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, 2013, compared with the year ended October 31, 2012, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 11, 2013. 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, 2013 and Annual Information Form.

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

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation should have the resources it needs to meet its 2014 objectives and continue building on its long-term strategies.
- The outlook whereby our revenues and traveller volumes are expected to be comparable with the 2013 level.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2014.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $70.0 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 the Corporation expects to record better results than last year for the winter.

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. We occasionally use non-IFRS financial 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. The non-IFRS measures used by the Corporation are as follows:

Margin (operating loss) before depreciation and amortization	Gross margin (operating loss) before depreciation and amortization expense.
Adjusted income (loss)	Income (loss) before income tax and before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary, restructuring charge and impairment of goodwill.
Adjusted after-tax income (loss)	Net income (loss) attributable to shareholders before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary, restructuring charge and impairment of goodwill, net of related taxes.
Adjusted after-tax income (loss) per share	Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus the amount for adjusted operating leases, which corresponds to the annualized aircraft rental expense multiplied by 5.
Total net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

The above-described financial measures have no prescribed meaning under IFRS and are therefore unlikely to be comparable to similar measures reported by other issuers or those used by financial analysts. They are furnished to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures. Management believes that readers of our MD&A use these measures, or a subset thereof, to analyze the Corporation's results, its financial performance and its financial position.

In addition to IFRS financial measures, management uses margin (operating loss) before depreciation and amortization, adjusted income (loss) and adjusted after-tax income (loss) to measure the Corporation's ongoing and recurring operational performance. Management considers these measures important as they exclude from results items that arise mainly from long-term strategic decisions, reflecting instead the Corporation's day-to-day operating performance. Management believes these measures to be useful in assessing the Corporation's capacity to discharge its financial obligations.

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 uses total debt and total net debt as this is a measure commonly used in our industry to determine a value for operating lease obligations. The definition of the operating lease amount used is specific to the Corporation and may not be comparable to similar measures used by other companies. Management believes these measures to be useful in gauging the Corporation's financial leveraging.

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

(in thousands of dollars)	2013 $	2012 $	2011 $
Gross margin (loss)	**71,838**	(23,838)	(17,301)
Depreciation and amortization	**39,068**	40,793	43,814
Margin before depreciation and amortization	**110,906**	16,955	26,513
Income (loss) before income tax expense	**80,712**	(16,950)	(17,427)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**493**	(701)	1,278
Gain on investments in ABCP	**—**	(7,936)	(8,113)
Gain on disposal of a subsidiary	**—**	(5,655)	—
Impairment of goodwill	**—**	15,000	—
Restructuring charge	**5,740**	—	16,543
Adjusted income (loss)	**86,945**	(16,242)	(7,719)
Net income (loss) attributable to shareholders	**57,955**	(16,669)	(14,711)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**493**	(701)	1,278
Gain on investments in ABCP	**—**	(7,936)	(8,113)
Gain on disposal of a subsidiary	**—**	(5,655)	—
Impairment of goodwill	**—**	15,000	—
Restructuring charge	**5,740**	—	16,543
Tax impact	**(1,621)**	689	(4,699)
Adjusted after-tax income (loss)	**62,567**	(15,272)	(9,702)
Adjusted after-tax income (loss)	**62,567**	(15,272)	(9,702)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,472**	38,142	37,930
Adjusted after-tax income (loss) per share	**1.63**	(0.40)	(0.26)

	October 31, 2013 $	October 31, 2012 $	October 31, 2011 $
Long-term debt	**—**	—	—
Adjusted operating leases	**406,350**	441,805	344,250
Total debt	**406,350**	441,805	344,250
Total debt	**406,350**	441,805	344,250
Cash and cash equivalents	**(265,818)**	(171,175)	(181,576)
Investments in ABCP	**—**	(27,350)	(78,751)
Total net debt	**140,532**	243,280	83,923

FINANCIAL HIGHLIGHTS

(in thousands of dollars)	2013 $	2012 $	2011 $	Change 2013 %	Change 2012 %
Consolidated Statements of Income (Loss)					
Revenues	**3,648,158**	3,714,219	3,654,167	(1.8)	1.6
Margin (operating loss) before depreciation and amortization[1]	**110,906**	16,955	26,513	554.1	(36.1)
Net income (loss) attributable to shareholders	**57,955**	(16,669)	(14,711)	447.7	(13.3)
Basic earnings (loss) per share	**1.51**	(0.44)	(0.39)	443.2	(12.8)
Diluted earnings (loss) per share	**1.51**	(0.44)	(0.39)	443.2	(12.8)
Adjusted after-tax income (loss)[1]	**62,567**	(15,272)	(9,702)	509.7	(57.4)
Adjusted after-tax income (loss) per share	**1.63**	(0.40)	(0.26)	507.5	(53.8)
Consolidated Statements of Cash Flows					
Operating activities	**123,039**	8,872	90,673	1,286.8	(90.2)
Investing activities	**(28,289)**	(11,024)	(56,683)	(156.6)	80.6
Financing activities	**(1,817)**	(4,361)	(29,470)	58.3	85.2
Effect of exchange rate changes on cash and cash equivalents	**1,710**	(3,888)	(3,571)	144.0	(8.9)
Net change in cash and cash equivalents	**94,643**	(10,401)	949	1,009.9	n/a

	As at October 31, 2013 $	As at October 31, 2012 $	As at October 31, 2011 $	Change 2013 %	Change 2012 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**265,818**	171,175	181,576	55.3	(5.7)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**403,468**	370,291	359,545	9.0	3.0
Investments in ABCP	**—**	27,350	78,751	(100.0)	(65.3)
Total assets	**1,290,073**	1,163,301	1,226,570	10.9	(5.2)
Debt (current and non-current)	**—**	—	—	—	—
Total debt[1]	**406,350**	441,805	344,250	(8.0)	28.3
Total net debt[1]	**140,532**	243,280	83,923	(42.2)	189.9

[1] See non-IFRS financial measures

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

Transat is one of the largest integrated tour operators in the world. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them primarily in Canada, France, the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat offers destination services to Canada, Mexico, Dominican Republic and Greece. Transat holds an interest in a hotel business that owns and operates properties in Mexico and 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 intends to continue: deriving synergies from its vertical integration model, which distinguishes it from several of its rivals; growing its market share in France, where it ranks among the largest tour operators; and tapping into new markets or expanding operations in markets not yet fully served. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

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

Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. This phenomenon, heightened by the anticipated growth in tourism and air travel, manifests itself in various ways, particularly through regulations and tariffs on greenhouse gas emissions and higher customer and investor expectations in this area. Given this trend and the vested interest tourism companies have in seeing the environment protected and destination communities remaining amenable to tourism, Transat undertook to adopt avant-garde policies on corporate responsibility and sustainable tourism. In doing so, the Corporation targets, among other things, the following benefits: lower resource consumption, with the associated cost savings; brand differentiation and greater customer loyalty, potentially boosting our commercial benefits; and enhanced employee loyalty and motivation.

For fiscal 2014, Transat has set the following targets:

1. Transat is currently committed under a cost reduction and margin improvement program, and, in 2014, aims to improve its winter results and maintain its summer profitability.

2. In 2014, Transat will modify the Air Transat fleet by insourcing its narrow-body aircraft, except for supplemental requirements, and continue its shift toward an adaptable fleet to meet its seasonal needs.

3. From a product and customer experience standpoint, projects to improve performance, efficiency and margins will continue, particularly upgrades to our Canadian call centres and refinement of sun destination collections.

4. Transat intends in 2014 to refine its distribution strategy, particularly with a view to enhancing customer proximity through the appropriate business technologies and applications.

5. Transat is carrying out a strategic review and intends in 2014 to revamp its organizational structure based on the growth prospects it has identified.

REVIEW OF 2013 OBJECTIVES AND ACHIEVEMENTS

The main goals and achievements for fiscal 2013 were as follows:

1. Optimize financial performance and market strategy

In 2013, the Corporation achieved significantly improved financial performance, generating a profit after two years of losses. Excluding the effect of improved market conditions, this reversal of fortune was due in large part to initiatives undertaken by the Corporation, including the cost reduction and margin improvement program currently underway. The Corporation has thus reviewed its processes and procedures, reduced operating costs and headcounts, implemented a new vacation package booking system and enhanced its product. The improvement achieved under the program totalled $20 million in 2012 and $35 million (cumulatively) in 2013. The Corporation aims to free up at least an additional $20 million for each of fiscal 2014 and 2015.

The Corporation's airline strategy is a key element of the program. The Corporation and its unionized Air Transat employees reached agreements to transform a portion of fixed compensation into variable compensation, and further agreed to amend certain processes and procedures, resulting in substantial savings, without monetary concessions from staff. Following those negotiations, the Corporation decided to insource narrow-body aircraft operations to sun destinations, which had been outsourced since their inception in 2003. With the transition currently underway and completion slated for summer 2014, significant operating cost savings are anticipated, as part of the cost reduction and margin improvement program discussed above. Moreover, the Corporation signed and announced an agreement to renew leases for six wide-body aircrafts, under terms giving rise to an improved cost structure. Clearly, these major changes will all have a favourable impact on results, and while the initial effects were observed in 2013, their full effect will not be achieved until 2015.

2. Enhance product and customer experience

The Corporation generally provides customers with excellent value for money through a made-to-measure product offering for tourists. In the transatlantic market, Transat offers an unparalleled variety of competitively priced direct flights, complemented by top-quality destination services (such as excursions, hotels, cars and cruises). Over the years in this market segment, Transat has built well-established distribution networks in both Canada and Europe. What's more, the cabin interiors of its wide-body aircraft have been modernized, enhancing its product offering.

In the sun destinations market, the improvement in 2013 results was partly driven by a tighter strategic focus on our hotel partnerships, a refinement of market segments and collections, and customer experience enhancements. Accordingly, our brand positioning for our various banners was clarified and the products on offer are in line with customer needs. This initiative is ongoing and should result in additional improvements in winter 2014 and thereafter.

3. Increase organizational efficiency and implement a vision focused on customers and sustainable development

Numerous organizational changes were made in 2013. New executives were appointed to head three major Canadian entities, Transat Distribution Canada, Air Transat, Transat Tours Canada and Canadian Affair. In France, our entities were combined into a single organization on November 1, 2013, complete with internal restructuring that, on the whole, will translate into greater efficiency.

The Corporation continued its sustainable development initiatives in 2013, and provided an overview of its achievements in its third Corporate Responsibility Report (www.resp.transat.com).

KEY PERFORMANCE DRIVERS

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

MARGIN BEFORE DEPRECIATION AND AMORTIZATION	Generate margins greater than 3%.
MARKET SHARE	Remain the leader in Canada in all provinces and increase market share in Ontario, across the rest of the country 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 $265.8 million as at October 31, 2013. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels.
Credit facility	We have a revolving credit facility totalling $50.0 million, up for renewal in 2015.

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 of our products and services.
Employees	In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.
Supplier relationships	We have exclusive access to certain hotels at sun destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2014 objectives and continue building on its long-term strategies.

BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5.8 million. TMR specializes in the sale of packages to sun destinations for Canadian travellers, including Cuba, the Dominican Republic and Mexico, and a large portion of the flights are provided by Transat. With this acquisition, the Corporation extends its offering and services to customers in its existing markets.

The Corporation has completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. The excess of the total consideration over the fair value of net assets acquired was allocated to the trademark in the amount of $4.5 million.

The results of the acquired business have been consolidated as of the date of acquisition. For the year ended October 31, 2012, TMR generated revenues of $97.2 million with a pre-tax loss of $5.4 million, which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated results would have included additional revenues of $37.2 million and a pre-tax loss of $0.9 million.

DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex, which provides airport ground-handling services at Montréal, Toronto and Vancouver international airports, to Servisair Holding Canada Inc. for a total consideration of $9.0 million, of which $6.0 million is receivable in two equal annual payments. The balance of sale price receivable, which amounted to $3.0 million as at October 31, 2013, bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation. The carrying amount of the net assets disposed of on June 12, 2012 amounted to $3.3 million, which gave rise to a $5.7 million gain on disposal of a subsidiary. The transaction did not trigger any tax expense, as the Corporation used unrecognized capital losses to eliminate the taxation of the capital gain realized on the transaction. The transaction includes a service agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operating hubs.

CONSOLIDATED OPERATIONS

REVENUES

Revenues by geographic area				Change	
	2013	2012	2011	2013	2012
(in thousands of dollars)	$	$	$	%	%
Americas	**2,893,353**	2,850,874	2,762,351	1.5	3.2
Europe	**754,805**	863,345	891,816	(12.6)	(3.2)
	3,648,158	3,714,219	3,654,167	(1.8)	1.6

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, 2013, the Corporation's revenues were down $66.1 million, following our decision to reduce our offering in all our markets for both winter and summer seasons. Generally speaking, average selling prices during the fiscal year were slightly higher than in 2012 while traveller volumes were down 9.2%.

Our 2014 revenues and traveller volumes are expected to be comparable with 2013 levels.

OPERATING EXPENSES

Operating expenses				% of revenues			Change	
	2013	2012	2011	2013	2012	2011	2013	2012
(in thousands of dollars)	$	$	$	%	%	%	%	%
Costs of providing tourism services	**1,951,329**	1,975,892	1,999,935	53.5	53.2	54.7	(1.2)	(1.2)
Aircraft fuel	**417,891**	505,422	447,625	11.5	13.6	12.2	(17.3)	12.9
Salaries and employee benefits	**368,477**	374,980	375,137	10.1	10.1	10.3	(1.7)	0.0
Commissions	**163,606**	158,357	166,813	4.5	4.3	4.6	3.3	(5.1)
Aircraft maintenance	**106,732**	119,613	108,399	2.9	3.2	3.0	(10.8)	10.3
Airport and navigation fees	**95,635**	108,112	104,987	2.6	2.9	2.9	(11.5)	3.0
Aircraft rent	**81,270**	88,361	68,850	2.2	2.4	1.9	(8.0)	28.3
Other	**346,572**	366,527	349,395	9.5	9.9	9.6	(5.4)	4.9
Depreciation and amortization	**39,068**	40,793	43,814	1.1	1.1	1.2	(4.2)	(6.9)
Restructuring charge	**5,740**	—	6,513	0.2	—	0.2	—	(100.0)
Total	**3,576,320**	3,738,057	3,671,468	98.0	102.5	100.5	(4.3)	1.8

Total operating expenses for the year were down $161.7 million (4.3%) compared with fiscal 2012, resulting primarily from our decision to reduce our offering in our markets. Compared with the previous fiscal year, two Airbus A310 aircraft were retired from our fleet (two Airbus A330s were gradually added to the fleet in the first quarter of fiscal 2012). Also, operating expenses, primarily comprising the cost of providing tourism services, reflected increases following the February 1, 2012 acquisition of TMR.

COSTS OF PROVIDING TOURISM SERVICES

The costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with the year ended October 31, 2012, costs of providing tourism services fell $24.6 million (1.2%), owing to our reduced winter season offering, partly offset by higher hotel room costs as well as TMR acquisition costs. Since the Corporation sells a large number of seats without any related travel products during the summer season, the impact of our decision to reduce our offering on the cost of providing tourism services was not significant.

AIRCRAFT FUEL

Aircraft fuel costs fell $87.5 million or 17.3% during the year, as our aircraft fleet logged fewer flight hours and paid lower fuel prices than last year.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits fell $6.5 million to $368.5 million from a year earlier, owing mainly to the sale of our Handlex subsidiary and, to a lesser extent, to our reduced offering. The Corporation's salary and employee benefit expense also includes its short- and long-term incentive program expense.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commissions for the year amounted to $163.6 million, up $5.2 million or 3.3% from fiscal 2012. At 4.5%, commissions accounted for a higher percentage of revenues in 2013 compared with 4.3% in 2012, primarily as a result of redefining the corporate travel agencies' commission program to include the fuel surcharges and service fees for packages booked with certain Transat brands in calculating commissions.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs, consisting mainly of engine and airframe maintenance expenses incurred by Air Transat, were down $12.9 million or 10.8% for the year, compared with fiscal 2012, primarily due to a decline in the number of flights by our fleet.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees, essentially composed of fees charged by airports and air traffic control entities, fell $12.5 million or 11.5% in fiscal 2013 from their 2012 levels, in line with the decrease in the number of flights by aircraft in our fleet.

AIRCRAFT RENT

The Corporation recorded a decline of $7.1 million (8.0%) in aircraft rent for the year, due in large part to renewing two Airbus A310s leases under improved terms and retiring two Airbus A310s at the beginning of the fiscal year.

OTHER

Other expenses for the year fell $20.0 million (5.4%) compared with fiscal 2012, owing mainly to lower other air costs as a result of our reduced product offering. Other expenses also reflect a rise in other air costs resulting from the June 12, 2012 sale of our subsidiary Handlex, as these services must now be purchased from a third party.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization, which includes depreciation of property, plant and equipment and the amortization of intangible assets subject to amortization and deferred incentive benefits, was down $1.7 million in fiscal 2013, due to a decline in additions to property, plant and equipment and intangible assets during the year and to assets that are now fully depreciated or amortized.

RESTRUCTURING CHARGE

In fiscal 2013, the Corporation continued its restructuring program aimed at cost reduction and margin improvement that got underway in fiscal 2011. The restructuring charge for fiscal 2013, consisting of termination benefits, amounted to $5.7 million.

In fiscal 2011, the Corporation embarked on a restructuring program aimed particularly at reducing direct costs and operating expenses, improving gross margin and adjusting its information systems approach. The plan also provides for changes in IT solutions to facilitate a faster deployment of proven solutions at lower cost. As a result, the total restructuring charge amounted to $16.5 million, consisting of termination benefits of $6.5 million, reported under operating expenses, and write-offs of intangible assets totalling $10.0 million, reported under other expenses.

GROSS MARGIN

In light of the foregoing, the Corporation recorded a gross margin of $71.8 million for the year, which reflects a $5.7 million restructuring charge, compared with a $23.8 million operating loss for the previous year. As a percentage of revenues, the Corporation recorded a gross margin of 2.0% in 2013 compared with an operating loss of 0.6% in 2012. The improvement in gross margin was driven primarily by higher average selling prices.

During the year, we reported a margin before depreciation and amortization of $110.9 million (3.0%), reflecting a $5.7 million restructuring charge, compared with a margin before depreciation and amortization of $17.0 million (0.5%) in fiscal 2012. The improvement in our margin before depreciation and amortization resulted mainly from higher average selling prices.

GEOGRAPHIC AREAS

AMERICAS

Americas				Change	
(in thousands of dollars)	2013 $	2012 $	2011 $	2013 %	2012 %
Winter season					
Revenues	**1,635,128**	1,727,821	1,584,037	(5.4)	9.1
Operating expenses	**1,658,733**	1,784,628	1,600,487	(7.1)	11.5
Gross margin (operating loss)	**(23,605)**	(56,807)	(16,450)	58.4	(245.3)
Margin (%)	**(1.4)**	(3.3)	(1.0)	56.1	(216.6)
Summer season					
Revenues	**1,258,225**	1,123,053	1,178,314	12.0	(4.7)
Operating expenses	**1,170,459**	1,074,913	1,211,175	8.9	(11.3)
Gross margin (operating loss)	**87,766**	48,140	(32,861)	82.3	246.5
Margin (%)	**7.0**	4.3	(2.8)	62.7	253.7

Winter season revenues at our North American subsidiaries from sales in Canada and abroad were down $92.7 million or 5.4%, compared with 2012, resulting mainly from our decision to reduce capacity on sun destination and transatlantic routes. This translated into a 9.5% drop in traveller volumes. However, the decline in winter season revenues was curbed by higher selling prices and a $32.6 million contribution from TMR. The Corporation reported an operating loss of $23.6 million (1.4%) for the winter season, down from an operating loss of $56.8 million (3.3%) in 2012, mainly as a result of higher average selling prices and cost reduction initiatives.

Summer season revenues grew $135.2 million (12.0%), mainly as result of allocating certain sales from Europe to the Americas geographic area. As a result, traveller volumes were up 7.3%. Average selling prices during the summer season tracked higher than in 2012. The Corporation recognized a summer season gross margin of $87.8 million (7.0%) in 2013, up from $48.1 million (4.3%) in 2012, owing primarily to higher average selling prices and cost reduction initiatives.

EUROPE

Europe				Change	
	2013	2012	2011	2013	2012
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	**277,410**	313,901	327,226	(11.6)	(4.1)
Operating expenses	**293,866**	335,161	338,240	(12.3)	(0.9)
Operating loss	**(16,456)**	(21,260)	(11,014)	22.6	(93.0)
Operating loss (%)	**(5.9)**	(6.8)	(3.4)	(12.4)	(101.2)
Summer season					
Revenues	**477,395**	549,444	564,590	(13.1)	(2.7)
Operating expenses	**453,262**	543,355	521,566	(16.6)	4.2
Gross margin	**24,133**	6,089	43,024	296.3	(85.8)
Gross margin (%)	**5.1**	1.1	7.6	356.2	(85.4)

Winter season revenues at our European subsidiaries were down $36.5 million (11.6%) in fiscal 2013 compared with fiscal 2012, owing to our decision to reduce capacity. Traveller volumes fell 13.4% while our average selling prices were higher than in winter season last year. Our European operations reported an operating loss of $16.5 million (5.9%) for the six-month period, down from an operating loss of $21.3 million (6.8%) in 2012.

Summer season revenues at our European subsidiaries fell $72.0 million (13.1%) year over year, primarily due to reducing our offering and allocating certain sales from Europe to the Americas geographic area following operational restructuring. Those sales were previously reported by the Europe geographic area. Sales to destinations in Tunisia and Egypt, previously popular with French tourists, remain very weak. As a result, summer season traveller volumes were down 39.9% (7.1% before the reallocation of sales) in 2013 compared with 2012, while average selling prices were higher. Our European operations reported a summer season gross margin of $24.1 million (5.1%) in 2013, up from $6.1 million (1.1%) in 2012, primarily as a result of higher average selling prices and our cost reduction initiatives.

OTHER EXPENSES (REVENUES)

				Change	
(in thousands of dollars)	2013 $	2012 $	2011 $	2013 %	2012 %
Financing costs	**2,512**	2,962	3,499	(15.2)	(15.3)
Financing income	**(7,357)**	(6,693)	(7,395)	9.9	(9.5)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**493**	(701)	1,278	170.3	(154.9)
Foreign exchange (gain) loss on long-term monetary items	**(846)**	(370)	1,654	(128.6)	(122.4)
Gain on investments in ABCP	**—**	(7,936)	(8,113)	(100.0)	2.2
Gain on disposal of a subsidiary	**—**	(5,655)	—	(100.0)	n/a
Impairment of goodwill	**—**	15,000	—	(100.0)	n/a
Restructuring charge (gain)	**—**	—	10,030	n/a	(100.0)
Share of net income of an associate	**(3,676)**	(3,495)	(827)	5.2	(322.6)

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Financing costs were down $0.5 million in 2013 compared with 2012.

FINANCING INCOME

Financing income for fiscal 2012 grew $0.7 million from the previous year, due primarily to higher cash balances than in fiscal 2012.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices. For the year, the fair value of derivative financial instruments used for aircraft fuel purchases fell $0.5 million compared with a $0.7 million increase in 2012.

FOREIGN EXCHANGE (GAIN) LOSS ON LONG-TERM MONETARY ITEMS

The foreign exchange gain on long-term monetary items of $0.8 million for the year arose mainly from a favourable foreign exchange effect on our foreign currency deposits.

GAIN ON INVESTMENTS IN ABCP

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

GAIN ON DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex. The Corporation reported a gain on disposal of a subsidiary of $5.7 million. See *Disposal of a subsidiary* for more information.

IMPAIRMENT OF GOODWILL

The Corporation performs annual impairment tests to determine whether the carrying amount of cash generating units (CGUs) is higher than their recoverable amount. On October 31, 2013, the Corporation concluded that no impairment losses need be recorded for fiscal 2013.

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

RESTRUCTURING CHARGE (GAIN)

The restructuring charge of $10.0 million recorded during the year ended October 31, 2011 comprises write-offs of intangible assets. See *Operating expenses* for more information.

SHARE OF NET INCOME OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments ["CIBV"]. Our share of net income of an associate for the current fiscal year rose to $3.7 million from $3.5 million for 2012, driven primarily by improved operating profitability, offset by adverse exchange differences.

INCOME TAXES

For the fiscal year ended October 31, 2013, the Corporation recognized a $19.5 million income tax expense compared with a $3.4 million income tax recovery for the previous fiscal year. Excluding the share in net income of an associate, the effective tax rate stood at 25.3% for the fiscal year ended October 31, 2013 and 16.7% for the preceding year.

The change in tax rates between fiscal 2013 and 2012 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

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

In light of the items discussed in *Consolidated operations*, net income for the year ended October 31, 2013 totalled $61.2 million compared with a net loss of $13.5 million for fiscal 2012. Net income attributable to shareholders amounted to $58.0 million or $1.51 per share (basic and diluted) in fiscal 2013 compared with a net loss attributable to shareholders of $16.7 million or $0.44 (basic and diluted) for the previous fiscal year. The weighted average number of outstanding shares used to compute per share amounts was 38,472,000 for fiscal 2013 and 38,142,000 for fiscal 2012.

Adjusted after-tax income for the year stood at $62.6 million ($1.63 per share) compared with an adjusted after-tax loss of $15.3 million ($0.40 per share) for fiscal 2012.

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 periods in previous fiscal years, on the whole, winter season revenues were down, following our decision to reduce our offering in all our markets, while summer season revenues were up, due to higher average selling prices. Overall, average selling prices were up while traveller volumes declined. Year over year, our margins improved each quarter, mainly due to higher average selling prices and our cost reduction and margin improvement initiatives. 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)	Q1-2012 $	Q2-2012 $	Q3-2012 $	Q4-2012 $	**Q1-2013 $**	**Q2-2013 $**	**Q3-2013 $**	**Q4-2013 $**
Revenues	829,296	1,212,426	909,056	763,441	**805,714**	**1,106,824**	**927,004**	**808,616**
Gross margin (operating loss)	(41,747)	(36,320)	12,498	41,731	**(29,936)**	**(10,125)**	**41,803**	**70,096**
Margin (operating loss) before depreciation and amortization	(31,839)	(26,226)	22,074	52,946	**(21,017)**	**(1,185)**	**53,053**	**80,055**
Net income (loss)	(28,580)	(11,774)	9,664	17,154	**(13,940)**	**(21,556)**	**41,469**	**55,229**
Net income (loss) attributable to shareholders	(29,489)	(13,199)	9,405	16,614	**(15,137)**	**(22,760)**	**41,149**	**54,723**
Basic earnings (loss) per share	(0.77)	(0.35)	0.25	0.43	**(0.39)**	**(0.59)**	**1.07**	**1.42**
Diluted earnings (loss) per share	(0.77)	(0.35)	0.25	0.43	**(0.39)**	**(0.59)**	**1.07**	**1.40**
Adjusted after-tax income (loss)	(29,941)	(24,536)	10,521	13,684	**(21,564)**	**(1,432)**	**30,759**	**54,804**
Adjusted after-tax income (loss) per share	(0.79)	(0.64)	0.28	0.75	**(0.56)**	**(0.04)**	**0.80**	**1.40**

FOURTH-QUARTER HIGHLIGHTS

The Corporation generated fourth-quarter revenues of $808.6 million in fiscal 2013, up $45.2 million, or 5.9%, from $763.4 million in fiscal 2012, resulting in large part from higher average selling prices. Year over year, fourth-quarter traveller volumes were down 5.0% in fiscal 2013, due to our reduced offering in all our markets.

Fourth-quarter revenues at our subsidiaries in the Americas were up $55.9 million (10.9%) in fiscal 2013, compared with fiscal 2012, mainly as a result of allocating certain sales from Europe to the Americas geographic area and higher average selling prices. Fourth-quarter traveller volumes were up 8.3% from a year ago. North American operations reported a fourth-quarter gross margin of $59.6 million in fiscal 2013, up from $45.7 million in fiscal 2012, owing primarily to higher selling prices combined with lower costs, year over year.

Compared with fiscal 2012, fourth-quarter revenues at our European subsidiaries fell $10.7 million (4.3%) in fiscal 2013, mostly due to reducing our offering and allocating certain sales from Europe to the Americas geographic area. Fourth-quarter traveller volumes were down 38.9% (8.6% before the reallocation of sales) from a year earlier. Our European operations recorded a fourth-quarter gross margin of $10.5 million in fiscal 2013, up from a $3.9 million operating loss a year ago, primarily as a result of higher average selling prices and cost reduction initiatives.

The Corporation reported a fourth-quarter gross margin of $70.1 million or 8.7% in fiscal 2013, up from $41.7 million or 5.5% in fiscal 2012, with growth driven primarily by higher selling prices and cost reduction and margin improvement initiatives.

The Corporation recorded fourth-quarter net income amounting to $55.2 million in fiscal 2013, up from $17.2 million a year earlier. Fourth-quarter net income attributable to shareholders reached $54.7 million ($1.40 per share) in fiscal 2013 compared with $16.6 million ($0.43 per share) in the previous year.

Fourth-quarter adjusted after-tax income stood at $54.8 million ($1.40 per share) in fiscal 2013 compared with $28.7 million ($0.75 per share) last year.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2013, cash and cash equivalents totalled $265.8 million compared with $171.2 million as at October 31, 2012. Cash and cash equivalents in trust or otherwise reserved amounted to $403.5 million as at the end of fiscal 2013, compared with $370.3 million as at the end of 2012. The Corporation's statement of financial position reflects working capital of $81.1 million and a ratio of 1.1 compared with working capital of $1.2 million and a ratio of 1.00 as at October 31, 2012.

Total assets grew $126.8 million (11.0%) to $1,290.1 million as at October 31, 2013 from $1,163.3 million as at October 31, 2012, owing primarily to a $94.6 million increase in cash and cash equivalents, including $27.4 million in proceeds from the sale of investments in ABCP, as well as to improved profitability. Equity increased $75.1 million to $441.4 million as at October 31, 2013 from $366.3 million as at October 31, 2012, essentially due to the recognition of $61.2 million in net income and a $9.2 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

CASH FLOWS

				Change	
	2013	2012	2011	2013	2012
(in thousands of dollars)	**$**	$	$	%	%
Cash flows related to operating activities	**123,039**	8,872	90,673	1,286.8	(90.2)
Cash flows related to investing activities	**(28,289)**	(11,024)	(56,683)	(156.6)	80.6
Cash flows related to financing activities	**(1,817)**	(4,361)	(29,470)	58.3	85.2
Effect of exchange rate changes on cash	**1,710**	(3,888)	(3,571)	144.0	(8.9)
Net change in cash	**94,643**	(10,401)	949	1,009.9	n/a

OPERATING ACTIVITIES

Operating activities generated $123.0 million in cash flows, compared with $8.9 million in 2012. The $114.2 million increase during the year stemmed mainly from a $72.5 million increase in our profitability and a $33.0 million net change in non-cash working capital balances related to operations resulting primarily from a higher increase in accounts payable during the year than in fiscal 2012.

We expect to continue to generate positive cash flows from our operating activities in 2014.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $28.3 million for the year, up $17.3 million from 2012. Compared with fiscal 2012, additions to property, plant and equipment and other intangible assets fell $9.2 million to $55.5 million and consisted mainly of purchases of computer hardware and software and aircraft enhancements following our cabin refurbishment program. During the year, we received proceeds from the sale of ABCP investments totalling $27.4 million as well as a $3.0 million balance of sale price receivable related to the disposal of a subsidiary in 2012. We also received a $0.7 million dividend from an associate.

During fiscal 2012, we received cash proceeds of $57.4 million from the sale of investments in ABCP as well as $1.9 million in principal repayments. We also acquired certain assets and assumed certain liabilities of TMR for a total consideration of $5.0 million, net of cash acquired. We also received net proceeds of $2.1 million from the sale of one of our subsidiaries.

In 2014, additions to property, plant and equipment and intangible assets could amount to approximately $70.0 million.

FINANCING ACTIVITIES

Cash flows used in financing activities fell $2.5 million to $1.8 million in fiscal 2013 from $4.4 million in fiscal 2012, owing mainly to the dividends paid to a non-controlling interest, which were lower in fiscal 2013 than the previous year.

CONSOLIDATED FINANCIAL POSITION

(in thousands of dollars, except per share data)	October 31, 2013 $	October 31, 2012 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	265,818	171,175	94,643	See the *Cash flows* section above
Cash and cash equivalents in trust or otherwise reserved	403,468	370,291	33,177	Increase in customer deposits and deferred revenues and balances pledged as collateral security against letters of credit
Trade and other receivables	112,738	111,525	1,213	No significant difference
Income taxes receivable	5,645	14,690	(9,045)	Decrease in income taxes recoverable given subsidiaries' taxable income
Inventories	13,143	11,469	1,674	No significant difference
Prepaid expenses	73,453	57,234	16,219	Increase in prepayments to certain service providers
Derivative financial instruments	7,720	7,460	260	No significant difference
Deposits	36,575	43,703	(7,128)	Decrease in deposits paid to certain service providers
Investment in ABCP	—	27,350	(27,350)	Disposal of investments in ABCP
Deferred tax assets	22,048	24,338	(2,290)	No significant difference
Property, plant and equipment	115,025	96,415	18,610	Additions during the period, offset by depreciation
Goodwill	94,723	91,494	3,229	Exchange rate difference
Intangible assets	67,333	66,531	802	Additions during the period less amortization
Investments and other assets	72,384	69,626	2,758	Share of net income of an associate and foreign exchange difference
Liabilities				
Trade and other payables	326,687	307,219	19,468	Increase in variable compensation and exchange rate difference
Provision for overhaul of leased aircraft	28,057	31,869	(3,812)	Decrease in number of aircraft and impact of the repair schedule
Income taxes payable	19,729	932	18,797	Increase in income taxes payable given subsidiaries' taxable income
Customer deposits and deferred revenues	410,340	382,823	27,517	Increase in average selling prices
Derivative financial instruments	4,675	8,416	(3,741)	Favourable change in fuel prices and the value of the Canadian dollar with respect to the forward contracts entered into and maturities of certain contracts
Other liabilities	48,096	54,448	(6,352)	Amortization of deferred incentives and decrease in present value of defined benefit obligation
Deferred tax liabilities	11,096	11,268	(172)	No significant difference
Equity				
Share capital	221,706	220,736	970	Issued from treasury
Share-based payment reserve	15,391	13,336	2,055	Share-based payment expense
Retained earnings	206,835	145,198	61,637	Net income
Unrealized gain (loss) on cash flow hedges	2,380	(475)	2,855	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	(4,919)	(12,469)	2,758	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at October 31, 2013, the Corporation had several types of financing, consisting primarily of two revolving term credit facilities as well as lines of credit for issuing letters of credit.

The Corporation has a $50.0 million revolving term credit facility for its operations, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2013, all the financial ratios and criteria were met and the credit facility was undrawn.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$16.3 million].

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the consolidated financial statements. The Corporation did not report any obligations in the statements of financial position as at October 31, 2013 and 2012.

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 18 and 27 to the audited consolidated financial statements)
- Operating leases (see note 26 to the audited consolidated financial statements)
- Purchase obligations (see note 26 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated amounted to approximately $883.8 million as at October 31, 2013 compared with $710.8 million as at October 31, 2012, and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS	2013 $	2012 $
Guarantees		
Irrevocable letters of credit	**21,850**	25,118
Collateral security contracts	**1,137**	1,108
Operating leases		
Obligations under operating leases	**745,310**	530,907
	768,297	557,133
Agreements with suppliers	**85,501**	153,700
	853,798	710,833

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 $60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at October 31, 2013, $58.5 million had been drawn down.

The Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2013, $16.2 million was drawn down under this credit facility for issuing letters of credit to certain service providers.

For its French operations, the Corporation has annually renewable guarantee facilities amounting to €11.2 million [$15.9 million], of which €3.8 million had been drawn down [$5.4 million].

For its French operations, the Corporation also has access to bank lines of credit for issuing letters of credit secured by deposits. As at October 31, we had issued letters of credit in the amount of €1.9 million [$2.7 million].

For its U.K. operations, the Corporation has access to a bank line of credit for issuing letters of credit secured by deposits of £26.7 million [$44.7 million], which is fully drawn down.

As at October 31, 2013, off-balance sheet arrangements were up $143.0 million. This increase resulted from entering into leases for four Boeing 737-800s and the extension of leases for six Airbus A330s, offset by repayments made during the year.

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

CONTRACTUAL OBLIGATIONS BY YEAR Year ending October 31	2014 $	2015 $	2016 $	2017 $	2018 $	2019 and beyond $	Total $
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	201,559	85,872	82,013	74,308	96,265	30,912	**570,929**
Leases (other)	28,294	24,588	19,304	17,474	12,291	72,430	**174,381**
Agreements with suppliers and other obligations	66,644	9,693	6,050	6,118	751	26,216	**115,472**
	296,497	**120,153**	**107,367**	**97,900**	**109,307**	**129,558**	**860,782**

DEBT LEVELS

The Corporation did not report any debt on its statement of financial position, as it was fully repaid in fiscal 2011, while its off-balance sheet arrangements, excluding agreements with suppliers and other obligations, increased $211.2 million to $768.3 million as at October 31, 2013 from $557.1 million as at October 31, 2012, collectively representing a $211.2 million increase in total debt compared with October 31, 2012. The increase resulted from entering into aircraft leases and lease extensions during fiscal 2013, offset by repayments made during the year.

The Corporation's total debt amounted to $406.4 million, down $35.5 million from the 2012 level while total net debt decreased $225.7 million to $140.5 million as at October 31, 2013 from $366.2 million. The lower total net debt resulted from an increase in cash and cash equivalents compared with 2012, due, among other factors, to improved profitability and the retirement of two A310s during the fiscal year.

SHARES ISSUED AND OUTSTANDING

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

As at November 30, 2013, there were 698,804 Class A Variable Voting Shares outstanding and 37,778,955 Class B Voting Shares outstanding.

STOCK OPTIONS

As at December 11, 2013, there were a total of 2,683,042 stock options outstanding, 926,192 of which were exercisable.

INVESTMENTS IN ABCP

On November 9, 2012, the Corporation sold its ABCP for a total consideration of $27.4 million.

The following table details the change in balances of investments in ABCP in the statement of financial position and the composition of Gain on investments in ABCP in net income (loss):

	Notional value $	Provision for impairment $	Investments $	Gain $
Balance as at November 1, 2011	116,414	(37,663)	78,751	
Increase in value of investments in ABCP	—	7,936	7,936	(7,936)
Principal repayments	(1,889)	—	(1,889)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Balance as at October 31, 2012 / Impact on results for the year ended October 31, 2012	34,525	(7,175)	27,350	(7,936)
Disposal of investments in ABCP	(34,525)	7,175	(27,350)	—
Balance as at October 31, 2013 / Impact on results for the year ended October 31, 2013	—	—	—	—

At the beginning of the ABCP crisis in 2007, the Corporation held ABCP with a notional amount of $154.5 million. Of that amount, $121.7 million or 78.7% was recovered.

OTHER

FLEET

During three-month period ended January 31, 2013, two A310s were retired from the fleet. On July 24, 2013, we entered into an eight-year lease in respect of four short-haul Boeing 737-800s, which will be commissioned starting in spring 2014, and extended until 2020 and 2021 leases for six Airbus A330s. Furthermore, on September 13, 2013, we announced the signing of a five-year agreement for the seasonal rental of Boeing 737-800s, more specifically, four aircraft for winter 2015, five in 2016, six in 2017, seven in 2018 and eight in 2019.

Air Transat's fleet currently consists of nine Airbus A310s (250 seats) and twelve Airbus A330s (345 seats).

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

The preparation of 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 the 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 financial year are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Corporation's control. Such changes are reflected in the assumptions when they occur.

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

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

GOODWILL AND INTANGIBLE ASSETS

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

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

The Corporation performed an impairment test as at October 31, 2013 to determine whether the carrying amount of CGUs was higher than their recoverable amount. No impairment was identified. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and three-year plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

An after-tax discount rate of 10.5% was used for testing the various CGUs for impairment as at October 31, 2013 [11.5% as at October 31, 2012]. The perpetual growth rate used for impairment reviews was 1% as at October 31, 2013 [1% as at October 31, 2012].

If, on October 31, 2013, the long-term growth rate used for impairment tests had increased by 1%, assuming that all other variables had remained the same, no impairment charge would have been required.

If, on October 31, 2013, the long-term growth rate used for impairment tests had decreased by 1%, assuming that all other variables had remained the same, no impairment charge would have been required.

If, on October 31, 2013, the cash flows used for impairment tests had decreased by 10%, assuming that all other variables had remained the same, and no impairment charge would have been required.

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 2016. 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, 2013 could have required an impairment of property, plant and equipment and intangible assets with finite lives. During the year ended October 31, 2011, the Corporation recorded a $10.0 million write-off in respect of software in development under its restructuring program.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

NON-CONTROLLING INTERESTS

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

EMPLOYEE FUTURE BENEFITS

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

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

Increase (decrease)	Cost of retirement benefits for the year ended October 31, 2013 $	Retirement benefit obligations as at October 31, 2013 $
Discount rate	(2)	(799)
Rate of increase in eligible earnings	10	34

FINANCIAL INSTRUMENTS

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

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

MANAGEMENT OF FUEL PRICE RISK

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

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

CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $67.0 million as at October 31, 2013. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2013, approximately 5% of accounts receivable were over 90 days past due, whereas approximately 82% 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, 2013, the deposits totalled $24.2 million and were generally offset by purchases of person-nights at those 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 $12.4 million as at October 31, 2013 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2013, the cash security deposits with lessors that had been claimed totalled $9.5 million and have been 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, 2013 relates to cash and cash equivalents, including cash and cash equivalents reserved and derivative financial instruments accounted for as 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 DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2013.

LIQUIDITY RISK

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

INTEREST RATE RISK

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

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

RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are carried out at arm's length. During the year, the Corporation recorded $13.6 million in person-nights purchased at hotels belonging to its associate CIBV, compared with $10.3 million in 2012. As at October 31, 2013, a $0.2 million balance payable to CIBV was included under trade and other payables, compared with $0.1 million as at October 31, 2012.

CHANGES IN ACCOUNTING POLICIES

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income (loss) that may be reclassified to the statement of income (loss). The amendments also reaffirm existing requirements that items in other comprehensive income (loss) and net income (loss) should be presented as either a single statement or two consecutive statements. The amendments made to IAS 1 became effective on November 1, 2012. The amendments have had no impact on the presentation of the Corporation's consolidated financial statements as the items within other comprehensive income (loss) that could be reclassified to the statement of income (loss) are already grouped together.

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 October 2010, the IASB issued IFRS 9, *Financial Instruments*, which represents the completion of the first of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement.* The first phase addressed the classification and measurement of financial assets and financial liabilities, whereas the other two phases will cover impairment of financial assets and hedge accounting. IFRS 9 uses a single 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 in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Under the new requirements, an entity choosing to measure a liability at fair value is to present the portion of the change in fair value attributable to changes in credit risk related to equity in other comprehensive income (loss), rather than within the statement of income (loss). IFRS 9 will be effective for the Corporation's fiscal years beginning on or after November 1, 2015, with earlier adoption permitted. The Corporation continues to assess the impact of adopting this standard on its financial statements.

IFRS 10, ***CONSOLIDATED FINANCIAL STATEMENTS***

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

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

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

IFRS 13, ***FAIR VALUE MEASUREMENT***

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013. Except for additional disclosures, adoption of this standard will have no impact on the Corporation's financial statements.

IAS 19, ***EMPLOYEE BENEFITS***

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which will improve comparability and faithfulness of presentation. The amendments will also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (loss), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. Other amendments impacting retirement expense recognition have been made, particularly the accelerated recognition of past service costs and the application of the same discount rate to the net defined benefit asset or liability. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that the Corporation is exposed to through its participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013. Except for additional disclosures, adoption of this standard will have no impact on the Corporation's financial statements.

RISKS AND UNCERTAINTIES

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

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

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

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

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

ECONOMIC AND GENERAL RISKS

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

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

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

COMPETITION RISKS

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

In addition, traveller needs dictate how our industry evolves. In recent years, travellers have demanded higher value, better product selection and personalized service, all at competitive prices. The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thus bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. Since

our available seat capacity and person-nights are also influenced by market forces, our business model is called into question in some respects. The Corporation's inability to rapidly meet those expectations in a proactive manner could adversely impact its competitive positioning while reducing profitability of its products.

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

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

REPUTATION RISK

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

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

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

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

AVIATION RISKS

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

REGULATORY RISKS

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

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

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

HUMAN RESOURCE RISKS

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

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

As at October 31, 2013, the Corporation had approximately 5,000 employees, including nearly 50% unionized personnel covered by six collective agreements. Negotiations to renew some of those collective agreements could give rise to work stoppages or slowdowns or higher labour costs that could unfavourable impact our operations and operating income.

INSURANCE COVERAGE RISKS

In the wake of the terrorist attacks of September 11, 2001, the airline insurance market for risks associated with war and terrorist acts has undergone several changes. The limit on third-party civil liability coverage for bodily injury and property damage has been set at US$150 million per claim. As a result, governments are still required to cover air carriers above this US$150 million limit until commercial insurers do so at a reasonable cost. The Canadian government covers domestic air carriers accordingly. In addition, some insurers that could provide coverage in excess of US$150 million are not licensed to transact business in Canada, which further limits availability.

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

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

CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 1992) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2013.

Lastly, no significant changes in ICFR occurred during the year ended October 31, 2013 that materially affected, or are likely to materially affect, the Corporation's ICFR.

OUTLOOK

On the sun destinations market, Transat's capacity is approximately 3.3% higher than that marketed last year. To date, 41% of that capacity has been sold, load factors are lower by 2%, and selling prices are higher by 5% compared to those recorded last year at the same date.

In France, where winter is low season, compared with last year at this time medium-haul bookings are higher by 10%, long-haul bookings are down by 2% and selling prices for both types of travel are similar.

On the transatlantic, also the low season, Transat's capacity is 8% lower than that marketed last winter. To date, 53% of that capacity has been sold, load factors are lower by 6%, and selling prices are higher by 8%

The Sun destinations market in Canada accounts for a substantial portion of Transat's business during the winter season, and margins are both thin and volatile. At this early stage in the season, forecasting is difficult because of the following factors: a significant portion of capacity remains to be sold, bookings are last minute, and the Canadian dollar has weakened relative to the U.S. currency. However, to the extent that the conditions do not deteriorate, the Corporation expects to record better results than last year for the winter.

It is extremely early to comment on the transatlantic market for the summer 2014, as only 9% of the seats have been sold. Transat's capacity is 2% higher than in 2013, load factors are similar, and prices are superior.

[in thousands of dollars, except per share amounts]

	2013 IFRS	2012 IFRS	2011 IFRS	2010[4] (Restated) GAAP	2009 (Restated) GAAP
Consolidated statements of income					
Revenues	**3,648,158**	3,714,219	3,654,167	3,497,408	3,542,403
Operating expenses	**3,531,512**	3,697,264	3,621,141	3,371,295	3,451,946
Depreciation and amortization	**39,068**	40,793	43,814	48,662	51,155
Restructuring charge – Termination benefits	**5,740**	—	6,513	—	2,900
Gross margin	**71,838**	(23,838)	(17,301)	77,451	36,402
Financing costs	**2,512**	2,962	3,499	4,584	7,545
Financing income	**(7,357)**	(6,693)	(7,395)	(3,036)	(4,588)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**493**	(701)	1,278	(9,341)	(68,267)
Foreign exchange (gain) loss on long-term monetary items	**(846)**	(370)	1,654	(1,109)	(135)
Restructuring charge – loss (gain) on disposal of assets and impairment of goodwill	**—**	15,000	10,030	(1,157)	9,067
Loss (gain) on investments in ABCP	**—**	(7,936)	(8,113)	(4,648)	(68)
Gain on disposal of a subsidiary and repurchase of preferred shares of a subsidiary	**—**	(5,655)	—	—	—
Share of net (income) loss of associates	**(3,676)**	(3,495)	(827)	490	(24)
Income (loss) before income tax expense	**80,712**	(16,950)	(17,427)	91,668	92,872
Income taxes (recovery)	**19,510**	(3,414)	(5,775)	23,398	30,100
Non-controlling interest in subsidiaries' results	**(3,247)**	(3,133)	(3,059)	(3,724)	(3,047)
Net income (loss) for the year attributable to shareholders	**57,955**	(16,669)	(14,711)	64,546	59,725
Basic earnings (loss) per share	**1.51**	(0.44)	(0.39)	1.71	1.80
Diluted earnings (loss) per share	**1.51**	(0.44)	(0.39)	1.70	1.78
Cash flows related to:					
Operating activities	**123,039**	8,872	90,673	119,131	45,234
Investing activities	**(28,289)**	(11,024)	(56,683)	(27,819)	(26,662)
Financing activities	**(1,817)**	(4,361)	(29,470)	(81,034)	18,303
Effect of exchange rate changes on cash and cash equivalents	**1,710**	(3,888)	(3,571)	(10,203)	(2,090)
Net change in cash and cash equivalents	**94,643**	(10,401)	949	75	34,785
Cash and cash equivalents, end of year	**265,818**	171,175	181,576	180,627	180,552
Total assets	**1,290,073**	1,165,301	1,226,570	1,193,184	1,130,319
Long-term debt (including current portion)	**—**	—	—	29,059	107,684
Debentures	**—**	—	—	—	3,156
Equity	**441,393**	366,326	384,241	403,902	356,752
Debt ratio[1]	**0.66**	0.69	0.69	0.66	0.68
Book value per share[2]	**11.47**	9.57	10.11	10.67	9.46
Return on average equity[3]	**(14.4%)**	(4.4%)	(3.7%)	16.7%	17.2%
Shareholding statistics (in thousands)					
Outstanding shares, end of year	**38,468**	38,296	38,022	37,850	37,729
Weighted average number of outstanding shares					
Undiluted	**38,390**	38,142	37,930	37,796	33,168
Diluted	**38,390**	38,142	37,930	37,993	33,485

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