,229
Multiple	5	5	5
Adjusted operating leases	679,065	494,295	436,145
Long-term debt	—	—	—
Adjusted operating leases	679,065	494,295	436,145
Total debt	679,065	494,295	436,145
Total debt	679,065	494,295	436,145
Cash and cash equivalents	(363,664)	(336,423)	(308,887)
Total net debt	315,401	157,872	127,258

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2016 $	2015 $	2014 $	Change 2016 %	Change 2015 %
Consolidated Statements of Income (Loss)					
Revenues	2,889,646	2,897,950	2,996,106	(0.3)	(3.3)
Adjusted operating income(1)	25,776	100,608	86,369	(74.4)	16.5
Net income (loss) attributable to shareholders	(41,748)	42,565	22,875	(198.1)	86.1
Basic earnings (loss) per share	(1.13)	1.11	1.51	(201.8)	(26.5)
Diluted earnings (loss) per share	(1.13)	1.10	1.51	(202.7)	(27.2)
Adjusted net income (loss) (1)	(15,542)	45,914	37,761	(133.9)	21.6
Adjusted net income (loss) per share(1)	(0.42)	1.19	0.97	(135.3)	22.7
Consolidated Statements of Cash Flows					
Operating activities	43,561	108,992	90,009	(60.0)	21.1
Investing activities	5,093	(53,854)	(52,683)	109.5	(2.2)
Financing activities	(9,823)	(12,672)	191	22.5	(6,734.6)
Effect of exchange rate changes on cash and cash equivalents	(12,132)	3,402	(2,262)	(456.6)	250.4
Net change in cash and cash equivalents	26,699	45,868	35,255	(41.8)	30.1

	As at October 31, 2016 $	As at October 31, 2015 $	As at October 31, 2014 $	Change 2016 %	Change 2015 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	363,664	336,423	308,887	8.1	8.9
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	338,581	412,099	380,184	(17.8)	8.4
	702,245	748,522	689,071	(6.2)	8.6
Total assets	1,277,420	1,513,764	1,375,030	(15.6)	10.1
Debt (current and non-current)	—	—	—	—	—
Total debt(1)	679,065	494,295	436,145	37.4	13.3
Total net debt(1)	315,401	157,872	127,258	99.8	24.1

1 SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

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

VISION

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

STRATEGY

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

For fiscal 2017, Transat has set the following objectives:

- Increase the competitiveness of our distribution, notably by reinforcing our product offering and network, continuing to increase our controlled sales and client intimacy and optimizing our revenue management.
- Continue to improve Air Transat's operational efficiency and plan for the optimization and renewal of our fleet.
- Increase our presence in hotels and acquire more hotel management competencies.
- Pursue our cost reduction t and unit margin improvement efforts.
- Continue working on employee engagement.

REVIEW OF 2016 OBJECTIVES AND ACHIEVEMENTS

The main objectives and achievements for fiscal 2016 were as follows:

Implement an integrated distribution and brand strategy, including an enhanced online shopping experience, higher controlled sales, deployment of the Transat brand and finalization of the required technological projects.

Transat has made a major step this year in the implementation of an integrated distribution and brand strategy by eliminating the Nolitours and Tours Mont-Royal brands and focusing all of our offering under the brands Transat and Air Transat. The conversion of Transat-owned travel agencies to the Transat Travel banner has also been finalized, with an additional 29 agencies converted this year, to reach a total of 49 agencies under the new banner.

The Corporation has deployed a 'best of breed' website offering all of its products, thus vastly improving the online shopping experience especially through a reduction of the response time.

The direct sales made through the web and call centre have increased from 14.5% to 16.5% of the total sales, with a more modest increase of the total controlled sales from 35% to 36%.

Increase capacity and improve the competitiveness of our sun destination offering, strengthen our presence and increase our capacity in the transatlantic market.

Transat has increased its capacity on the sun market in the winter by 4.6%, to 1.043 million seats in the winter and that of the transatlantic market by 7.6% to 883,000 seats in the summer.

The Corporation has improved the regularity of flight times to its annual destinations, Paris and London. It has also added connecting flights (between Montréal and Toronto, from Québec to Montréal and from Vancouver and Calgary to Toronto), which allows to offer more destinations from each of those cities.

Reduce winter financial losses and maintain summer profitability, in particular by continuing our cost reduction and unit margin improvement program, with gains of $30 million expected in 2016.

The cost and margin initiatives have delivered the target gain of $30 million in 2016.

However, the Zika epidemic, combined with a threat of strike from pilots and a weak Canadian dollar, have constituted a strong headwind in the winter, which has prevented us from reducing our financial losses.

Summer profitability has been in the norm of Transat history, though reduced when compared to the record levels of the past few years, in a market where capacity has increased by 15% year on year.

Enter a new market via acquisition and optimize our hotel strategy, particularly through our interest in Ocean Hotels.

We have been active in reviewing acquisitions opportunities throughout the year and will continue to do so moving forward. Our hotel joint venture, Ocean Hotels, has acquired land in Jamaica and our plans to increase our number of rooms are well under way.

Simplify the organizational structure and optimize the succession management plan.

We have simplified our international network by selling our French and Greek subsidiaries, Transat France and Tourgreece, to TUI, while closing our office in Amsterdam and subcontracting our sales in the Netherlands, Belgium, Germany and Switzerland.

We have also simplified our Canadian operations and product offering by regrouping our call centres in Montréal and limiting our cruise products to a packaged offering.

We have streamlined our succession management plan and have continued developing our internal talent.

Obtain Travelife Partner status.

In May 2016, Transat became the first tour operator in North America to earn Travelife Partner status in recognition of its commitment to sustainable development. That exercise enabled us to map out a new action plan, broken down into seven areas. Implementing it should allow us to fulfil the final step in the certification process within two years.

KEY PERFORMANCE DRIVERS

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

ADJUSTED OPERATING INCOME	Obtain an adjusted operating income margin higher than 3% of revenues.
MARKET SHARE	Consolidate or increase market share in all regions in Canada and in Europe.
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 \$363.7 million as at October 31, 2016. 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 totalling approximately \$50.0 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	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 25 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2017 objectives and continue building on its long-term strategies.

DISCONTINUED OPERATIONS

On October 31, 2016, the Corporation completed the sale of its tour operating businesses in France (Transat France) and Greece (Tourgreece) for an amount of €63.4 million ($93.3 million) to TUI AG, a multinational tourism company. The price could be adjusted at the final closing of accounts and completion of the audit within 90 business days following the sale, due to a working capital adjustment. European competition authorities approved the transaction on October 21, 2016.

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

A gain on disposal of $49.7 million, net of transaction costs of $7.1 million, was also recognized in the consolidated statement of income (loss) and the proceeds of disposal amounting to $93.3 million, net of cash disposed of, are shown in the consolidated statement of cash flows. The gain on disposal and the net consideration received are detailed as follows:

	Consolidated statements of income $	Consolidated statements of cash flows $
Selling price	93,254	93,254
Transaction costs	(7,073)	(2,228)
Cash and cash equivalents disposed of	(22,978)	(22,978)
Net assets disposed of (excluding cash and cash equivalents)	(13,511)	—
	49,692	68,048

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

CONSOLIDATED OPERATIONS

(in thousands of dollars)	2016 $	2015 $	2014 $	Change %	%
Continuing operations					
Revenues	2,889,646	2,897,950	2,996,106	(0.3)	(3.3)
Operating expenses					
Costs of providing tourism services	1,309,430	1,260,250	1,402,230	3.9	(10.1)
Salaries and employee benefits	346,899	340,280	327,026	1.9	4.1
Aircraft fuel	329,784	440,804	462,942	(25.2)	(4.8)
Aircraft maintenance	178,317	146,006	128,892	22.1	13.3
Aircraft rent	135,813	98,859	87,229	37.4	13.3
Airport and navigation fees	128,695	117,862	119,977	9.2	(1.8)
Commissions	92,018	95,170	105,440	(3.3)	(9.7)
Other	341,504	305,156	284,095	11.9	7.4
Share of net income of an associate	(6,342)	(7,045)	(8,094)	(10.0)	(13.0)
Depreciation and amortization	50,038	45,817	43,581	9.2	5.1
Special items	13,825	—	6,387	N/A	(100.0)
Operating expenses	2,919,981	2,843,159	2,959,705	2.7	(3.9)
Operating income (loss)	(30,335)	54,791	36,401	(155.4)	50.5
Financing costs	1,669	1,775	1,541	(6.0)	15.2
Financing income	(6,996)	(7,576)	(7,872)	(7.7)	(3.8)
Change in fair value of fuel-related derivatives and other derivatives	(6,901)	1,391	21,978	(596.1)	(93.7)
Foreign exchange gain on non-current monetary items	(1,284)	(2,531)	(1,123)	(49.3)	125.4
Loss on disposal of a subsidiary	843	—	—	N/A	—
Asset impairment	79,708	—	369	N/A	(100.0)
Income (loss) before income tax expense	(97,374)	61,732	21,508	(257.7)	187.0
Income taxes (recovery)					
Current	(17,188)	14,041	11,924	(222.4)	17.8
Deferred	6,345	(1,628)	(10,200)	(489.7)	(84.0)
	(10,843)	12,413	1,724	(187.4)	620.0
Net income (loss) from continuing operations	(86,531)	49,319	19,784	(275.5)	149.3
Discontinued operations					
Net income (loss) from discontinued operations	49,772	(2,355)	6,282	(2,213.5)	(137.5)
Net income (loss) for the year	(36,759)	46,964	26,066	(178.3)	80.2
Net income (loss) attributable to:					
Shareholders	(41,748)	42,565	22,875	(198.1)	86.1
Non-controlling interests	4,989	4,399	3,191	13.4	37.9
	(36,759)	46,964	26,066	(178.3)	80.2
Earnings (loss) per share from continuing operations					
Basic	(2.48)	1.17	0.43	(312.0)	172.1
Diluted	(2.48)	1.16	0.42	(313.8)	176.2
Earnings (loss) per share					
Basic	(1.13)	1.11	0.59	(201.8)	88.1
Diluted	(1.13)	1.10	0.59	(202.7)	86.4

REVENUES

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, 2016, our revenues were down $8.3 million (0.3%), owing to our summer season during which average selling prices and load factors decreased following the 14% increase in overall capacity in the transatlantic market, among other factors. Lower fuel prices also contributed to the decrease in average selling prices. During the summer, total travellers increased by 5.1% across all our markets compared with 2015. The lower revenues during the summer season was partly offset by higher revenues during our winter season which saw an overall 5.9% increase in total travellers across all our markets as well as higher average selling prices for package-type products to sun destinations, our main market for the period. Overall, during the year, total travellers were up 5.5%.

For 2017, we expect revenues to increase compared with 2016 with total travellers remaining stable.

OPERATING EXPENSES

Our total operating expenses increased $76.8 million (2.7%) during the year compared with 2015. The increase resulted primarily from our winter season during which the number of total travellers increased, driven by our decision to increase by 4.5% our sun destination product offering to sun destinations, our main market for the period, and the weakening of the dollar against the U.S. dollar. Although capacity increased by 6.2% during the summer in our transatlantic segment, our main market for the period, operating expenses remained stable.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. The $49.2 million (3.9%) increase resulted mainly from the dollar's weakening against the U.S. dollar and the increase in our sun destination product offering during the winter season, offset by lower hotel room costs. Additions to our Boeing 737 fleet compared with 2015 (seven aircraft during winter and three during summer) also contributed to the decline in our flight purchases from air carriers other than Air Transat.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits rose $6.6 million (1.9%) to $346.9 million for the year ended October 31, 2016. The increase resulted primarily from the hiring of pilots, cabin crew and mechanics following the addition of Boeing 737s to our aircraft fleet, and annual salary reviews.

AIRCRAFT FUEL

Aircraft fuel expense was down $111.0 million (25.2%) for the year, due to lower fuel price indicators in financial markets. However, the Corporation was unable to fully benefit from this decrease due to the fuel price hedging program it has in place. The dollar's weakening against the U.S. dollar (fuel is paid mainly in U.S. dollars) and the expansion of our aircraft fleet compared with 2015 also contributed to mitigate the decrease in aircraft fuel prices.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Compared with 2015, these expenses rose $32.3 million (22.1%) during the year. This increase was largely due to expansion in our aircraft fleet compared with 2015 and to the dollar's weakening against the U.S. dollar.

AIRCRAFT RENT

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

During winter 2016, Air Transat's permanent fleet consisted of twelve Airbus A330s, nine Airbus A310s and four Boeing 737-800s. For its flexible fleet, the Corporation had seasonal lease agreements for fifteen Boeing 737s compared with fourteen during winter 2015. During summer 2016, Air Transat's permanent fleet consisted of fourteen Airbus A330s, nine Airbus A310s and seven Boeing 737-800s. Of this number, two Airbus A330s and three Boeing 737-800s were commissioned during summer 2016.

The $37.0 million (37.4%) increase in aircraft rent during the year resulted from the addition of aircraft and the weakening of the dollar against the U.S. dollar.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees rose $10.8 million (9.2%) compared with 2015. The increase was due to expansion in our aircraft fleet compared with 2015 and the dollar's weakening against the U.S. dollar.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commissions amounted to $92.0 million, down $3.2 million (3.3%) compared with fiscal 2015. As a percentage of revenues, commissions decreased and accounted for 3.2% of our revenues for the year compared with 3.3% in 2015. The decrease was attributable to the increase in revenues on which no commissions are calculated.

OTHER

Other expenses rose $36.3 million (11.9%) during the year, compared with 2015. The increase resulted primarily from a rise in other air costs following the expansion of our fleet compared with 2015.

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 B.V. ["CIBV"]. Our share of net income of an associate for the current fiscal year totalled $6.3 million compared with $7.0 million for 2015. The decrease in our share of net income was driven by a foreign exchange loss, offset by an improved operating profitability.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes the depreciation of property, plant and equipment, and the amortization of intangible assets subject to amortization and deferred incentive benefits. Depreciation and amortization expense rose $4.2 million during fiscal 2015. The increase resulted from additions and improvements to our aircraft fleet.

SPECIAL ITEMS

Special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the year ended October 31, 2016, lump-sum payments in the amount of $7.3 million were recognized in connection with the renewal of the collective agreement with cabin crews, in addition to a restructuring charge of $6.6 million, comprising mainly termination benefits related to the closure of call centres and a tour operator in the Netherlands.

OPERATING RESULTS

In light of the foregoing, the Corporation recorded an operating loss of $30.3 million (1.0%) for the year compared with operating income of $54.8 million (1.9%) for the previous year. Operating results by season are summarized as follows:

				Change	
	2016	2015	2014	2016	2015
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	1,613,944	1,559,102	1,675,704	3.5	(7.0)
Operating expenses	1,668,187	1,596,641	1,698,528	4.5	(6.0)
Operating loss	(54,243)	(37,539)	(22,824)	(44.5)	(64.5)
Operating loss (%)	(3.4)	(2.4)	(1.4)	(39.6)	(76.8)
Summer season					
Revenues	1,275,702	1,338,848	1,320,402	(4.7)	1.4
Operating expenses	1,251,794	1,246,518	1,261,177	0.4	(1.2)
Operating income	23,908	92,330	59,225	(74.1)	55.9
Operating income (%)	1.9	6.9	4.5	(72.8)	53.7

We recognized an operating loss for the winter season amounting to $54.2 million (3.4%) compared with an operating loss of $37.5 million (2.4%) in 2015. The higher operating loss was mainly attributable to the weakening of the dollar against the U.S. dollar, which, combined with the decrease in fuel prices, led to a rise in operating expenses of $49.0 million for sun packages. Nearly 60% of this increase was offset by our cost reduction initiatives and the increase in average selling prices for our sun packages. Lastly, consumer fears about the Zika virus, the risk of strike action by Air Transat pilots and a slowdown in demand in the West precluded an improvement in profitability.

During the summer, the Corporation generated operating income of $23.9 million (1.9%) compared with $92.3 million (6.9%) for the previous year. The decline in operating income resulted primarily from decreases in load factors and average selling prices on the transatlantic market following higher overall capacity, partly offset by lower fuel costs, which, combined with the weakening of the dollar against the U.S. dollar, led to a $28.3 million decrease in operating expenses in the transatlantic market. The special items also contributed to the deterioration in operating results.

During the winter season, the Corporation reported an adjusted operating loss of $36.7 million (2.3%) compared with $15.0 million (1.0%) in fiscal 2015. For the summer season, we recorded adjusted net income of $62.5 million (4.9%) compared with $115.6 million (8.6%) for 2015. Overall, for the fiscal year, we reported adjusted operating income of $25.8 million (0.9%) compared with $100.6 million (3.5%) in 2015.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs were down $0.1 million in 2016 compared with 2015.

FINANCING INCOME

Financing income during the year was down $0.6 million from 2015, owing primarily to lower interest rates.

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

The change in fair value of fuel-related derivatives and other derivatives represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the year, the fair value of fuel-related derivatives and other derivatives rose $6.9 million, compared with a $1.4 million decrease in fair value in 2015. The increase resulted from the favourable change in fuel price indices relating to outstanding derivatives and to matured foreign exchange derivatives, partially offset by the unfavourable change in the dollar compared with the U.S. dollar relating to outstanding foreign exchange derivatives.

FOREIGN EXCHANGE GAIN ON NON-CURRENT MONETARY ITEMS

The foreign exchange gain on non-current monetary items, amounting to $1.3 million for the year compared with $2.5 million in 2015, resulted mainly from a favourable foreign exchange effect on our foreign currency deposits.

LOSS ON DISPOSAL OF A SUBSIDIARY

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

IMPAIRMENT OF ASSETS

During the fiscal year ended October 31, 2016, the Corporation recognized a $79.7 million asset impairment charge consisting of $15.8 million in impairment of trademarks and $63.9 million in impairment of goodwill.

The accounting policies adopted by the Corporation require that intangible assets with indefinite lives be tested for impairment annually on April 30. Accordingly, the Corporation performed an impairment test on April 30, 2016 to determine if the carrying amounts of the cash-generating units ("CGUs"), for the purposes of goodwill and trademarks, were higher than their recoverable amounts. After performing the test, the Corporation recognized a $15.8 million asset impairment charge in respect of its trademarks. The impairment resulted from the implementation of an integrated distribution and brand strategy, including the introduction of a new reservation platform which, for European travellers, favours the purchasing of seats directly from our Air Transat subsidiary instead of through our European subsidiaries, and the greater use of the Transat brand while decreasing the use of certain trademarks held by the Corporation.

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the recent deterioration in results of the summer season have led management to review its assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63.9 million, representing the balance of goodwill of its sole CGU. As at October 31, 2016, reasonable changes in the assumptions used in goodwill impairment testing would not lead to an additional impairment charge related to the assets.

In 2014, following the closure of its French Affair division, the Corporation wrote off $0.4 million in related goodwill.

INCOME TAXES

For the year ended October 31, 2016, income tax recovery amounted to $10.8 million compared with an income tax expense of $12.4 million for the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 11.1% for the fiscal year ended October 31, 2016 and 20.0% for the preceding fiscal year. The change in tax rates between fiscal 2016 and 2015 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

NET INCOME (LOSS) FROM CONTINUING OPERATIONS

In light of the items discussed in the Consolidated operations section, our net loss from continuing operations for the year ended October 31, 2016 amounted to $86.5 million, compared with net income from continuing operations of $49.3 million in 2015.

For the year ended October 31, 2016, our adjusted net loss amounted to $15.5 million ($0.42 per share) compared with adjusted net income of $45.9 million ($1.19 per share) in 2015.

NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

As mentioned in the Discontinued operations section, for the year ended October 31, 2016 and for the previous year, the net income of our subsidiaries Transat France and Tourgreece, which is generated from sales made to clients in Europe and Canada, is reported as net income (loss) from discontinued operations.

For the fiscal year, revenues of our Transat France and Tourgreece subsidiaries were up $17.4 million (2.6%). The increase resulted from a 3.5% increase in the average selling price, partially offset by a 2.9% decrease in total travellers. Our discontinued operations reported a net income of $0.4 million (0.1%) related to operating activities, compared with a net loss of $2.4 million (0.4%) in 2015. The increase in net income resulted primarily from higher margins on tour and package revenues, particularly in the Caribbean.

For the year ended October 31, 2016, discontinued operations generated net income of $49.8 million, compared with a net loss of $2.4 million (0.4%) in 2015. The increase in net income is due primarily to the $49.7 million gain on disposal realized on the sale of the Transat France and Tourgreece subsidiaries for a total cash consideration of $93.3 million.

NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders amounted to $41.8 million or $1.13 per share (basic and diluted), compared with net income attributable to shareholders of $42.6 million or $1.11 per share (basic) and $1.10 per share (diluted) for the previous fiscal year. The weighted average number of outstanding shares used to compute basic per share amounts was 36,899,000 for fiscal 2016 and 38,442,000 for fiscal 2015 (36,899,000 and 38,558,000, respectively, for diluted loss per share).

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Compared with the corresponding quarters of the previous year, quarterly revenues were higher in the winter season, yet lower in the summer season. For the winter season (Q1 and Q2), total travellers increased while average selling prices decreased. For the summer season (Q3 and Q4), average selling prices were lower in the transatlantic market , our main market for the period, owing to the decline in fuel prices and a 14% rise in overall capacity in the transatlantic market, while there was an increase in total travellers compared with 2015. In terms of operating results, increases in average selling prices for sun packages in winter combined with cost reduction and margin improvement initiatives were not sufficient to offset the foreign exchange effect on our costs arising from the strength of the U.S. dollar. For the summer season, the decline in average selling prices and load factors were only partially offset by lower fuel prices. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information (in thousands of dollars, except per share data)	Q1-2015 $	Q2-2015 $	Q3-2015 $	Q4-2015 $	Q1-2016 $	Q2-2016 $	Q3-2016 $	Q4-2016 $
Revenues	683,951	875,151	704,844	634,004	725,723	888,221	663,591	612,111
Aircraft rent	23,167	24,684	24,702	26,306	32,275	38,749	31,946	32,843
Operating income (loss)	(33,500)	(4,039)	34,480	57,850	(40,542)	(13,701)	(2,990)	26,898
Adjusted operating income (loss)	(22,746)	7,751	44,798	70,805	(31,683)	(5,002)	15,964	46,497
Net income (loss)	(63,088)	26,267	13,820	69,965	(59,803)	(23,817)	10,548	36,313
Net income (loss) attributable to shareholders	(64,314)	24,704	13,067	69,108	(61,155)	(24,952)	9,439	34,920
Basic earnings (loss) per share	(1.66)	0.64	0.34	1.82	(1.64)	(0.68)	0.26	0.95
Diluted earnings (loss) per share	(1.66)	0.64	0.34	1.82	(1.64)	(0.68)	0.26	0.95
Net income (loss) from continuing operations attributable to shareholders	(53,607)	26,434	13,058	59,035	(53,394)	(25,333)	7,704	(20,497)
Basic earnings (loss) per share from continuing operations	(1.38)	0.68	0.34	1.56	(1.44)	(0.69)	0.21	(0.56)
Diluted earnings (loss) per share from continuing operations	(1.38)	0.68	0.34	1.55	(1.44)	(0.69)	0.21	(0.56)
Adjusted net income (loss)	(22,882)	(2,738)	26,886	44,648	(30,380)	(11,868)	2,523	24,183
Adjusted net income (loss) per share	(0.59)	(0.07)	0.70	1.18	(0.82)	(0.32)	0.07	0.66

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $612.1 million in revenues, down $21.9 million (3.5%) from $634.0 million for the corresponding period of 2015. This decrease is due primarily to the 8.9% decline in average selling prices in the transatlantic market, our main market for the period, while total travellers increased by 3.4%. In this market, the Corporation increased its capacity by 7.4% compared with 2015 while overall capacity increased by nearly 14%. For sun destinations, average selling prices were up 3.7%, while our capacity and total travellers increased by 5.0% and 2.2%, respectively, compared with 2015. Our continuing operations generated operating income of $26.9 million, which includes a restructuring charge of $5.9 million compared with $57.9 million in 2015. The decline in operating income resulted primarily from decreases in load factors and average selling prices, which were not fully offset by lower fuel prices and cost reduction efforts. The lower fuel costs combined with the dollar's weakening against the U.S. dollar, led to a $7.5 million decrease in operating expenses across our markets.

Compared with 2015, revenues from discontinued operations were down $17.8 million (8.7%). The decline in revenues resulted from a 4.1% decrease in total travellers, particularly in Tunisia and Turkey due to their geopolitical situations, and a 1.7% drop in average selling prices. Operating income from discontinued operations also decreased, to $8.1 million from $14.4 million in fiscal 2015. Net income from discontinued operations amounted to $55.4 million compared with $10.1 million in 2015. The significant improvement in net income from discontinued operations resulted from the $49.7 million gain on the disposal of subsidiaries Transat France and Tourgreece.

The Corporation recorded fourth-quarter net income amounting to $35.9 million, compared with $70.0 million in 2015. Net income attributable to shareholders amounted to $34.9 million ($0.95 per share basic and diluted) compared with $69.1 million ($1.82 per share basic and diluted) in 2015.

The Corporation's fourth-quarter adjusted net income amounted to $24.2 million ($0.66 per share) compared with $44.6 million ($1.18 per share) in 2015.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2016, cash and cash equivalents totalled $363.7 million compared with $336.4 million as at October 31, 2015. Cash and cash equivalents in trust or otherwise reserved amounted to $338.6 million as at the end of fiscal 2016, compared with $412.1 million as at the end of fiscal 2015. The Corporation's statement of financial position reflected $192.5 million in working capital, for a ratio of 1.28, compared with $80.4 million in working capital and a ratio of 1.09 as at October 31, 2015.

Total assets decreased by $236.3 million (15.6%) from $1,513.8 million as at October 31, 2015 to $1,277.4 million as at October 31, 2016. The decrease is mainly attributable to the disposal of the Transat France and Tourgreece subsidiaries, the write-off of goodwill and the $75.1 million decrease in cash and cash equivalents in trust or otherwise reserved, following the decline in deposits due to the restructuring of the cruise operations. Equity decreased $72.9 million, from $537.3 million as at October 31, 2015 to $464.4 million as at October 31, 2016. This decrease resulted mainly from the $36.8 million net loss, the $13.7 million foreign exchange loss on translation of the financial statements of foreign subsidiaries, the $12.5 million change in fair value of foreign exchange derivatives and the repurchase of shares totalling $9.4 million.

CASH FLOWS

				Change	
	2016	2015	2014	2016	2015
(in thousands of dollars)	$	$	$	%	%
Cash flows related to operating activities	43,561	108,992	90,009	(60.0)	21.1
Cash flows related to investing activities	5,093	(53,854)	(52,683)	109.5	(2.2)
Cash flows related to financing activities	(9,823)	(12,672)	191	22.5	(6,734.6)
Effect of exchange rate changes on cash	(12,132)	3,402	(2,262)	(456.6)	250.4
Net change in cash and cash equivalents related to continuing operations	26,699	45,868	35,255	(41.8)	30.1
Net cash flows related to discontinued operations	542	(18,332)	7,814	103.0	(334.6)

OPERATING ACTIVITIES

Operating activities generated $43.6 million in cash flows, compared with $109.0 million in 2015. This $65.4 million decline during the fiscal year resulted primarily from a $50.1 million decrease in profitability and a $15.9 million decrease in the net change in the provision for overhaul of leased aircraft.

We expect to continue to generate positive cash flows from our operating activities in fiscal 2017.

INVESTING ACTIVITIES

Cash flows generated by investing activities totalled $5.1 million for the current year, up $58.9 million from fiscal 2015. The increase resulted from proceeds of $68.0 million, net of cash ceded, from the disposal of subsidiaries, partially offset by a $15.6 million increase in additions to property, plant and equipment and other intangible assets. In 2016, our acquisitions totalled $70.8 million and consisted primarily of aircraft improvements resulting from the growth in our aircraft fleet and computer hardware and software.

In fiscal 2017, additions to property, plant and equipment and intangible assets could amount to approximately $50.0 million.

FINANCING ACTIVITIES

Cash flows used in financing activities totalled $9.8 million, compared with $12.7 million in in 2015. Lower utilization of cash flows than in fiscal 2015 resulted primarily from the $7.1 million in share repurchases during the year, compared with a total of $9.4 million in share repurchases for the previous fiscal year.

CASH FLOWS RELATED TO DISCONTINUED OPERATIONS

Discontinued operations generated cash flows totalling $0.5 million, compared with $18.3 million in cash flows used in 2015. The higher cash flows generated by discontinued operations resulted primarily from the $9.6 million increase in net change in other assets and liabilities related to operations and a $5.4 million increase in profitability.

CONSOLIDATED FINANCIAL POSITION

	October 31, 2016 $	October 31, 2015 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	363,664	336,423	27,241	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	338,581	412,099	(73,518)	Decrease in funds received from clients to be held in trust or otherwise reserved
Trade and other receivables	105,003	129,223	(24,220)	Sale of tour operators in France and Greece
Income taxes receivable	39,858	16,900	22,958	Increase in income taxes recoverable given deductible losses
Inventories	12,354	9,079	3,275	Expansion of aircraft fleet
Prepaid expenses	58,657	80,318	(21,661)	Sale of tour operators in France and Greece
Derivative financial instruments	18,517	25,573	(7,056)	Foreign currency derivatives matured during the year
Deposits	42,044	58,901	(16,857)	Sale of tour operators in France and Greece
Deferred tax assets	15,055	32,939	(17,884)	Sale of tour operators in France and Greece and decrease in deferred tax related to derivatives
Property, plant and equipment	134,959	133,502	1,457	Additions during the year, partially offset by depreciation
Goodwill	—	99,527	(99,527)	Impairment of goodwill and sale of tour operators in France and Greece
Intangible assets	50,327	79,863	(29,536)	Sale of tour operators in France and Greece, amortization and impairment
Investment in an associate	97,668	97,897	(229)	Share of net income of an associate and foreign exchange difference, partially offset by dividend received
Other assets	733	1,520	(787)	No significant difference
Liabilities				
Trade and other payables	247,795	355,656	(107,861)	Sale of tour operators in France and Greece
Provision for overhaul of leased aircraft	40,861	42,962	(2,101)	Impact of maintenance schedule, partially offset by additions to aircraft fleet
Income taxes payable	976	1,431	(455)	No significant difference
Customer deposits and deferred revenues	409,045	489,622	(80,577)	Sale of tour operators in France and Greece and restructuring of cruise operations
Derivative financial instruments	21,358	23,203	(1,845)	Favourable change in fuel prices and unfavourable change in the dollar compared with U.S. currency relating to outstanding forward contracts
Other liabilities	88,011	52,026	35,985	Increase in non-current non-controlling interests and deferred incentive benefits
Deferred tax liabilities	4,988	11,612	(6,624)	Decrease in deferred tax related to derivative financial instruments
Equity				
Share capital	214,250	218,134	(3,884)	Repurchase of shares, net of shares issued from treasury
Share-based payment reserve	17,849	17,105	744	Share-based payment expense, net of options exercised
Retained earnings	218,821	263,812	(44,991)	Net loss
Unrealized gain on cash flow hedges	2,211	14,960	(12,749)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	11,255	23,241	(11,986)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

FINANCING

As at December 14, 2016, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

On February 19, 2016, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2020, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2016, all the financial ratios and criteria were met and the credit facility was undrawn.

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 and others in the notes to the financial statements. The Corporation did not report any obligations in the statements of financial position as at October 31, 2016 and October 31, 2015.

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

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

Off-balance sheet arrangements that can be estimated amounted to approximately $820.1 million as at October 31, 2016 ($998.6 million as at October 31, 2015), and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	2016 $	2015 $
Guarantees		
Irrevocable letters of credit	17,723	36,838
Collateral security contracts	721	1,490
Operating leases		
Obligations under operating leases	691,841	675,385
	710,285	713,713
Agreements with suppliers	109,845	284,878
	820,130	998,591

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 in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2016, $66.2 million had been drawn down, of which $46.5 million was to insure the benefits to participants under senior executive defined benefit pension agreements; such irrevocable letters of credit are held by a third-party trustee. In the event of a change of control, the irrevocable letters of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

In addition, the Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2016, $17.7 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £10.7 million [$17.4 million], which has been fully drawn down.

As at October 31, 2016, off-balance sheet arrangements were down $178.5 million. The decline resulted primarily from the disposal of subsidiaries Transat France and Tourgreece, which had significant agreements with suppliers, and repayments made during the year, and was offset by the agreements signed during the second quarter to lease two Airbus A330s and three Boeing 737-800s.

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	2017	2018	2019	2020	2021	2022 and beyond	Total
Year ending October 31	$	$	$	$	$	$	$
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	140,611	138,613	110,697	55,799	37,895	44,199	527,814
Leases (other)	28,364	21,742	19,394	16,649	14,528	63,350	164,027
Agreements with suppliers and other obligations	110,692	2,376	2,385	2,372	2,367	30,053	150,245
	279,667	162,731	132,476	74,820	54,790	137,602	842,086

DEBT LEVELS

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

The Corporation's total debt increased $184.8 million to $679.1 million compared with 2015, owing primarily to the addition of Boeing 737s and Airbus A330s to our aircraft fleet.

Total net debt increased $157.5 million from $157.9 million as at October 31, 2015 to $315.4 million as at October 31, 2016. The increase in total net debt results from the increase in total debt, partially offset by higher cash and cash equivalents balances than in 2015.

OUTSTANDING SHARES

As at October 31, 2016, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 9, 2016, there were 36,893,278 total voting shares outstanding.

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

STOCK OPTIONS

As at December 9, 2016, there were a total of 2,611,891 stock options outstanding, 2,400,323 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of fourteen Airbus A330s (332, 345 or 375 seats), nine Airbus A310s (249 seats) and seven Boeing 737-800s (189 seats). Of this number, two Airbus A330s and three Boeing 737-800s were commissioned in summer 2016.

The Corporation also had lease agreements, during the 2016 winter season, for thirteen Boeing 737-800s (189 seats) and two Boeing 737-700 (149 seats). Under current agreements, thirteen Boeing 737s will be added to the fleet for the 2017 winter season.

RENEWAL OF COLLECTIVE AGREEMENTS

The agreement-in-principle between Air Transat and the pilots' union to renew the collective agreement which expired on April 30, 2015 was approved by the pilots on March 22, 2016. The five-year work contract is now in force, retroactive to April 30, 2015.

The agreement-in-principle between Air Transat and the cabin crew union to renew the collective agreement was approved by our cabin crews on July 23, 2016. The six-year work contract is now in force, retroactive to November 1, 2015.

NORMAL COURSE ISSUER BID

Pursuant to its normal course issuer bid approved on April 10, 2015, the Corporation was authorized to purchase for cancellation up to a maximum of 2,274,921 Class A Variable Voting Shares and Class B Voting Shares, representing approximately 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares.

The normal course issuer bid was designed to allow the Corporation proper utilization, depending on the circumstances and in a wise manner, of a portion of the Corporation's excess cash.

Purchases under the Corporation's normal course issuer bid were made on the open market through the TSX in accordance with its policy on normal course issuer bids. The price paid by the Corporation for repurchased shares was the market price at the time of acquisition plus brokerage fees, where applicable. Purchases began as of April 15, 2015 and terminated on March 4, 2016.

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; the Corporation repurchased a total of 2,274,921 Class B Voting Shares as of March 4, 2016, for a total cash consideration of $16.5 million. During the year ended October 31, 2016, the Corporation repurchased a total of 978,831 Class B Voting Shares for a cash consideration of $7.1 million.

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

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 its annual impairment test as at April 30, 2016 to determine whether the carrying amount of CGUs was higher than their recoverable amount. No impairment of goodwill was identified by the Corporation as at that date.

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

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

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

INTANGIBLE ASSETS

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

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

Following the introduction of our new reservation platform which, for European travellers, favours the purchasing of seats directly from Air Transat instead of through our U.K. subsidiary, the Corporation concluded that the recoverable amount of its Canadian Affair trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $9.7 million.

Implementation of the Corporation's integrated strategy to further expand the Transat brand resulted in the discontinuation of its Vacances Tours Mont-Royal ("TMR") brand, which the Corporation uses for the sale of sun packages outbound from Canada. As this brand is no longer used, the Corporation has recorded an impairment charge of $4.5 million, which represents its carrying amount.

Also as part of the implementation of the Corporation's distribution and brand strategy aiming to further expand the Transat brand, the Corporation is currently changing its wholly owned Marlin Travel agency banners to Voyages Transat. Following these changes, the Corporation concluded that the recoverable amount of its Marlin Travel trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $1.6 million.

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

As at April 30, 2016, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all others variables remained the same, would have resulted in an additional impairment charge of $0.2 million.

As at April 30, 2016, a 10% decrease in the cash flows used for impairment testing, assuming that all other variables remained the same, would have resulted in an additional impairment charge of $0.3 million.

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, 2016 could have required an impairment of property, plant and equipment and intangible assets with finite lives. As at October 31, 2016, reasonable changes in the assumptions used in the goodwill impairment test would not lead to an additional impairment loss related to the assets.

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 over 15% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

EMPLOYEE FUTURE BENEFITS

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

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

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

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 in this regard were received during the year. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this resulted in outflows of $15.1 million during the year ended October 31, 2016. This amount is recognized as income taxes receivable as at October 31, 2016.

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 61% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 17% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

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

MANAGEMENT OF FUEL PRICE RISK

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

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

CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $39.6 million as at October 31, 2016. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2016, approximately 8% of accounts receivable were over 90 days past due, whereas approximately 75% 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, 2016, these deposits totalled $22.0 million and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $20.0 million as at October 31, 2016 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation following receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2016, the cash security deposits with lessors that had been claimed totalled $21.3 million and were included under Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2016 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by Dominion Bond Rating Service [DBRS]], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2016.

LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The 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 fiscal year, the Corporation recorded $32.3 million in person-nights purchased at hotels belonging to its associate CIBV, compared with $17.9 million in 2015. As at October 31, 2016, a $0.9 million amount payable to CIBV was included under Trade and other payables, compared to $0.3 million as at October 31, 2015.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

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

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

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

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

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

IFRS 16, *LEASES*

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

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

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; and
- Integrate risk management into strategic, financial and operating objectives.

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which he or she is responsible, and/or limit the likelihood of these risks materializing.

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 Risk Management and Corporate Governance 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, air carriers and tour operators have entered into or expanded their presence in 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.

While Transat has cash on hand to respond to competitive pressures or capitalize on growth opportunities, the availability of financing under our existing credit facilities is subject to compliance with certain 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 thus be adversely affected.

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

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

Transat is exposed, due to its many arrangements with foreign-based suppliers, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar 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 financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

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

KEY SUPPLIES AND SUPPLIER RISKS

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

Our dependence, among others, on Airbus, Boeing, Rolls-Royce, General Electric and Lufthansa Technik means that we could be adversely affected by problems connected with Airbus and Boeing aircraft and Rolls-Royce or General Electric engines, including defective material, mechanical problems or negative perceptions among travellers. The Corporation also relies on certain suppliers for its information system security and maintenance. See 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 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 manage reservation systems, including handling high telephone call volumes on a daily basis, monitor product profitability and inventory, adjust prices quickly, access and protect information, distribute our products to retail travel agents and other travel intermediaries, and stave off information system intrusions. Furthermore, the exploitation of system vulnerabilities through cyberattacks is increasingly sophisticated and requires constant management of and developments in the measures taken. Rapid changes in these technologies and growing demand for web-based or mobile reservations could require higher-than-anticipated capital expenditures to improve customer service, which could impact our operating results.

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

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

REGULATORY RISKS

The industry in which Transat operates is subject to extensive Canadian and foreign government regulations. These relate to, among other things, security, safety, consumer rights, permits, licensing, intellectual property rights, privacy, competition, pricing and the environment. Consequently, Transat's future results may vary depending on the actions of government authorities with jurisdiction over our operations. These actions include the granting and timing of certain government approvals or 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.

In the fight against climate change, the International Civil Aviation Organization (ICAO) has established an international model whereby taxes would be imposed on greenhouse gas emissions to offset emissions. For domestic air transportation, Canada intends to implement a carbon pricing system that is yet to be defined. 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, 2016, the Corporation had approximately 5,000 employees, almost 45% of whom are unionized personnel covered by six collective agreements. As at October 31, 2016, three of the six collective agreements had expired. Negotiations to renew these 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

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

In this latter regard, additional insurance is carried and maintained for War Risk Bodily Injury/Property Damage to Third Parties excluding passengers covering the excess of US$250 million up to the limit of US$1 billion any single event and in the aggregate. Through our Audit Committee and our Risk Management and Corporate Governance Committee, our Board of Directors identifies and evaluates at least once annually the principal risk factors related to our business and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry.

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

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 2013) 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, 2016.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2016 that materially affected, or are likely to materially affect, the Corporation's ICFR.

OUTLOOK

For the first six-month period - On the Sun destinations market outbound from Canada, the Corporation's main market segment in the winter, Transat's capacity is approximately 3% lower than that offered last year. To date, 50% of that capacity has been sold, bookings are ahead by 2.2%, and load factors are higher by 3.3%. The impact of the weakened Canadian dollar, added to the increase in fuel costs, will be a 3.0% increase in operating costs if the dollar and fuel costs remain at their current level. At this moment, margins are lower by 1.5% compared with last year at the same date.

On the transatlantic market, where it is low season, Transat's capacity is greater by 8% than that of last winter. To date, 49% of that capacity has been sold, bookings are ahead by 10%, load factors are higher by 0.8%, and selling prices are lower by 4.4%. Higher fuel costs, in combination with currency variations, will result in an increase in operating costs of 2.7% if the dollar remains at its current level against the U.S. dollar, the euro and the pound, and if fuel prices remain stable. Margins are currently lower by 7.8% compared with last year at the same date.

With the winter of 2016 having been affected by several important events (worry over the Zika virus, the threat of strike action by pilots and terror attacks in Europe), the situation deteriorated as of the beginning of December. In comparison, the results may therefore show improvement over last year, once the season is over, despite the indicators mentioned above.

MANAGEMENT'S REPORT

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

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

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

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

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

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

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

	2016	2015	2014	2013	2012
Consolidated statements of income (loss)					
Continuing operations					
Revenues	2,889,646	2,897,950	2,996,106	2,969,642	3,051,775
Operating expenses	2,856,118	2,797,342	2,909,737	2,855,340	3,019,302
Amortization	50,038	45,817	43,581	36,423	38,324
Special items	13,825	—	6,387	5,740	—
Operating income (loss)	(30,335)	54,791	36,401	72,139	(5,851)
Financing costs	1,669	1,775	1,541	2,091	2,543
Financing income	(6,996)	(7,576)	(7,872)	(7,233)	(6,597)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(6,901)	1,391	21,978	732	(966)
Foreign exchange gain on non current monetary items	(1,284)	(2,531)	(1,123)	(566)	(903)
Impairment of assets	79,708	—	369	—	—
Gain on investments in ABCP	—	—	—	—	(7,936)
Loss on disposal of a subsidiary and gain on repurchase of preferred shares of a subsidiary	843	—	—	—	(5,655)
Income (loss) before income tax expense	(97,374)	61,732	21,508	77,115	13,663
Income taxes (recovery)	(10,843)	12,413	1,724	18,046	1,494
Net income (loss) from continuing operations	(86,531)	49,319	19,784	59,069	12,169
Discontinued operations					
Net income (loss) from discontinued operations	49,772	(2,355)	6,282	2,133	(25,705)
Net income (loss) for the year	(36,759)	46,964	26,066	61,202	(13,536)
Non-controlling interest in subsidiaries' results	4,989	4,399	3,191	3,247	3,133
Net income (loss) for the year attributable to shareholders	(41,748)	42,565	22,875	57,955	(16,669)
Basic earnings (loss) per share	(1.13)	1.11	0.59	1.51	(0.44)
Diluted earnings (loss) per share	(1.13)	1.10	0.59	1.51	(0.44)
Cash flows related to:					
Operating activities	43,561	108,992	90,009	102,179	15,703
Investing activities	5,093	(53,854)	(52,683)	(21,092)	(7,266)
Financing activities	(9,823)	(12,672)	191	(1,817)	(4,361)
Effect of exchange rate changes on cash and cash equivalents	(12,132)	3,402	(2,262)	1,710	(3,888)
Net change in cash and cash equivalents	26,699	45,868	35,255	80,980	188
Cash and cash equivalents, end of year	363,664	336,423	308,887	171,175	181,576
Total assets	1,277,420	1,513,764	1,375,030	1,290,073	1,165,301
Long-term debt (including current portion)	—	—	—	—	—
Equity	464,386	537,252	482,946	441,393	366,326
Debt ratio(1)	0.64	0.65	0.65	0.66	0.69
Book value per share(2)	12.60	14.29	12.47	11.47	9.57
Shareholding statistics (in thousands)					
Outstanding shares, end of year	36,859	37,591	38,742	38,468	38,296
Weighted average number of shares outstanding:					
Undiluted	36,899	38,442	38,644	38,390	38,142
Diluted	36,899	38,558	39,046	38,472	38,142

(1) Total liabilities divided by total assets.

(2) Total equity divided by the number of outstanding shares.