Annual Report

Transat A.T. inc.

It's our employees who make us soar to new heights.

Senior Management

Jean-Marc Eustache

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

Annick Guérard

Chief Operating Officer, Transat A.T. Inc.

Jean-François Lemay

President, Air Transat A.T. Inc.

Jordi Solé

President, Hotel Division, Transat A.T. Inc.

Bernard Bussières

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

Daniel Godbout

Senior Vice-President and Advisor to the President, Transat A.T. Inc.

Christophe Hennebelle

Vice-President, Human Resources and Corporate Affairs, Transat A.T. Inc.

Bruno Leclaire

Chief Information and Digital Officer, Transat A.T. Inc.

Denis Pétrin

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

Neha
Senior Revenue Management Groups Coordinator South
with Transat since 2007


Air
transat
2019 World's Best
Leisure Airline
WORLD AIRLINE
WINNER
SKYTRAX
AWARDS 2019

Board of Directors

Jean-Marc Eustache

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

1

Raymond Bachand

Lead Director

Strategic Advisor, Norton Rose Fulbright Canada S.E.N.C.R.L., s.r.l./LLP

1 3

Ian Rae

Founder, President and Chief Executive Officer, CloudOps

Louis-Marie Beaulieu

Chairman of the Board, President and Chief Executive Officer, Groupe Desgagnés Inc.

2

Lucie Chabot

Corporate Director

3

Jacques Simoneau

President and Chief Executive Officer and Director, Gestion Univalor, LP

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Lina De Cesare

Corporate Director

4

W. Brian Edwards

Corporate Director

1 2 4

Susan Kudzman

Corporate Director

2 4

Jean-Yves Leblanc

Corporate Director

1 2 3

Louise St-Pierre

Corporate Director

Philippe Sureau

Corporate Director

Committees

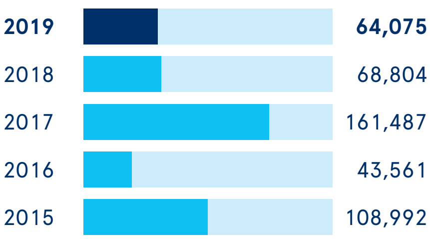
1 **Executive Committee** | 2 **Human Resources and Compensation Committee** | 3 **Audit Committee** | 4 **Risk Management and Corporate Governance Committee**

2019 Financial Highlights

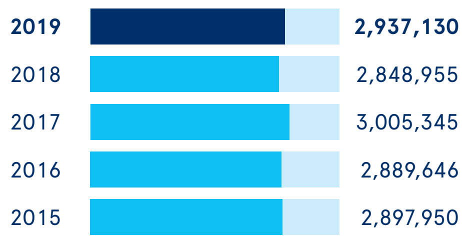
in thousands of dollars, except per share amounts and ratios

Transat A.T. Inc. is a leading integrated international tourism company specializing in holiday travel. It serves some 60 destinations in more than 25 countries in the Americas and Europe.

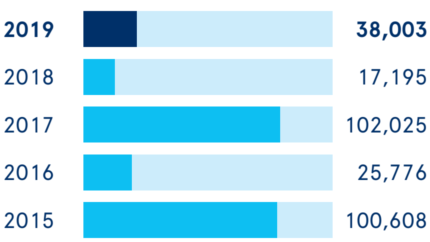
Cash flows related to operating activities



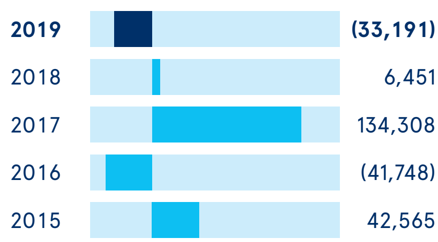
Revenues



Adjusted operating income[1]



Net income (loss) attributable to shareholders



	2019	2018	Variance ($)	Variance (%)
Revenues	2,937,130	2,848,955	88,175	3.1
Operating income (loss)	(49,783)	(50,593)	810	1.6
Adjusted operating income[1]	38,003	17,195	20,808	121.0
Net income (loss)	(30,544)	9,993	(40,537)	(405.7)
Net income (loss) attributable to shareholders	(33,191)	6,451	(39,642)	(614.5)
Diluted earnings (loss) per share	(0.88)	0.17	(1.05)	(617.6)
Cash flows related to operating activities	64,075	68,804	(4,729)	(6.9)
Cash and cash equivalents	564,844	593,654	(28,810)	(4.9)
Total assets	1,584,927	1,566,790	18,137	1.2
Long-tem debt (including current portion)	-	-	-	-
Debt ratio[2]	0.66	0.64	0.02	3.1
Stock price as at October 31 (TRZ)	15.37	6.80	8.57	126.0
Oustanding shares, end of year (in thousands)	37,747	37,545	202	0.5

1 See Non-IFRS financial measures section.

2 Debt ratio: total liabilities divided by total assets.

Message to Shareholders

Chairman of the Board,
President and
Chief Executive Officer

Jean-Marc Eustache
December 11, 2019

The beginning of a new story

On August 23, you voted 94.77% in favour of the plan of arrangement that will lead to the sale of Transat A.T. to Air Canada. If all regulatory approvals are received as expected, the transaction will close during the second quarter of the 2020 calendar year.

This transaction, which was unquestionably the headline of the past year, is excellent news for both Transat and Air Canada. It will create a champion of the Canadian and Quebec travel industries by uniting two companies that, according to Skytrax, are respectively the world's best leisure airline and North America's best carrier.

The environment is becoming increasingly competitive for tour operators and airlines, as recently illustrated by the Thomas Cook debacle as well as those involving medium-sized airlines such as XL Airways in France, Flybmi in the UK, WOW Air in Iceland and Jet Airways in India. Against this background, joining a company that is capable of positioning itself on the world stage is the best-case scenario for Transat's future.

For customers, Transat's alliance with Air Canada, a company that understands our industry and has shown its ability to succeed, means more choice, more destinations and more connections. It also means better use of our aircraft, thanks to the power of an expanded network. And it represents the best security for the company, the brand and the jobs we have created over more than 30 years in Quebec, Canada and the world.

It is also obviously good news for shareholders, because the price of $18 will represent a very significant premium over the average share price prior to the first announcement that talks were under way.

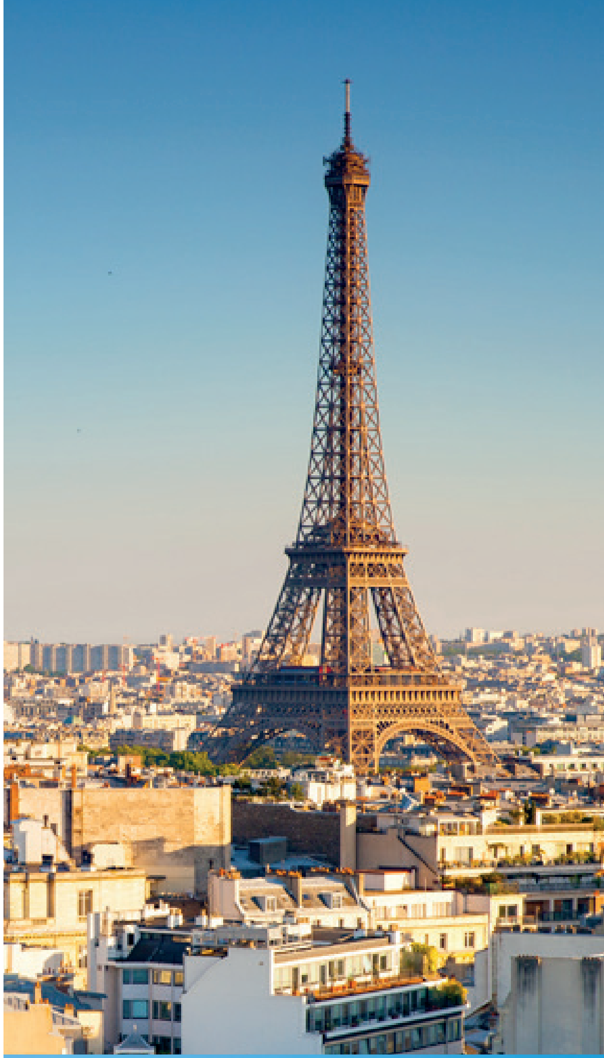
We have invested a lot of energy in recent months in making the transaction possible and we are continuing to concentrate our efforts on obtaining our expected regulatory approvals. But that doesn't mean we have lost sight of the day-to-day. On the contrary, we have continued implementing the key elements of our strategic plan, focusing specifically on those that can produce results in the shorter term.

These short-term initiatives enabled us to end the year with an adjusted net loss of $9.4 million, an improvement of nearly $15 million over the previous year. This is far from being the result we hoped for but it is satisfactory to note that, even given the circumstances, the needle is moving in the right direction. The financial statements show a net loss attributable to shareholders of $33.2 million, compared with net income attributable to shareholders of $6.5 million a year earlier, essentially explained by the transaction costs posted this year and by last year's gain on the disposal of Jonview Canada.

As for advances this year, we above all improved our network and fleet, with the most visible element of this change being the arrival of our first two A321neo LR aircraft. On May 3, we were very proud to be the first airline in North America, and one of the first in the world, to take delivery of one of these jets, the first in our order of 15. This aircraft boasts many advantages. Its entirely redesigned cabin gives our passengers the feeling that they are on vacation from the moment of takeoff. It consumes 15% less fuel than the previous generation of Airbuses, which represents a benefit in terms of costs and environmental protection. And it is 50% quieter, both for passengers and for airport-area communities. Because of these features, it is the undisputed greenest aircraft in its class.

Finally, its long range increases our efficiency on our two markets: sun and transatlantic, and this helped us achieve our goal of increasing our flight frequencies, particularly to Europe and in the domestic market.

We also continued efforts to grow our unit revenues. On the one hand, our ancillary revenues increased significantly; on the other, we continued the transformation of our revenue-management organization, which enabled us to improve our unit revenues across the network.



At the same time, we kept up the pressure on our cost-reduction initiatives, while continuing to enhance our customers' satisfaction. Our indicators on that front—satisfaction and net promoter score, or NPS—continue to progress. And once again we earned many honours in this area, including Agents' Choice Awards from Baxter Travel Media (Best Tour Operator and Favourite Overall Supplier) and Trophées Uni-Vers awards from the Association des agents de voyages du Québec (Best Airline and Best Tour Operator).

As for the hotel division, we slowed our headway during the year while still continuing to work very hard to prepare the construction of our first resort and an eventual restart of this area of business. We are continuing to explore every avenue that will enable us to bring this wonderful project to fruition.

And so, on the strength of operations that are more solid than ever, we embark on the year 2020 impatient to conclude the transaction that will open a new chapter in Transat's story.

In conclusion, I want to thank those who have devoted so much energy to our progress: our board of directors—and particularly its special committee whose work led to the conclusion of the transaction—our customers, who continue to be as numerous as ever and to place their trust in us, and especially all of our employees, whose loyalty and unwavering commitment ensure that we are able to maintain a quality of service and performance that are at least as good as in previous years, if not better. They are the ones who have built Transat and they are the ones who will continue to make it prosper.

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MANAGEMENT'S DISCUSSION AND 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, 2019, compared with the year ended October 31, 2018, and should be read in conjunction with the audited consolidated financial statements and notes thereto. Unless otherwise indicated, the information contained herein is dated as of December 11, 2019. 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, 2019 and the Annual Information Form.

The consolidated 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.

1. 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, 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, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of this MD&A.

This MD&A also contains certain forward-looking statements about the Corporation concerning a transaction involving the acquisition of all the shares of the Corporation by Air Canada [the "transaction with Air Canada"]. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of a transaction will be subject to customary closing conditions, including regulatory approvals, particularly those of Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken at present by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is expected that the transaction will close by the second quarter of the 2020 calendar year.

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 forward-looking statements in this MD&A are based on a number of assumptions relating to economic and market conditions as well as the Corporation's operations, financial position and transactions. Examples of such forward-looking statements include, but are not limited to, statements concerning:

- The outlook whereby Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is expected that the transaction with Air Canada will be completed by the second quarter of the 2020 calendar year.
- The outlook whereby the Corporation has the resources it needs to meet its 2020 objectives and to continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues and total travellers to increase compared with 2019.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2020.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $70.0 million, excluding any land and hotel acquisitions related to the development of our hotel chain.
- 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 that for winter 2020 on the sun destinations program, the impact of fluctuations in the Canadian dollar, combined with decreased fuel costs, will result in a nil increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable.
- The outlook whereby the Corporation expects its results for the winter season to be slightly higher than those of last year.

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full year and that fuel prices, foreign exchange rates, selling prices and hotel and other costs will remain stable. 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 that the assumptions on which these forward-looking statements are based are 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.

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

Adjusted operating income (loss)	Operating income (loss) before depreciation and amortization expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposal, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Adjusted operating leases	Aircraft rental expense for the past four quarters multiplied by 5.
Total debt	Long-term debt plus the amount for adjusted operating leases. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.
Total net debt	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

The following tables reconcile the non-IFRS financial measures to the most comparable IFRS financial measures:

(in thousands of Canadian dollars, except per share amounts)	2019 $	2018 Restated[1] $	2017 $
Operating income (loss)	**(49,783)**	(50,593)	34,720
Special items	**23,875**	8,962	2,925
Depreciation and amortization	**64,078**	59,125	68,470
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(167)**	(299)	(4,090)
Adjusted operating income	**38,003**	17,195	102,025
Income (loss) before income tax expense	**(38,766)**	5,044	151,804
Special items	**23,875**	8,962	2,925
Change in fair value of fuel-related derivatives and other derivatives	**8,664**	(8,360)	(9,187)
Gain on business disposals	**(9)**	(31,064)	(86,616)
Foreign exchange gain on business disposal	**—**	—	(15,478)
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(167)**	(299)	(4,090)
Adjusted pre-tax income (loss)	**(6,403)**	(25,717)	39,358
Net income (loss) attributable to shareholders	**(33,191)**	6,451	134,308
Special items	**23,875**	8,962	2,925
Change in fair value of fuel-related derivatives and other derivatives	**8,664**	(8,360)	(9,187)
Gain on business disposals	**(9)**	(31,064)	(86,616)
Foreign exchange gain on business disposal	**—**	—	(15,478)
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(167)**	(299)	(4,090)
Tax impact	**(8,609)**	277	7,237
Adjusted net income (loss)	**(9,437)**	(24,033)	29,099
Adjusted net income (loss)	**(9,437)**	(24,033)	29,099
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,673**	37,562	37,040
Adjusted net income (loss) per share	**(0.25)**	(0.64)	0.79

[1]The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

	October 31, 2019 $	October 31, 2018 $	October 31, 2017 $
Aircraft rent	**143,784**	124,454	132,139
Multiple	**5**	5	5
Adjusted operating leases	**718,920**	622,270	660,695
Long-term debt	**—**	—	—
Adjusted operating leases	**718,920**	622,270	660,695
Total debt	**718,920**	622,270	660,695
Total debt	**718,920**	622,270	660,695
Cash and cash equivalents	**(564,844)**	(593,654)	(593,582)
Total net debt	**154,076**	28,616	67,113

3. FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2019 $	2018 Restated[1] $	2017 $	Change 2019 %	Change 2018 %
Consolidated Statements of Income (Loss)					
Revenues	**2,937,130**	2,848,955	3,005,345	3.1	(5.2)
Operating income (loss)	**(49,783)**	(50,593)	34,720	1.6	(245.7)
Net income (loss) attributable to shareholders	**(33,191)**	6,451	134,308	(614.5)	(95.2)
Basic earnings (loss) per share	**(0.88)**	0.17	3.63	(617.6)	(95.3)
Diluted earnings (loss) per share	**(0.88)**	0.17	3.63	(617.6)	(95.3)
Adjusted operating income[2]	**38,003**	17,195	102,025	121.0	(83.1)
Adjusted net income (loss)[2]	**(9,437)**	(24,033)	29,099	60.7	(182.6)
Adjusted net income (loss) per share[2]	**(0.25)**	(0.64)	0.79	60.9	(181.0)
Consolidated Statements of Cash Flows					
Operating activities	**64,075**	68,804	161,487	(6.9)	(57.4)
Investing activities	**(92,123)**	(93,644)	97,901	1.6	(195.7)
Financing activities	**(1,703)**	(430)	(3,596)	(296.0)	88.0
Effect of exchange rate changes on cash and cash equivalents	**941**	(982)	450	195.8	(318.2)
Net change in cash and cash equivalents	**(28,810)**	(26,252)	256,242	(9.7)	(110.2)

	As at October 31, 2019 $	As at October 31, 2018 Restated[1] $	As at October 31, 2017 $	Change 2019 %	Change 2018 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**564,844**	593,654	593,582	(4.9)	0.0
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**352,771**	338,919	309,064	4.1	9.7
	917,615	932,573	902,646	(1.6)	3.3
Total assets	**1,584,927**	1,566,790	1,453,216	1.2	7.8
Debt (current and non-current)	**—**	—	—	—	—
Total debt[2]	**718,920**	622,270	660,695	15.5	(5.8)
Total net debt[2]	**154,076**	28,616	67,113	438.4	(57.4)

[1] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.
[2] See section 2 – Non-IFRS financial measures

4. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

Core Business

Transat is a leading integrated international tourism company specializing in holiday travel, which operates and markets its services in the Americas and Europe. It develops and markets holiday travel services in packages, including air travel and hotel stays, and air-only formats. Transat operates under the Transat and Air Transat brands mainly in Canada, France, the United Kingdom and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. It offers destination services in Mexico, the Dominican Republic and Jamaica. Recently, Transat started setting up a division with a mission to own and operate hotels in the Caribbean and Mexico and to market them, particularly in the United States, in Europe and in Canada.

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 range of operations and mission to include the hotel business.

Strategy

As part of its 2018–2022 strategic plan, Transat set a two-pronged objective of building sustainable profitability: improve and strengthen its current business model and pursue hotel development.

Hotel development will be achieved by creating a business unit to operate all-inclusive hotels in the Caribbean and Mexico, some wholly owned and some not. This hotel chain will strengthen Transat's profitability, particularly during winter, while enabling it to deliver a controlled end-to-end experience to its Canadian, European and U.S. customers.

Furthermore, Transat will strengthen its current model by maintaining its focus on satisfying the expectations of leisure customers with user-friendly service for an affordable price. This will be made possible by greater synergy between the Corporation's various divisions in Canada, continued efforts to increase efficiency and reduce costs, continuous improvement in the Corporation's digital footprint and a special focus on the development of certain functions, such as revenue management or air network planning.

Lastly, corporate responsibility, whether in terms of the environment, customers, employees, partners, or governance, will remain a key part of Transat's strategy.

As of August 23, 2019, Transat's shareholders approved an arrangement agreement [the "Arrangement Agreement"] with Air Canada, under which it is provided that Air Canada will acquire all issued and outstanding shares of Transat. If regulatory approvals are obtained and the transaction occurs, Transat's business will be incorporated into Air Canada's strategic plan. Meanwhile, the Corporation continues to implement its plan, but has slowed down investment in hotel development. The Corporation continues its cost reduction and service enhancement efforts, as well as to maintain its ability to fully implement its plan should the transaction not close.

Accordingly, for fiscal 2020, Transat has set the following objectives:

1. Obtain the regulatory authorizations necessary to complete the transaction with Air Canada, while maintaining its capacity to operate independently;
2. Improve financial performance;
3. Optimize flight programs in order to maximize revenues and profitability, including increased network density, fleet utilization and connectivity;
4. Continue the transformation of revenue management practices and increase the revenue per unit;
5. Continue cost control and cost reduction initiatives;
6. Continue to increase our share of direct distribution;
7. Continue to improve the customer satisfaction and maintain a favourable brand perception; and
8. Maintain the satisfaction and engagement of our teams and encourage retention.

Review of Objectives and Achievements for 2019

The main objectives and achievements for fiscal 2019 were as follows:

Develop our hotel division: start construction work on the first hotel in Mexico, acquire a second parcel of land or a hotel in operation and finish setting up the team

The Corporation has slowed down its investments in hotel development but continues the work in accordance with the Arrangement Agreement.

Strengthen our air network: increase network density by increasing frequencies on our main routes and consider potential feeder/defeeder alliances to increase route density

Frequencies have been increased, particularly for Europe and domestic flights. Transat entered into the Arrangement Agreement with Air Canada after concluding that it was the best alliance to power its routes.

Increase our revenues, by improving ancillary revenue streams and by attaining a higher level of expertise and the implementation of new practices within the revenue management department

Ancillary revenue improvement objectives have been met, and the implementation of an enhanced revenue management organization has allowed us to increase revenue per unit across the network.

Transform our fleet: complete the changes planned for this year, including the introduction of the first A321neo LRs, finalize fleet planning over 3–5 years, while improving reliability, and integrating new pilot fatigue rules and the passenger bill of rights

The first two A321neo LRs were welcomed into the fleet and the organization was prepared to adapt to new pilot fatigue rules and passenger bill of rights. However, in the context of the transaction with Air Canada, emphasis was mainly put on short-term plans rather than long-term plans.

Reduce and control costs

A cost control and continuous improvement structure was put in place, which allowed us to carry out the cost control and cost reduction initiatives planned for the year .

Optimize distribution, namely by increasing our involvement in direct distribution channels

The share of direct distribution increased, particularly for packages. The objectives set were not entirely met, particularly as a result of a change in the destination mix.

Increase customer satisfaction, measured by our Net Promoter Score

The Net Promoter Score increased significantly. Customer satisfaction is on the rise.

Expand our digital footprint with customers and digitize and automate business processes

We have deployed the new version of the airline website and mobile app, and an online conversation tool widely used by consumers.

Unite our teams and maintain their engagement

In the context of the transaction with Air Canada, the focus was maintained on retention and engagement. Our engagement scores, measured using the Officevibe tool, remained constant.

Key Performance Drivers

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

Adjusted operating income (loss)	Obtain an adjusted operating income (loss) margin higher than 3% of revenues.
Capacity	Increase capacity in all regions in Canada and in Europe in our traditional markets and establish our first all-inclusive hotel banner in the Caribbean and Mexico.
Revenue growth	Grow revenues at the pace of the market, i.e., around 3% per year in our traditional markets, and operate 5,000 rooms within six years after the project restart in the hotel business, either owned or managed.

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 $564.8 million as at October 31, 2019. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels and support the implementation of our hotel division.
Credit facilities	A revolving credit facility agreement totalling $50.0 million, among others, is also available for operating purposes.

Our non-financial resources include:

Brand	The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.
Structure	Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.
Employees	Our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. In addition, we believe that the Corporation has strong management.
Supplier relationships	We have exclusive access to certain hotels at sun destinations as well as over 30 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2020 objectives and continue building on its long-term strategies.

5. REVISITING OUR SEPTEMBER 12, 2019 OUTLOOK

	What we said	What we did
Fuel/foreign exchange effect – transatlantic program	No significant changes in operational expenses for the fourth quarter of 2019	For the fourth quarter of 2019, the fuel/foreign exchange effect resulted in no significant changes in operating expenses in the transatlantic program, our main program for the period.
Overall results	For the fourth quarter of 2019, results slightly higher than in 2018.	For the fourth quarter of 2019, adjusted net income[1] of $27.2 million was higher than in 2018, owing mainly to higher average selling prices across all our programs.

[1] See section 2 – Non-IFRS financial measures

6. RECENT DEVELOPMENTS

On June 27, 2019, the Corporation announced that it had concluded a definitive Arrangement Agreement that provides for Air Canada's acquisition of all issued and outstanding shares of Transat and its combination with Air Canada.

On August 23, 2019, a significant majority of the Corporation's shareholders voted in favour of the special resolution approving the previously announced plan of arrangement pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for a cash consideration of $18.00 per share.

On August 29, 2019, the Corporation announced that the Superior Court of Quebec issued a final order approving the plan of arrangement with Air Canada. The arrangement remains subject to certain customary closing conditions, including regulatory approvals, particularly those of Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is expected that the transaction will be completed by the second quarter of the 2020 calendar year.

The hotel development strategy and related objectives set out in the Strategy section are affected by the plan of arrangement as the Corporation has agreed to limit its commitments and expenses related to the execution of its hotel strategy in the period leading up to the closing of the transaction with Air Canada.

During the year ended October 31, 2019, the Corporation did not grant any units in connection with the stock option, PSU and RSU plans due to the transaction with Air Canada.

7. BUSINESS DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price amounted to $48.9 million. The disposed subsidiary's net assets amounted to $13.4 million as at November 30, 2017. During the year ended October 31, 2018, the Corporation recognized a gain on business disposal of $31.3 million. During the year ended October 31, 2019, the Corporation recorded a $0.3 million downward adjustment to the gain on business disposal related to the amount claimed by H.I.S. Co. Ltd. for uncollected trade receivables as at May 31, 2019.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the years ended October 31, 2018 and 2017.

OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for an amount of US$150.5 million [$187.5 million], received in cash. The disposed interest had a carrying value of $97.3 million as at October 4, 2017. During the year ended October 31, 2017, the Corporation recognized a gain on business disposal of $86.6 million, net of transaction costs of $1.7 million, as well as a foreign exchange gain of $15.5 million realized on the reclassification of the cumulative exchange differences related to the investment.

Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1.5 million [$1.9 million] to US$149.0 million [$185.6 million]. During the year ended October 31, 2018, the Corporation recognized a downward adjustment of $0.2 million to the gain on business disposal as a result of additional transaction costs incurred in connection with the closing of the transaction, bringing the total amount of the gain on disposal of Ocean Hotels to $86.4 million.

8. CONSOLIDATED OPERATIONS

	2019	2018 Restated[1]	2017	Change	
(in thousands of dollars)	$	$	$	%	%
Continuing operations					
Revenues	**2,937,130**	2,848,955	3,005,345	3.1	(5.2)
Operating expenses					
Costs of providing tourism services	**808,937**	863,105	1,202,455	(6.3)	(28.2)
Aircraft fuel	**517,588**	498,512	358,558	3.8	39.0
Salaries and employee benefits	**412,375**	386,898	371,863	6.6	4.0
Aircraft maintenance	**279,283**	237,918	203,669	17.4	16.8
Sales and distribution costs	**209,344**	209,921	184,783	(0.3)	13.6
Airport and navigation fees	**158,618**	149,699	134,665	6.0	11.2
Aircraft rent	**143,784**	124,454	132,139	15.5	(5.8)
Other airline costs	**262,477**	263,272	225,512	(0.3)	16.7
Other	**105,304**	97,577	96,729	7.9	0.9
Share of net loss (income) of an associate and a joint venture	**1,250**	105	(11,143)	1,090.5	(100.9)
Depreciation and amortization	**64,078**	59,125	68,470	8.4	(13.6)
Special items	**23,875**	8,962	2,925	166.4	206.4
	2,986,913	2,899,548	2,970,625	3.0	(2.4)
Operating income (loss)	**(49,783)**	(50,593)	34,720	1.6	(245.7)
Financing costs	**1,520**	2,061	2,134	(26.2)	(3.4)
Financing income	**(21,332)**	(17,935)	(8,363)	18.9	114.5
Change in fair value of fuel-related derivatives and other derivatives	**8,664**	(8,360)	(9,187)	(203.6)	(9.0)
Gain on business disposals	**(9)**	(31,064)	(86,616)	(100.0)	(64.1)
Foreign exchange gain on business disposal	**—**	—	(15,478)	N/A	(100.0)
Foreign exchange loss (gain) on non-current monetary items	**140**	(339)	426	(141.3)	(179.6)
Income (loss) before income tax expense	**(38,766)**	5,044	151,804	(868.6)	(96.7)
Income taxes (recovery)					
Current	**1,028**	(6,494)	18,684	115.8	(134.8)
Deferred	**(9,250)**	1,545	(5,252)	(698.7)	129.4
	(8,222)	(4,949)	13,432	(66.1)	(136.8)
Net income (loss) for the year	**(30,544)**	9,993	138,372	(405.7)	(92.8)
Net income (loss) attributable to:					
Shareholders	**(33,191)**	6,451	134,308	(614.5)	(95.2)
Non-controlling interests	**2,647**	3,542	4,064	(25.3)	(12.8)
	(30,544)	9,993	138,372	(405.7)	(92.8)
Earnings (loss) per share					
Basic	**(0.88)**	0.17	3.63	(617.6)	(95.3)
Diluted	**(0.88)**	0.17	3.63	(617.6)	(95.3)

[1]The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

RESTATEMENT OF COMPARATIVE FIGURES

The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and the consolidated statement of income for the year ended October 31, 2018 has been restated. Total revenues for the year ended October 31, 2018 have been restated to present revenues on the same basis as for the year ended October 31, 2019. Costs of providing tourism services, sales and distribution costs, other costs and the change in fair value of fuel-related derivatives and other derivatives for the year ended on October 31, 2018 were also restated. The main changes related to the adoption of IFRS 9 and IFRS 15 are described in note 4 to the consolidated financial statements for the year ended October 31, 2019.

REVENUES

We generate 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, 2019, our revenues were up $88.2 million (3.1%). The $29.4 million increase in revenues recorded during the winter season resulted mainly from higher average selling prices across all of our programs, combined with a 2.8% rise in the number of travellers in the sun destinations program, our main program for the period, resulting from our decision to increase our capacity in that program. During winter, higher revenues were partially offset by a greater proportion of flight-only sales, which generate lower revenue per unit than packages. During the summer season, revenues were $58.7 million higher than in 2018. The higher revenues were driven primarily by the increase in average selling prices and load factors across all our programs, as well as growth in ancillary revenues.

For 2020, we expect revenues and the total number of travellers to increase compared with 2019.

Operating Expenses

Total operating expenses were up $87.4 million (3.0%) for the year compared with 2018. The increase is primarily attributable to our winter season, during which we saw a higher number of travellers, driven by our decision to increase our capacity by 2.2% in the sun destinations program, our main program for the period, combined with the weakening of the Canadian dollar against the U.S. dollar and higher fuel prices. The increase is also attributable to the summer season, due to the costs related to the transaction with Air Canada and an increase in aircraft maintenance costs.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. The $54.2 million (6.3%) decrease was mainly due to the lower number of packages sold than in 2018, partially offset by the unfavourable impact of the weakening of the Canadian dollar against the U.S. dollar.

Aircraft fuel

Aircraft fuel expense rose $19.1 million (3.8%) during the year, owing primarily to the weakening of the Canadian dollar against the U.S. dollar, combined with increased capacity compared with 2018 and higher fuel prices.

Salaries and employee benefits

Salaries and employee benefits were up $25.5 million (6.6%) to $412.4 million for the year ended October 31, 2019. The increase resulted primarily from annual salary reviews and the hiring of pilots and mechanics following the increased capacity in 2019.

Aircraft maintenance

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat for leased aircraft. Compared with 2018, these expenses increased by $41.4 million (17.4%) during the year. This increase resulted from the higher number of maintenance events than last year and the weakening of the Canadian dollar against the U.S. dollar.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs amounted to $209.3 million, down $0.6 million (0.3%) compared with fiscal 2018. This decrease was mainly due to lower marketing fees, related to our cost reduction efforts, partially offset by an increase in credit card fees and distribution fees related to our higher capacity compared with 2018.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees were up $8.9 million (6.0%) compared with 2018. The increase resulted from higher capacity compared with 2018, in particular from an increase in the number of flights on the domestic program during the winter.

Aircraft rent

The $19.3 million (15.5%) increase in aircraft rent for the year was attributable to the increase in the number of seasonal aircraft and the expansion in our permanent fleet of leased aircraft, compared with 2018, combined with the weakening of the Canadian dollar against the U.S. dollar.

Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were down $0.8 million (0.3%) for the year, compared with 2018. The decrease resulted from lower travel interruption costs, partially offset by increased capacity compared with 2018.

Other

Other expenses were up $7.7 million (7.9%) during the year, compared with 2018. The increase is due to a service provider whose bankruptcy resulted in losses for the Corporation for the year, as well as higher professional fees and pilot training costs.

Share of net loss (income) of an associate and a joint venture

In 2018 and 2019, our share of net loss (income) of an associate and a joint venture represents our share of the net loss (income) of Desarrollo Transimar, our hotel joint venture acquired in 2017. In 2017, our share of net income of an associate and a joint venture mainly represented our share of net income of Ocean Hotels, which was sold on October 4, 2017. Our share of net loss of a joint venture for the current fiscal year totalled $1.3 million compared with $0.1 million for 2018. The increase in our share of the net loss was due to an increase in operating costs following the reopening of the Desarrollo Transimar hotel complex, Marival Armony, in May 2019, whose expansion and renovation work was completed during the year.

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment, intangible assets subject to amortization and deferred lease incentives. Depreciation and amortization expense was up $5.0 million (8.4%) in fiscal 2019. This increase is due to leasehold improvements to aircraft added to our fleet, capitalized maintenance on the Airbus A310s, and computer hardware and software.

Special items

Special items generally include restructuring charges and other significant unusual items. For the year ended October 31, 2019, professional fees of $10.3 million and compensation expenses of $13.6 million were recorded in connection with the transaction with Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions subsequent to the significant rise in the share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period. The share closing price of $15.37 as at October 31, 2019 was used to calculate expenses related to the stock-based compensation plans, when applicable.

During the year ended October 31, 2018, the Corporation recognized restructuring expenses of $2.3 million related to termination benefits. In addition, on June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5.0 million [$6.7 million], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded as a subsequent event in the consolidated statement of income for the year ended October 31, 2018.

OPERATING RESULTS

Given the above, we recorded an operating loss of $49.8 million (1.7%) for the year, compared with $50.6 million (1.8%) for the previous year. Operating results by season are summarized as follows:

				Change	
	2019	2018 Restated[1]	2017	2019	2018
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	**1,544,979**	1,515,543	1,573,642	1.9	(3.7)
Operating expenses	**1,610,636**	1,562,251	1,639,374	3.1	(4.7)
Operating income (loss)	**(65,657)**	(46,708)	(65,732)	(40.6)	28.9
Operating income (loss) (%)	**(4.2)**	(3.1)	(4.2)	(37.9)	26.2
Summer season					
Revenues	**1,392,151**	1,333,412	1,431,703	4.4	(6.9)
Operating expenses	**1,376,277**	1,337,297	1,331,251	2.9	0.5
Operating income (loss)	**15,874**	(3,885)	100,452	508.6	(103.9)
Operating income (loss) (%)	**1.1**	(0.3)	7.0	491.4	(104.2)

[1] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

We reported an operating loss for the winter season amounting to $65.7 million (4.2%) compared with $46.7 million (3.1%) in 2018. The increase in our operating loss resulted primarily from higher fuel prices, combined with the weakening of the Canadian dollar against the U.S. dollar and the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total exceeded the increase in the average selling prices of packages.

During the summer season, operating income totalled $15.9 million (1.1%) compared with an operating loss of $3.9 million (0.3%) for the previous year. The improvement in our operating income was driven by higher average selling prices and load factors across all our programs, and growth in ancillary revenues. The increase in operating income was partially offset by the costs associated with the transaction with Air Canada totalling $23.9 million and the increase in aircraft maintenance costs.

For the winter season, we reported an adjusted operating loss of $34.7 million (2.2%), compared with $16.6 million (1.1%) in 2018. For the summer season, we recorded $72.7 million (5.2%) in adjusted operating income, compared with $33.8 million (2.5%) in 2018. Overall, the Corporation reported $38.0 million (1.3%) in adjusted operating income for the year, compared with $17.2 million (0.6%) in 2018.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on long-term debt and other interest, standby fees, as well as financial expenses. Financing costs were down $0.5 million in 2019, compared with 2018.

Financing income

Financing income was up $3.4 million during the year compared with 2018, as a result of rising interest rates since last year.

Change in fair value of fuel-related derivatives and other derivatives

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. For the year, the fair value of fuel-related derivatives and other derivatives was down $8.7 million, compared with an increase in fair value of $8.4 million in 2018. The decrease was mainly due to the maturing of favourable fuel- and currency-related derivatives, combined with the lower fair value of fuel-related derivatives.

Gain on business disposals

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview for a consideration of $48.9 million. The Corporation recognized a gain on business disposal of $31.3 million in 2018. Following the sale of its 35% minority interest in Ocean Hotels on October 4, 2017, the Corporation recorded a downward adjustment to the gain on business disposal of $0.2 million during the year ended October 31, 2018.

Foreign exchange loss (gain) on non-current monetary items

For the year, the Corporation reported a foreign exchange loss of $0.1 million on non-current monetary items, compared with a foreign exchange gain of $0.3 million in 2018. The loss is mainly due to the unfavourable exchange rates on foreign currency deposits.

INCOME TAXES

For the year ended October 31, 2019, income tax recovery amounted to $8.2 million compared with $4.9 million for the previous year. Excluding the gain on business disposals and the share of net loss (income) of a joint venture, the effective tax rate was 21.9% for the year ended October 31, 2019 and 20.5% for the previous year. The difference in tax rates between fiscal 2019 and 2018 resulted mainly from higher non-deductible losses than in 2018.

NET INCOME (LOSS)

Considering the items discussed in the Consolidated operations section, net loss for the year ended October 31, 2019 was $30.5 million compared with a net income of $10.0 million in 2018.

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

Net loss attributable to shareholders amounted to $33.2 million or $0.88 per share (basic and diluted) compared with a net income of $6.5 million or $0.17 per share (basic and diluted) for the previous year. The weighted average number of outstanding shares used to compute basic per share amounts was 37,673,000 for fiscal 2019 and 37,394,000 for fiscal 2018 (37,673,000 and 37,562,000, respectively, for diluted per share amounts).

For the year ended October 31, 2019, our adjusted net loss amounted to $9.4 million ($0.25 per share) compared with $24.0 million ($0.64 per share) in 2018.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues increased compared with the corresponding quarters. The higher revenues recorded during the winter season (Q1 and Q2) were mainly attributable to the increase in average selling prices across all our programs, combined with a 2.8% rise in the number of travellers in the sun destinations program, our main program for the period, resulting from our decision to increase our capacity in that program. The increase in revenues was offset by a greater proportion of flight-only sales, which generate less revenues than packages. For the summer season (Q3 and Q4), growth in revenues was driven primarily by higher average selling prices and load factors across all our programs, as well as growth in ancillary revenues.

In terms of our operating results, for the winter season (Q1 and Q2), the increase in our operating loss resulted primarily from the increase in fuel prices, combined with the weakening of the Canadian dollar against the U.S. dollar, and the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total were higher than the increase in the average selling prices of packages. For the summer season (Q3 and Q4), the improvement in our operating income was driven by higher average selling prices and load factors across all our programs, and growth in ancillary revenues. The increase in operating income was partially offset by the costs associated with the transaction with Air Canada and higher aircraft maintenance costs. 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)	Q1-2018	Q2-2018	Q3-2018	Q4-2018	**Q1-2019**	**Q2-2019**	**Q3-2019**	**Q4-2019**
	Restated[2]							
	$	$	$	$	**$**	**$**	**$**	**$**
Revenues	648,389	867,154	664,569	668,843	**647,566**	**897,413**	**698,916**	**693,235**
Aircraft rent	30,169	33,352	32,090	28,843	**38,596**	**41,103**	**30,186**	**33,899**
Operating income (loss)	(43,528)	(3,179)	(10,736)	6,851	**(52,555)**	**(13,102)**	**(7,617)**	**23,491**
Net income (loss)	(1,840)	9,743	(4,693)	6,784	**(48,659)**	**8,796**	**(10,730)**	**20,049**
Net income (loss) attributable to shareholders	(3,195)	7,939	(5,046)	6,754	**(49,646)**	**7,214**	**(11,043)**	**20,284**
Basic earnings (loss) per share	(0.09)	0.21	(0.13)	0.18	**(1.32)**	**0.19**	**(0.29)**	**0.54**
Diluted earnings (loss) per share	(0.09)	0.21	(0.13)	0.18	**(1.32)**	**0.19**	**(0.29)**	**0.54**
Adjusted operating income (loss)[1]	(28,759)	12,130	2,350	31,474	**(37,728)**	**3,046**	**21,824**	**50,861**
Adjusted net income (loss)[1]	(32,196)	(456)	(5,040)	13,659	**(36,029)**	**(6,312)**	**5,692**	**27,212**
Adjusted net income (loss) per share[1]	(0.87)	(0.01)	(0.13)	0.36	**(0.96)**	**(0.17)**	**0.15**	**0.72**

[1] See section 2 – Non-IFRS financial measures
[2] The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $693.2 million in revenues, up $24.4 million (3.6%) from $668.8 million for the corresponding period of 2018. This increase resulted from higher average selling prices across all our programs, as well as growth in ancillary revenues. Our activities generated operating income of $23.5 million, compared with $6.9 million in 2018. The increase in operating income resulted primarily from higher average selling prices across all our programs, and growth in ancillary revenues, partially offset by the costs associated with the transaction with Air Canada and higher aircraft maintenance costs.

Net income amounted to $20.0 million in the fourth quarter, compared with $6.8 million in 2018. Net income attributable to shareholders amounted to $20.3 million or $0.54 per share (basic and diluted) compared with $6.8 million or $0.18 per share (basic and diluted) in 2018.

For the fourth quarter, our adjusted net income amounted to $27.2 million ($0.72 per share) compared with $13.7 million ($0.36 per share) in 2018.

9. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2019, cash and cash equivalents totalled $564.8 million, compared with $593.7 million as at October 31, 2018. Cash and cash equivalents in trust or otherwise reserved amounted to $352.8 million as at the end of fiscal 2019, compared with $338.9 million in 2018. The Corporation's statement of financial position reflected $208.9 million in working capital, for a ratio of 1.23, compared with $287.5 million and a ratio of 1.33 as at October 31, 2018.

Total assets increased by $18.1 million (1.2%) from $1,566.8 million as at October 31, 2018 to $1,584.9 million as at October 31, 2019. This increase is explained in the financial position table provided below. Equity decreased by $36.9 million, from $571.6 million as at October 31, 2018 to $534.8 million as at October 31, 2019. This decrease resulted mainly from a $33.2 million net loss attributable to shareholders, combined with an $11.1 million unrealized loss on cash flow hedges, partially offset by a $1.5 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

Consolidated Financial Position

	October 31, 2019 $	October 31, 2018 Restated(1) $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**564,844**	593,654	(28,810)	See the *Cash flows* section
Cash and cash equivalents in trust or otherwise reserved	**352,771**	338,919	13,852	Increase in business volume
Trade and other receivables	**137,449**	139,979	(2,530)	Collection of receivables, partially offset by the increase in cash security deposits receivable from lessors due to aircraft maintenance
Income taxes receivable	**16,523**	26,505	(9,982)	Collection of income taxes recoverable
Inventories	**15,847**	14,464	1,383	Increase in fuel inventory
Prepaid expenses	**83,822**	68,890	14,932	Increase in advances paid to hotels
Deposits	**58,991**	61,992	(3,001)	Decrease in deposits to hotels
Deferred tax assets	**27,209**	14,954	12,255	Increase in deferred taxes related to derivative financial instruments and subsidiaries' deductible losses
Property, plant and equipment	**235,161**	201,478	33,683	Acquisition of a parcel of land in Mexico and a spare A321neo LR engine, partially offset by amortization
Intangible assets	**36,852**	42,689	(5,837)	Amortization for the year, partially offset by additions
Derivative financial instruments	**4,870**	20,497	(15,627)	Maturing of foreign exchange derivatives and fuel related derivatives during the year
Investments	**16,533**	16,084	449	No significant difference
Other assets	**34,055**	26,685	7,370	Increase in deferred rent
Liabilities				
Trade and other payables	**315,395**	320,732	(5,337)	Decrease in non-controlling interest, partially offset by the increase in salaries payable
Provision for overhaul of leased aircraft	**58,248**	57,228	1,020	Increase in the number of leased aircraft
Income taxes payable	**4,244**	1,117	3,127	Taxable income of subsidiaries
Derivative financial instruments	**12,081**	3,445	8,636	Unfavourable change in fuel prices related to contracted derivatives
Customer deposits and deferred revenues	**561,404**	517,352	44,052	Increase in business volume
Other liabilities	**97,498**	92,025	5,473	Increase in the defined benefit obligation
Deferred tax liabilities	**1,274**	3,252	(1,978)	Increase in non-capital losses carried forward
Equity				
Share capital	**221,012**	219,684	1,328	Shares issued from treasury and exercise of options
Share-based payment reserve	**15,948**	18,017	(2,069)	Reclassification of contributed surplus related to PSUs, partially offset by the share-based payment expense
Retained earnings	**314,325**	340,766	(26,441)	Net loss, partially offset by the variance of the fair value of liabilities related to non-controlling interest
Unrealized gain on cash flow hedges	**(9,176)**	1,971	(11,147)	Net loss on foreign exchange derivatives designated in cash flow hedges
Cumulative exchange differences	**(7,326)**	(8,799)	1,473	Foreign exchange gain on translation of financial statements of foreign subsidiaries

[1]The Corporation has restated its consolidated financial statements as at October 31, 2018. See Restatement section.

Cash Flows

(in thousands of dollars)	2019 $	2018 $	2017 $	Change 2019 %	Change 2018 %
Cash flows related to operating activities	**64,075**	68,804	161,487	(6.9)	(57.4)
Cash flows related to investing activities	**(92,123)**	(93,644)	97,901	1.6	(195.7)
Cash flows related to financing activities	**(1,703)**	(430)	(3,596)	(296.0)	88.0
Effect of exchange rate changes on cash	**941**	(982)	450	195.8	(318.2)
Net change in cash and cash equivalents related to continuing operations	**(28,810)**	(26,252)	256,242	(9.7)	(110.2)

Operating activities

Operating activities generated $64.1 million in cash flows, compared with $68.8 million in 2018. The decrease resulted from a $15.9 million decrease in net change in other assets and liabilities related to operations and from an $8.3 million decrease in net change in the provision for overhaul of leased aircraft. The decrease was offset by a $16.6 million increase in the net change in non-cash working capital balances related to operations and a $2.9 million increase in net income before operating items not involving an outlay (receipt) of cash.

Adoption of IFRS 15 has led to a change in how the balance of Cash and cash equivalents in trust or otherwise reserved is calculated from November 1, 2018 onwards. The impact of this change is an increase of $14.4 million in the balance of Cash and cash equivalents in trust or otherwise reserved as at October 31, 2019 and an equivalent decrease in the balance of Cash and cash equivalents.

We expect to continue to generate positive cash flows from our operating activities in 2020.

Investing activities

Cash flows used in investing activities totalled $92.1 million for the year, down $1.5 million compared with 2018. Additions to property, property, plant and equipment and intangible assets were down $26.8 million in 2019 from last year. In 2019, the Corporation acquired a second parcel of land in Puerto Morelos, Mexico, adjacent to the first parcel acquired in 2018, for $15.8 million, and also made acquisitions related to fleet expansion, including the purchase of an Airbus A321neo LR replacement engine for $16.8 million. In 2018, the Corporation acquired land for $59.9 million. The increase in cash due to lower acquisitions of property, plant and equipment and intangible assets was partially offset by the fact that in 2018, following the sale of our Jonview subsidiary, the Corporation had received a consideration of $28.6 million, net of cash disposed of.

In 2020, additions to property, plant and equipment and intangible assets could amount to approximately $70.0 million, excluding any land and hotel acquisitions related to the development of our hotel division.

Financing activities

Cash flows used in financing activities amounted to $1.7 million compared with $0.4 million in 2018. The higher use of cash flows than in 2018 resulted mainly from higher proceeds from share issuance in 2018 than in 2019.

FINANCING

As at December 11, 2019, the Corporation had several types of funding, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50 million revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of 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 ratios and conditions. As at October 31, 2019, all financial ratios and conditions were met and the credit facility was undrawn.

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the consolidated financial statements and others in the notes to the financial statements. The Corporation did not report any obligations in the statement of financial position as at October 31, 2019 and October 31, 2018.

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 17 and 26 to the audited consolidated financial statements)
- Operating leases (see note 25 to the audited consolidated financial statements)
- Purchase obligations (see note 25 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $2,210.3 million as at October 31, 2019 ($2,506.9 million as at October 31, 2018) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**2019** **$**	**2018** **$**
Guarantees		
Irrevocable letters of credit	**25,375**	31,221
Collateral security contracts	**472**	419
Operating leases		
Obligations under operating leases	**2,184,471**	2,475,276
	2,210,318	2,506,916
Agreements with suppliers	**56,830**	79,848
	2,267,148	2,586,764

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2019, $55.8 million had been drawn down under the facility, of which $51.2 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at October 31, 2019, $24.4 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.7 million [$4.7 million], which has been fully drawn down.

As at October 31, 2019, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $296.6 million compared with October 31, 2018. This decrease resulted mainly from repayments made during the year, combined with a decrease in estimated future rent payments for the Airbus A321neo LRs to be added to our fleet by 2022.

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	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and beyond**	**Total**
Years ending October 31	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	190,291	210,683	209,404	199,243	185,674	1,066,406	2,061,701
Leases (other)	26,919	22,452	15,927	9,681	7,313	40,478	122,770
Agreements with suppliers and other obligations	42,821	5,272	5,356	5,327	5,438	39,602	103,816
	260,031	**238,407**	**230,687**	**214,251**	**198,425**	**1,146,486**	**2,288,287**

Debt levels

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

The Corporation's total debt increased by $96.7 million to $718.9 million compared with 2018, which was mainly due to the addition of aircraft to our fleet during the past twelve months.

Total net debt increased by $125.5 million, from $28.6 million as at October 31, 2018 to $154.1 million as at October 31, 2019. The increase in total net debt resulted from the increase in total debt, combined with lower cash and cash equivalent balances than as at October 31, 2018.

Outstanding shares

As at October 31, 2019, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 6, 2019, there were 37,747,090 total voting shares outstanding.

Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single ticker symbol: "TRZ."

Stock options

As at December 6, 2019, there were a total of 1,746,570 stock options outstanding, 1,469,592 of which were exercisable.

10. OTHER

FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), six Airbus A310s (250 seats), five Boeing 737-800s (189 seats), four Airbus A321ceos (199 seats), two of which were commissioned in the second quarter of 2019, and two Airbus A321neo LRs (199 seats).

During winter 2019, the Corporation also had seasonal rentals for nine Boeing 737-800s (189 seats), eight Airbus A321ceos (190 seats), three Boeing 737-700s (149 seats) and two Airbus A320s (199 seats).

During the year ended October 31, 2019, the Corporation took delivery of its first two Airbus A321neo LRs out of 17 new aircraft to be added to its fleet by 2022.

11. ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Depreciation and amortization and impairment of property, plant and equipment, and intangible assets

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. 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, 2019 could have required an impairment of property, plant and equipment and intangible assets with finite lives.

Fair value of derivative financial instruments

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

Provision for overhaul of leased aircraft

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, and other facts and reasonable assumptions in the circumstances. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by 2% to 4% to result in additional expenses that could have a material impact on our results, financial position and cash flows.

Employee future benefits

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

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

Increase (decrease)	**Cost of retirement benefits for the year ended October 31, 2019** **$**	**Retirement benefit obligations as at October 31, 2019** **$**
Discount rate	**(1)**	**(1,406)**
Rate of increase in eligible earnings	**13**	**80**

Taxes

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment in this regard were received during the year ended October 31, 2015. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this resulted in outflows of $15.1 million during the year ended October 31, 2016. As there was no change in circumstances during fiscal 2019, this amount was recognized as income taxes receivable as at October 31, 2019.

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 74% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 19% of revenues are earned in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

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

Management of fuel price risk

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

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $25.7 million as at October 31, 2019. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2019, approximately 7% of accounts receivable were over 90 days past due, whereas approximately 90% 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, 2019, these deposits totalled $20.6 million and are offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $38.4 million as at October 31, 2019 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation following receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2019, the cash security deposits with lessors that had been claimed totalled $71.6 million and were included under Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2019 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2019.

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.

CHANGES IN ACCOUNTING POLICIES

IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments*, addresses the classification and measurement of financial assets and financial liabilities and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation applies the new hedge accounting model and foreign exchange risk management disclosure requirements with prospective application as of November 1, 2018. For hedging relationships including options that existed as at November 1, 2017 or those that have been designated since then, the Corporation accounts for the changes related to the time value of the options retrospectively, with restatement of comparative figures. The accounting policies and the main changes related to the adoption of IFRS 9 are explained in note 4 to the consolidated financial statements for the year ended October 31, 2019.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers as well as requiring them to provide relevant and more comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 was applied retrospectively on November 1, 2018 with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income for the year ended on October 31, 2018. The accounting policies and the main changes related to the adoption of IFRS 15 are explained in note 4 to the consolidated financial statements for the year ended October 31, 2019.

Future Changes in Accounting Policies

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

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize a right-of-use asset and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation will apply the retrospective method with restatement for each prior reporting period presented. The Corporation has elected to apply the permitted capitalization exemptions for short-term leases and leases of low value assets.

The Corporation has completed the scoping exercise and lease review and is currently assessing the impact of the application of IFRS 16 on the consolidated financial statements as at transition and for each quarter of the year ended October 31, 2019. We have substantially concluded on the accounting policies described below and continue to assess their impact on the consolidated financial statements, business processes and internal controls.

The accounting policies and major changes related to the adoption of IFRS 16 are explained in note 5 to the consolidated financial statements for the year ended October 31, 2019.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to be considered in assessing an uncertain tax treatment and determining whether it is probable that a taxation authority will accept the treatment. Application of IFRIC 23 will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation is currently assessing the impact of the adoption of this new IFRIC interpretation on its consolidated financial statements.

12. 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.

RISK GOVERNANCE

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

- Promote a culture of risk awareness at the head office and in subsidiaries; and
- Integrate risk management into strategic, financial and operating objectives.

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which he or she is responsible, and/or limit the likelihood of these risks materializing. This owner is the first line of defence from a risk management standpoint. The Corporation's support services, namely the Finance, Legal Affairs, IT Security and Human Resources functions, constitute a second line of defence through their involvement in the design and operation of the complementary risk mitigating actions. Lastly, the Internal Audit department is the third line of defence to provide independent assurance on the effectiveness and efficiency of controls over these mitigating actions.

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

Managing these risks is also shared between members of the Corporation's management and the members of the Board of Directors using consistent mapping and language in order to eliminate a silo approach to risk management. These risks are thus classified to facilitate an overall understanding of risks to which the Corporation is exposed.

KEY RISKS

An overview of each of the key risk categories is provided below, along with a description of the main measures to reduce the occurrence and mitigate, where possible, the potential impact of these risks on the Corporation's business objectives. Although insurance coverage is purchased for some of these risks, and operational mitigating actions are in place, there can be no assurance that these actions will effectively reduce risks that could have an adverse impact on the Corporation's financial position, reputation and/or ability to achieve its strategic and operational objectives.

TRANSACTION RISKS

On June 27, 2019, Transat concluded a definitive Arrangement Agreement that provides for Air Canada's acquisition of all issued and outstanding shares of Transat, which was amended on August 11, 2019 by the conclusion of an amending agreement. This transaction involves many risks which have been presented in the Arrangement Circular, which is available at www.sedar.com.

The main risks are as follows:

Conditions precedent and required approvals

There can be no certainty, nor can Transat provide any assurance, that all conditions precedent to the arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver. Failure to complete the arrangement could have a material adverse effect on the trading price of the voting shares.

The completion of the arrangement is subject to a number of conditions precedent, some of which are outside Transat's control, including receipt of the key regulatory approvals.

Concerning the key regulatory approvals, due to the nature of the business operated by the parties, the Arrangement Agreement and the fact that they are both active in certain markets, the arrangement is subject to careful review by the competition and transportation regulatory authorities who may seek certain remedies in connection with the key regulatory approvals. However, the decision to propose or agree to any remedies remains with Air Canada and will depend on the impact such remedies may have on the financial position, operations and business prospects of Air Canada. If Air Canada is not able to come to an agreement with the regulatory authorities and obtain the key regulatory approvals before June 27, 2020 (as such date may be extended as permitted under the Arrangement Agreement), Air Canada or the Corporation may terminate the Arrangement Agreement with the payment by Air Canada of the reverse termination fee (provided the other conditions required for such payment are otherwise met), as is more fully described under "Arrangement Agreement – Termination Fees – Purchaser Reverse Termination Fee" in the Arrangement Circular.

Restrictive covenants of the Corporation until closing of the arrangement and uncertainty may adversely affect the Corporation's business

From the date of the Arrangement Agreement until closing of the arrangement, the Corporation has agreed to certain restrictive covenants under the Arrangement Agreement, particularly regarding investments relating to its hotel strategy. These restrictions may prevent the Corporation from pursuing attractive business opportunities that may arise prior to the completion of the arrangement, and will delay the advancement of the Corporation's hotel strategy. Moreover, the uncertainty regarding the satisfaction of all required conditions, including obtaining the key regulatory approvals, may bring clients and suppliers to delay or defer decisions concerning their business with the Corporation which may adversely affect the business and operations of the Corporation, regardless of whether the arrangement is ultimately completed. Similarly, this uncertainty may adversely affect the Corporation's ability to attract or retain key personnel. Given the length of time anticipated before the key regulatory approvals are obtained, and the risks that such approvals may not be obtained, a termination of the Arrangement Agreement could materially and adversely affect the business of the Corporation and its ability to carry out is strategic plan as was contemplated prior to signing the Arrangement Agreement.

Termination in certain circumstances and termination fee

Each of Transat and Air Canada has the right, in certain circumstances, in addition to termination rights relating to the failure to satisfy the conditions of closing, to terminate the Arrangement Agreement. Accordingly, there can be no certainty, nor can Transat provide any assurance, that the Arrangement Agreement will not be terminated by either of Transat or Air Canada prior to the completion of the arrangement. Transat's business, financial condition or results of operations could also be subject to various material adverse consequences, including that Transat may remain liable for significant costs relating to the arrangement including, among others, financial advisory, legal, accounting and printing expenses. Under the Arrangement Agreement, Transat is required to pay to Air Canada the termination fee in the event that the Arrangement Agreement is terminated following the occurrence of a termination fee event and Air Canada is required to pay to Transat the reverse termination fee in the event that the Arrangement Agreement is terminated following the occurrence of a reverse termination fee event. See "Arrangement Agreement – Termination Fee" in the Arrangement Circular.

Occurrence of a material adverse effect

The completion of the arrangement is subject to the condition that, among other things, on or after June 27, 2019 (the date the Arrangement Agreement was entered into), there shall not have occurred a material adverse effect. Although a material adverse effect excludes certain events, including events in some cases that are beyond the control of Transat, there can be no assurance that a material adverse effect will not occur prior to the closing of the arrangement. If such a material adverse effect occurs and Air Canada does not waive same or terminates the Arrangement Agreement, the arrangement would not proceed. See "Arrangement Agreement - Closing Conditions" in the same Circular.

Securityholders will no longer hold an interest in the Corporation following the arrangement

Following the arrangement, the shareholders will no longer hold any of the voting shares or other securities of the Corporation or its affiliates and the shareholders will forego any future increase in value that would result from future growth and the potential achievement of the Corporation's long-term plans.

Uncertainty surrounding the arrangement

As the arrangement is dependent upon satisfaction of a number of conditions precedent, its completion is uncertain. In response to this uncertainty, Transat's clients may delay or defer decisions concerning Transat. Any delay or deferral of those decisions by clients could adversely affect the business and operations of Transat, regardless of whether the arrangement is ultimately completed. Such uncertainty as well as required time for effective completion may adversely affect Transat's ability to attract or retain key personnel or the morale of its teams. In the event the Arrangement Agreement is terminated, the Corporation's relationships with customers, suppliers, creditors, landlords, employees and other stakeholders may be adversely affected. Changes in such relationships could adversely affect the business and operations of the Corporation.

RISKS RELATED TO HOTEL DEVELOPMENT

Transat had started investing in the hotel industry to take advantage of this activity's currently favourable position in its tourism chain. However, as a result of the Arrangement Agreement, the investments required for such hotel development are suspended. If the said transaction does not occur, the delayed resumption of hotel development could reduce the positive impacts expected initially and, consequently, the results of operations of the Corporation could be adversely affected. Also, in the event that the Corporation decides to develop its hotel business, we may be exposed to risks which may include, among others: construction delays and cost overruns which may increase the cost of the project; difficulties in obtaining zoning, occupancy and other required governmental permits and authorizations; strikes or other local labour issues; development fees incurred for projects that are not completed; significant investments with no immediate corresponding revenues; natural risks such as earthquakes, hurricanes, floods or fires which may negatively impact a resort; the ability to raise capital, including construction financing; and government restrictions with respect to the nature and size of a hotel project.

As a result of the foregoing, the Corporation cannot guarantee that any hotel development project would be completed on time or within the budget limits. In addition, there is a risk that the rate of return on investments will be inferior to the returns expected when the project is undertaken. Consequently, the results of operations from such hotel development could be negatively affected, which could in turn have a material adverse effect on the Corporation's business, financial position, liquidity, results of operations and prospects.

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 in which competition has been intense for several years. Air carriers and tour operators have expanded their presence in markets long 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 intense 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. Widespread adoption of the Internet now makes it easier for travellers to access information on travel products and services directly from suppliers, thus bypassing not only tour operators such as Transat, but also retail travel agents through whom we generate a portion of our revenues. Since our available seat capacity and person-nights are also influenced by market forces, our business model is called into question in some respects. The Corporation's inability to rapidly meet those expectations in a proactive manner could adversely impact its competitive positioning while reducing profitability of its products.

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

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

Reputation Risk

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

Key Supplies and Supplier Risks

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

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

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 for long-term or seasonal leasing, secure timely access to appropriate aircraft under adequate conditions or retire certain aircraft as anticipated, such an outcome could adversely impact the Corporation.

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

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

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

With the privatization of airports and air navigation authorities in Canada, airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees, particularly since some of these airports are located in U.S. border towns and are not subject to such fees. If these user and navigation fees were to increase substantially, our business, financial position and operating results could be adversely affected, which would result in certain routes being conceded to our U.S. competitors.

TECHNOLOGICAL RISKS

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

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunication systems failures, power failures, computer viruses, computer hacking, unauthorized or fraudulent users, and other operational and security issues. Furthermore, the exploitation of system vulnerabilities is increasingly sophisticated and frequent and requires constant management of and developments in the measures taken. While Transat continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly or in a timely manner. 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 the Corporation's reputation, its operating results and financial position.

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

CYBER ATTACK RISKS

The Corporation gathers, uses and retains over a fixed period of time large amounts of customer data for commercial, marketing and other purposes in our various computer systems. This data is stored and processed in our facilities and in third-party facilities, including, for example, in a cloud-based environment hosted by a third party. The integrity and protection of the data of our customers, employees and business, as well as the continued operation of our systems and other third-party service providers, are essential to our operations. Security and privacy regulations and contractual obligations are increasingly demanding.

Despite our efforts to protect against unauthorized access to our systems and sensitive information, due to the scope and complexity of their information technology structure, our reliance on third parties to support and protect our structure and data, and a constantly evolving cyber threat environment, our systems and those of third parties we rely on are subject to disruptions, failures, unauthorized access, cyber terrorism, employee errors, negligence, fraud or other misuse. In addition, given the sophistication of hackers to gain unauthorized access to our sensitive information, we may be unable to detect the violation for long periods of time, or even not at all. Such events, whether accidental or intentional, could result in the theft, unauthorized access or disclosure, loss, misuse or unlawful use of customer data that could damage our reputation, disrupt or interrupt our services or result in business loss, as well as repair and other costs, fines, investigations, legal actions or proceedings. As a result, future incidents could have a material adverse effect on the Corporation, including our business, financial condition, liquidity and operating results.

Regulatory Risks

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

In the fight against climate change, the International Civil Aviation Organization (ICAO) has established an international model whereby taxes would be imposed on greenhouse gas emissions to offset emissions. For domestic air travel, the federal government plans to introduce new legislation that would be accompanied by regulations to implement a carbon pricing system. The impact of this new legislation on the aviation industry is not clear at this time, nor the potential financial implications for Air Transat. However, if this legislation does materialize, additional costs could result, which 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.

Lastly, as previously described in the Transaction Risks section, Air Canada's acquisition of the issued and outstanding shares of Transat is subject to regulatory approval. To date, there can be no assurance that the acquisition will be carried out or will be carried out in accordance with terms and conditions imposed by the regulators.

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 of October 31, 2019, the Corporation had 5,100 employees, almost 60% of whom are unionized and are subject to six collective agreements, all of which had been renewed as at October 31, 2019. The Airline Pilots Association Agreement will expire in the coming year. It is possible that negotiations to renew this collective agreement could give rise to work stoppages or slowdowns or higher labour costs that could unfavourably impact our operations and operating income.

INSURANCE COVERAGE RISKS

We hold and maintain in full force insurance policies for amounts conforming to industry standards. Our liability insurance for our tour operator and travel agency activities covers the liability for bodily harm or property damage suffered by travellers or third parties. In the context of our activities as a tour operator, we use reasonable efforts to ensure that our service providers also have insurance covering bodily harm or property damage suffered by travellers. Furthermore, in collaboration with an insurer, we established a voluntary professional liability insurance (errors and omissions) plan for our franchisees.

We also hold and maintain in full force insurance policies for amounts in accordance with airline industry standards and in compliance with applicable statutory requirements and the commitments under our aircraft lease agreements. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US$1.25 billion with the exception of war risk bodily injury/property damage to third parties excluding passengers where the limit is US$250 million for any single event in the aggregate. In this latter regard, additional insurance is carried and maintained for war risk bodily injury/property damage to third parties excluding passengers covering the excess of US$250 million up to the limit of US$1.0 billion for any single event in the aggregate.

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

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.

13. CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2019.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2019 that materially affected the Corporation's ICFR.

14. OUTLOOK

Winter 2020 – In the sun destinations program, the Corporation's main program for the period, Transat's capacity is higher by 6.7%. To date, 56% of that capacity has been sold, bookings are ahead by 13.1%, and load factors are 3.4% higher compared with 2019. The impact of fluctuations in the Canadian dollar, combined with decreased fuel costs, will result in a nil increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable. Margins are currently at slightly higher levels compared with the same date last year.

In the transatlantic program, where it is low season, load factors are tracking 1.6% higher than last winter. Prices are currently up 4.2% from the same date last year.

If the current trends hold, the Corporation expects its results for the winter season to be slightly higher than those of last year.

MANAGEMENT'S REPORT

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Transat A.T. Inc.,

Opinion

We have audited the consolidated financial statements of Transat A.T. Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at October 31, 2019 and 2018, and the consolidated statements of income (loss), the consolidated statements of comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sylvain Boucher.

Ernst & Young LLP[1]

Montréal, Canada
December 11, 2019
[1] CPA auditor, CA, public accountancy permit No. A113209

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

As at October 31 (in thousands of Canadian dollars)	Note	2019 $	2018 Restated [note 4] $
ASSETS			
Cash and cash equivalents		**564,844**	593,654
Cash and cash equivalents in trust or otherwise reserved	7	**301,547**	287,735
Trade and other receivables	8	**137,449**	139,979
Income taxes receivable		**1,423**	11,405
Inventories		**15,847**	14,464
Prepaid expenses		**83,822**	68,890
Derivative financial instruments	9	**4,870**	20,413
Current portion of deposits	10	**17,765**	20,250
Current assets		**1,127,567**	1,156,790
Cash and cash equivalents reserved	7	**51,224**	51,184
Deposits	10	**41,226**	41,742
Income taxes receivable	22	**15,100**	15,100
Deferred tax assets	22	**27,209**	14,954
Property, plant and equipment	11	**235,161**	201,478
Intangible assets	12	**36,852**	42,689
Derivative financial instruments	9	**—**	84
Investments	13	**16,533**	16,084
Other assets	14	**34,055**	26,685
Non-current assets		**457,360**	410,000
		1,584,927	1,566,790
LIABILITIES			
Trade and other payables	15	**315,395**	320,732
Current portion of provision for overhaul of leased aircraft	16	**27,151**	27,313
Income taxes payable		**4,244**	1,117
Customer deposits and deferred revenues		**561,404**	517,352
Derivative financial instruments	9	**10,431**	2,766
Current liabilities		**918,625**	869,280
Provision for overhaul of leased aircraft	16	**31,097**	29,915
Other liabilities	18	**97,498**	92,025
Derivative financial instruments	9	**1,650**	679
Deferred tax liabilities	22	**1,274**	3,252
Non-current liabilities		**131,519**	125,871
EQUITY			
Share capital	19	**221,012**	219,684
Share-based payment reserve		**15,948**	18,017
Retained earnings		**314,325**	340,766
Unrealized gain on cash flow hedges		**(9,176)**	1,971
Cumulative exchange differences		**(7,326)**	(8,799)
		534,783	571,639
		1,584,927	1,566,790

See accompanying notes to consolidated financial statements

On behalf of the Board,

Director

Director

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

Years ended October 31		2019	2018 Restated [note 4]
(in thousands of Canadian dollars, except per share amounts)	Note	$	$
Revenues	20	**2,937,130**	2,848,955
Operating expenses			
Costs of providing tourism services		**808,937**	863,105
Aircraft fuel		**517,588**	498,512
Salaries and employee benefits	20, 24	**412,375**	386,898
Aircraft maintenance		**279,283**	237,918
Sales and distribution costs		**209,344**	209,921
Airport and navigation fees		**158,618**	149,699
Aircraft rent		**143,784**	124,454
Other airline costs		**262,477**	263,272
Other		**105,304**	97,577
Share of net loss (income) of a joint venture	13	**1,250**	105
Depreciation and amortization	20	**64,078**	59,125
Special items	21	**23,875**	8,962
		2,986,913	2,899,548
Operating income (loss)		**(49,783)**	(50,593)
Financing costs		**1,520**	2,061
Financing income		**(21,332)**	(17,935)
Change in fair value of fuel-related derivatives and other derivatives		**8,664**	(8,360)
Gain on business disposals	6	**(9)**	(31,064)
Foreign exchange (gain) loss on non-current monetary items		**140**	(339)
Income before income tax expense		**(38,766)**	5,044
Income taxes (recovery)	22		
Current		**1,028**	(6,494)
Deferred		**(9,250)**	1,545
		(8,222)	(4,949)
Net income (loss) for the year		**(30,544)**	9,993
Net income (loss) attributable to:			
Shareholders		**(33,191)**	6,451
Non-controlling interests		**2,647**	3,542
		(30,544)	9,993
Earnings (loss) per share	19		
Basic		**(0.88)**	0.17
Diluted		**(0.88)**	0.17

See accompanying notes to consolidated financial statements

Transat A.T. Inc.
Consolidated Statements of Comprehensive Income (Loss)

Years ended October 31		2019	2018 Restated [note 4]
(in thousands of Canadian dollars)	Note	$	$
Net income (loss) for the year		**(30,544)**	9,993
Other comprehensive income (loss)			
Items that will be reclassified to net income			
Change in fair value of derivatives designated as cash flow hedges		**(29,621)**	2,815
Reclassification to net income		**14,455**	(5,385)
Deferred taxes	22	**4,019**	692
		(11,147)	(1,878)
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries		**1,473**	1,586
		1,473	1,586
Items that will never be reclassified to net income			
Retirement benefits – Net actuarial gains	24	**(4,631)**	2,219
Deferred taxes	22	**1,225**	(595)
		(3,406)	1,624
Total other comprehensive income (loss)		**(13,080)**	1,332
Comprehensive income (loss) for the year		**(43,624)**	11,325
Attributable to:			
Shareholders		**(46,272)**	6,788
Non-controlling interest		**2,648**	4,537
		(43,624)	11,325

See accompanying notes to consolidated financial statements

Transat A.T. Inc.
Consolidated Statements of Changes in Equity

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings Restated *[note 4]*	Unrealized gain (loss) on cash flow hedges Restated *[note 4]*	Cumulative exchange differences	Total Restated *[note 4]*	Non-controlling interests	Total equity Restated *[note 4]*
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2017	215,444	17,817	330,856	3,849	(10,385)	557,581	—	557,581
Net income for the year	—	—	6,451	—	—	6,451	3,542	9,993
Other comprehensive income (loss)	—	—	1,624	(1,878)	591	337	995	1,332
Comprehensive income (loss) for the year	—	—	8,075	(1,878)	591	6,788	4,537	11,325
Issued from treasury	1,555	—	—	—	—	1,555	—	1,555
Exercise of options	2,685	(812)	—	—	—	1,873	—	1,873
Vesting of PSUs	—	(1,198)	—	—	—	(1,198)	—	(1,198)
Share-based payment expense	—	2,210	—	—	—	2,210	—	2,210
Dividends	—	—	—	—	—	—	(3,302)	(3,302)
Fair value changes in non-controlling interest liabilities	—	—	1,835	—	—	1,835	(1,835)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,595	1,595
Reclassification of non-controlling interest exchange difference	—	—	—	—	995	995	(995)	—
	4,240	200	1,835	—	995	7,270	(4,537)	2,733
Balance as at October 31, 2018	**219,684**	**18,017**	**340,766**	**1,971**	**(8,799)**	**571,639**	**—**	**571,639**
Net income (loss) for the year	—	—	(33,191)	—	—	(33,191)	2,647	(30,544)
Other comprehensive income (loss)	—	—	(3,406)	(11,147)	1,472	(13,081)	1	(13,080)
Comprehensive income (loss) for the year	—	—	(36,597)	(11,147)	1,472	(46,272)	2,648	(43,624)
Issued from treasury	940	—	—	—	—	940	—	940
Exercise of options	388	(120)	—	—	—	268	—	268
Vesting of PSUs	—	(19)	—	—	—	(19)	—	(19)
Share-based payment expense	—	1,612	—	—	—	1,612	—	1,612
Reclassification of PSUs as financial liability	—	(3,542)	—	—	—	(3,542)	—	(3,542)
Dividends	—	—	—	—	—	—	(2,892)	(2,892)
Fair value changes in non-controlling interest liabilities	—	—	10,156	—	—	10,156	(10,156)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	10,401	10,401
Reclassification of non-controlling interest exchange difference	—	—	—	—	1	1	(1)	—
	1,328	(2,069)	10,156	—	1	9,416	(2,648)	6,768
Balance as at October 31, 2019	**221,012**	**15,948**	**314,325**	**(9,176)**	**(7,326)**	**534,783**	**—**	**534,783**

See accompanying notes to consolidated financial statements

Transat A.T. Inc.
Consolidated Statements of Cash Flows

Years ended October 31 (in thousands of Canadian dollars)	Note	2019 $	2018 Restated *[note 4]* $
OPERATING ACTIVITIES			
Net income (loss) for the year		**(30,544)**	9,993
Non-cash operating items:			
Depreciation and amortization	20	**64,078**	59,125
Change in fair value of fuel-related derivatives and other derivatives		**8,664**	(8,360)
Gain on business disposals		**(9)**	(31,064)
Foreign exchange (gain) loss on non-current monetary items		**140**	(339)
Share of net loss of a joint venture		**1,250**	105
Deferred taxes		**(9,250)**	1,545
Employee benefits		**2,927**	2,799
Share-based payment expense		**1,612**	2,210
		38,868	36,014
Net change in non-cash working capital balances related to operations		**33,105**	16,485
Net change in provision for overhaul of leased aircraft		**1,020**	9,311
Net change in other assets and liabilities related to operations		**(8,918)**	6,994
Cash flows related to operating activities		**64,075**	68,804
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(92,277)**	(119,053)
Increase in cash and cash equivalent reserved		**(40)**	(1,084)
Consideration received on business disposals, net of cash disposed of	6	**1,884**	26,493
Capital contribution to a joint venture		**(1,690)**	—
Cash flows related to investing activities		**(92,123)**	(93,644)
FINANCING ACTIVITIES			
Proceeds from issuance of shares		**1,208**	3,428
Repurchase of shares related to stock-based compensation		**(19)**	(556)
Dividends paid by a subsidiary to a non-controlling shareholder		**(2,892)**	(3,302)
Cash flows related to financing activities		**(1,703)**	(430)
Effect of exchange rate changes on cash and cash equivalents		**941**	(982)
Net change in cash and cash equivalents related to continuing operations		**(28,810)**	(26,252)
Cash and cash equivalents held for sale, beginning of year		**—**	26,324
Cash and cash equivalents, beginning of year		**593,654**	593,582
Cash and cash equivalents, end of year		**564,844**	593,654
Supplementary information (as reported in operating activities)			
Net income taxes paid (recovered)		**(11,831)**	10,670
Interest paid		**912**	334

See accompanying notes to consolidated financial statements

October 31, 2019 and 2018

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

Note 1 Corporate information

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. Its Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange. The Corporation's Class A Variable Voting Shares and Class B Voting Shares are traded on the Toronto Stock Exchange under a single ticker symbol, namely "TRZ".

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. As at October 31, 2019, the core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2019 were approved by the Corporation's Board of Directors on December 11, 2019.

Note 2 Significant accounting policies

Basis of preparation

These consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada.

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

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

Basis of consolidation

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

SUBSIDIARIES

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

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

- Cost is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;

- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of income;

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

- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income; and

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

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

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

INVESTMENT IN A JOINT VENTURE

A joint venture is an entity in which the parties that have joint control over the entity have rights to the net assets of the entity. The Corporation's investment in a joint venture is accounted for using the equity method as follows:

- Investment is initially recognized at cost;

- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;

- The Corporation's share of post-acquisition net income (loss) is recognized in the statement of income and is also added to (netted against) the carrying amount of the investment; and

- Gains on transactions between the Corporation and the joint venture are eliminated to the extent of the Corporation's interest in this entity and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency translation

TRANSACTIONS AND BALANCES

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

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

GROUP COMPANIES

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

Cash equivalents

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

Inventories

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

Property, plant and equipment

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

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

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

Land and property, plant and equipment under construction or development are not depreciated.

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

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

Goodwill

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

Intangible assets

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

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

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

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

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

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

Software	3–10 years
Customer lists	7–10 years

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

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

Operating lease and deferred lease inducements

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

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

Financial instruments

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

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial assets/liabilities at fair value through profit or loss, at fair value through other comprehensive income, or at amortized cost. The classification of financial assets is determined based on the business model under which risks are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified by default at amortized cost except for derivative financial instruments and non-controlling interests. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or liabilities at fair value through profit or loss unless they are designated within an effective hedging relationship; in that event, they are classified as financial assets or liabilities at fair value through other comprehensive income.

Classification of financial instruments

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

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

Financial assets and financial liabilities at fair value through other comprehensive income

Derivative financial instruments designated within an effective hedging relationship classified as financial assets or financial liabilities at fair value through other comprehensive income are measured at fair value as at the reporting date.

Amortized cost

Financial assets and financial liabilities classified at amortized cost are measured at amortized cost using the effective interest method.

Derivative financial instruments and hedge accounting

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

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

These derivative financial instruments are designated as cash flow hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. The Corporation has defined a hedging ratio of 1:1 for its hedging relationships. For the derivative financial instruments designated as cash flow hedges, changes in the fair value of the effective portion are recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive income. Any ineffective portion within a cash flow hedge is recognized in net income, as incurred, under Change in fair value of fuel-related derivatives and other derivatives. Should the cash flow hedge cease to be effective, previously unrealized gains and losses remain within Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the hedged item is settled, and future changes in value of the derivative instrument are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same consolidated statement of income account in which the hedged item is recognized.

The Corporation enters into foreign currency contract options and designates the intrinsic value of these contracts as cash flow hedging on future purchases of foreign currencies. The time value of these options, including premiums paid, is recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss) for effective hedging relationships. The time value of these options, including premiums paid, remains in Accumulated other comprehensive income (loss) as "Unrealized gain (loss) on cash flow hedges" until the settlement of the underlying hedged item, at which time the premiums paid accounted for under "Unrealized gain (loss) on cash flow hedges" are reclassified under the same account in the consolidated statement of income (loss) than the underlying hedged item.

For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in the same account in the consolidated statement of income as the hedged item.

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

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

TRANSACTION COSTS

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

FAIR VALUE

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

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

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

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

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

Impairment of financial assets classified at amortized cost

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified at amortized cost is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset [an incurred loss event] and that incurred loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. In addition, the Corporation assesses expected credit losses related to its financial assets classified at amortized cost. Accordingly, the Corporation must determine whether credit risk has increased significantly by comparing the risk of a default occurring on the asset as at each reporting date with the risk of a default occurring on the asset as at the initial recognition date, taking into account the information it has been able to obtain, including relevant forward-looking information. Impairment losses are recognized through profit or loss. For trade receivables, the Corporation applies the simplified approach permitted by IFRS 9 which requires that full lifetime expected credit losses be recognized starting from initial recognition.

Impairment of non-financial assets

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

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

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives, such as trademarks, are tested for impairment annually [as at April 30], and when circumstances indicate that the carrying value may be impaired.

REVERSAL OF IMPAIRMENT LOSSES

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

Provisions

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

Employee future benefits

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

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

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

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

Revenue recognition

The Corporation recognizes revenue when it satisfies the performance obligation, that is, when the service is transferred to the customer and the customer obtains control of that service. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred revenues.

Revenue from contracts with customers includes revenue from passenger air transportation, revenue from the land portion of holiday packages and commission revenue from travel agencies. Revenue from passenger air transportation is recognized when such transportation is provided. Revenue from the land portion of holiday packages includes hotel services, among others, and the related costs are recognized when the corresponding services are rendered over the course of the stay. Commission revenue from travel agencies is recognized when passengers depart.

Other revenue includes, among others, aircraft subleasing, cargo and franchising revenue.

Revenue for which the Corporation provides multiple services, such as air transportation, hotel and travel agency services, is recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. These different services are considered as separate units of accounting, as each service has value to the customer on a stand-alone basis, and the selling price is allocated using the expected cost plus a reasonable market margin approach.

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation operates mainly in the Americas, and serves two main programs that also represent its two main product lines: the transatlantic program and the Americas program, which includes the sun destinations program.

CONTRACT BALANCES

Contract balances with customers are included in Trade and other receivables, Prepaid expenses and Customer deposits and deferred revenues in the consolidated statement of financial position. Trade accounts receivable included under Trade and other receivables comprise receivables related to passenger air transportation, the land portion of holiday packages and commissions. Payment is generally received before services are provided, but some tour operators make payments after services are provided. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers, consisting of hotel room costs, costs related to the worldwide distribution system and credit card fees. These costs are capitalized upon payment and expensed when the related revenue is recognized. Customer deposits and deferred revenues represent amounts received from customers for services not yet provided.

Given that contracts with customers have a duration of one year or less, the Corporation applies the practical expedient set forth in paragraph 121 of IFRS 15, *Revenue from Contracts with Customers*, under which no information is disclosed about the remaining performance obligations that are part of a contract that has a duration of one year or less.

Income taxes

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

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

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

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

Share-based payment plans

The Corporation offers to certain employees various equity-settled and cash-settled share-based compensation plans under which it receives services from employees.

Equity-settled transactions

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

Cash-settled transactions

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

Employee share purchase plans

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

Earnings per share

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

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

Note 3 Significant accounting estimates and judgments

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

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

Depreciation and amortization and impairment of property, plant and equipment, goodwill and intangible assets

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

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

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

Fair value of derivative financial instruments

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

Provision for overhaul of leased aircraft

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

Non-controlling interest

A non-controlling interest, in respect of which the non-controlling shareholder may require the Corporation to buy back the shares held, is reclassified as a liability at the estimated redemption value, thus assuming exercise of the option. The fair value of the non-controlling interest in respect of which a shareholder holds an option entitling him to require the Corporation to buy back his shares corresponds to its redemption price. The redemption price is based on a formula that factors in financial indicators.

Employee future benefits

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

Taxes

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

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

Note 4 Changes in accounting policies

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* addresses the classification and measurement of financial assets and financial liabilities and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation adopted IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The main changes are discussed below.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. Financial assets previously classified as "loans and receivables" are now included in the "amortized cost" category. With respect to financial liabilities, trade and other payables that were formerly classified as "other financial liabilities" are now included in the "amortized cost" category. The Corporation has determined that this change has no other impact on its consolidated financial statements, particularly with respect to the measurement of financial assets and financial liabilities.

IFRS 9 also introduces a new expected loss impairment model that requires timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis. The Corporation has determined that this change has no material impact on its consolidated financial statements.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosure requirements regarding risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that enables entities to better reflect their risk management activities in their consolidated financial statements.

The Corporation applies the new hedge accounting model and foreign exchange risk management disclosure requirements with prospective application as of November 1, 2018. The Corporation enters into foreign currency option contracts and designates the intrinsic value of these contracts as cash flow hedges on future purchases of foreign currencies. Applying the new hedge accounting model will give rise to the recognition of the time value of the options, including premiums paid, in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss) for the effective hedging relationships. The time value of these options, including premiums paid, remains in Accumulated other comprehensive income (loss) as "Unrealized gain (loss) on cash flow hedges" until the settlement of the underlying hedged item, at which time the premiums paid accounted for under "Unrealized gain (loss) on cash flow hedges" are reclassified under the same account in the consolidated statement of income (loss) as the underlying hedged item. The Corporation's hedging policy remains unchanged with the exception of the above-mentioned modifications.

The Corporation separates the intrinsic value and time value of an option and designates as the hedging instrument only the change in intrinsic value of an option; this method was also applied under IAS 39. Accordingly, for effective hedging relationships in existence as at November 1, 2017 or designated thereafter, the Corporation is required to account for the time value of the options retrospectively in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss). The cumulative effect of the adoption of IFRS 9 on the consolidated statement of financial position and the consolidated statement of income (loss) is disclosed below. The Corporation has determined that this change had no other impact on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers as well as requiring them to provide relevant and more comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 was applied retrospectively on November 1, 2018 with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income (loss) for the year ended on October 31, 2018. The main changes are discussed below.

The practical expedient of paragraph C5(d) of IFRS 15 was applied. For the periods before the date of initial application, the Corporation does not need to disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when it expects to recognize that amount as revenue.

Revenue from passenger air transportation

Revenue from passenger air transportation is recognized when such transportation is provided. The adoption of IFRS 15 had no impact on the recognition of revenue from passenger air transportation.

Revenue from the land portion of holiday packages

Revenue from the land portion of holiday packages includes hotel services, among others, and the related costs are recognized when the corresponding services are rendered over the course of the stay. Prior to the adoption of IFRS 15, revenue was recognized when passengers departed. This change in accounting policy affects the timing of the recognition of revenue and related expenses.

Revenue from travel agency commissions

Commission revenue from travel agencies is recognized when passengers depart. Prior to the adoption of IFRS 15, these revenues were recognized at the time of booking. This change in accounting policy affects the timing of revenue recognition.

Reporting revenue gross or net

All airport taxes are reported net as a result of new criteria set out in IFRS 15. Prior to the adoption of IFRS 15, revenue related to certain airport taxes were recognized on a gross basis. For the year ended October 31, 2018, the impact on the consolidated statement of income (loss) consisted of a $156,430 decrease in revenue and the corresponding costs.

Prior to the adoption of IFRS 15, some revenues were reported net of commission costs, but are now reported gross, with the corresponding commission costs reported under Selling and distribution costs. For the year ended October 31, 2018, the impact on the consolidated statement of income (loss) consisted of a $12,955 increase in revenue and the corresponding costs. This reclassification had no impact on operating results.

Consolidated statement of income (loss) presentation

Consolidated statement of income (loss) presentation was also modified to better reflect the nature of operating expenses. Commissions, credit card fees, distribution costs and marketing costs are combined under Selling and distribution costs. Formerly, credit card fees and distribution costs were reported under Costs of providing tourism services and marketing costs were reported under Other costs. This change in consolidated statement of income (loss) presentation had no impact on operating results.

RECOGNIZING THE COSTS OF OBTAINING A CONTRACT

Certain additional costs incurred to earn income from air transportation services, such as costs related to the worldwide distribution system and credit card fees, are capitalized at the time of booking and expensed when revenue is recognized. Prior to the adoption of IFRS 15, some costs were expensed at the time of booking. This change in accounting policy affects the timing of expense recognition.

IMPACT ON PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The cumulative effect of the adoption of IFRS 9 and IFRS 15 on the consolidated statement of financial position and the consolidated statement of income (loss) is detailed in the following tables. The cumulative effect on the consolidated statement of cash flows was not material and as a result not reported:

				As at October 31, 2017
	Before adjustments	**IFRS 9**	**IFRS 15**	**After adjustments**
Consolidated statement of financial position	**$**	**$**	**$**	**$**
Trade and other receivables	121,618	—	(30)	**121,588**
Prepaid expenses	64,245	—	3,918	**68,163**
Deferred tax assets	16,286	—	(404)	**15,882**
Total assets	**1,453,216**	**—**	**3,484**	**1,456,700**
Trade and other payables	245,013	—	(6,183)	**238,830**
Customer deposits and deferred revenues	433,897	—	6,514	**440,411**
Deferred tax liabilities	2,217	—	542	**2,759**
Total liabilities	898,246	—	873	**899,119**
Retained earnings	327,562	683	2,611	**330,856**
Unrealized gain (loss) on cash flow hedges	4,532	(683)	—	**3,849**
Total equity	554,970	—	2,611	**557,581**
Total liabilities and equity	**1,453,216**	**—**	**3,484**	**1,456,700**

				As at October 31, 2018
	Before adjustments	**IFRS 9**	**IFRS 15**	**After adjustments**
Consolidated statement of financial position	**$**	**$**	**$**	**$**
Trade and other receivables	140,009	—	(30)	**139,979**
Prepaid expenses	63,789	—	5,101	**68,890**
Deferred tax assets	14,850	—	104	**14,954**
Total assets	**1,561,615**	**—**	**5,175**	**1,566,790**
Trade and other payables	326,621	—	(5,889)	**320,732**
Customer deposits and deferred revenues	510,631	—	6,721	**517,352**
Deferred tax liabilities	2,019	—	1,233	**3,252**
Total liabilities	993,086	—	2,065	**995,151**
Retained earnings	329,895	7,761	3,110	**340,766**
Unrealized gain (loss) on cash flow hedges	9,732	(7,761)	—	**1,971**
Total equity	568,529	—	3,110	**571,639**
Total liabilities and equity	**1,561,615**	**—**	**5,175**	**1,566,790**

					Year ended October 31, 2018
	Before adjustments	IFRS 9	IFRS 15	Presentation	After adjustments
Consolidated statement of income (loss)	$	$	$	$	$
Revenues	2,992,582	—	(143,627)	—	**2,848,955**
Costs of providing tourism services	1,091,924	—	(155,544)	(73,275)	**863,105**
Sales and distribution costs	—	—	11,235	198,686	**209,921**
Commission	87,763	—	—	(87,763)	**—**
Other	135,225	—	—	(37,648)	**97,577**
Total operating expenses	3,043,857	—	(144,309)	—	**2,899,548**
Operating income (loss)	(51,275)	—	682	—	**(50,593)**
Change in fair value of fuel-related derivatives and other derivatives	1,284	(9,644)	—	—	**(8,360)**
Deferred income taxes	(1,204)	2,566	183	—	**1,545**
Net income (loss) for the period	2,416	7,078	499	—	**9,993**
Net income (loss) attribuable to shareholders	(1,126)	7,078	499	—	**6,451**
Earnings (loss) per share					
Basic	(0.03)	0.19	0.01	—	**0.17**
Diluted	(0.03)	0.19	0.01	—	**0.17**

Note 5 Future changes in accounting policies

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

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize a right-of-use asset and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation will apply the retrospective method with restatement for each prior reporting period presented. The Corporation has elected to apply the permitted capitalization exemptions for short-term leases and leases of low value assets.

The Corporation has completed the scoping exercise and lease review and is currently assessing the impact of the application of IFRS 16 on the consolidated financial statements as at transition and for each quarter of the year ended October 31, 2019. We have substantially concluded on the accounting policies described below and continue to assess their impact on the consolidated financial statements, business processes and internal controls.

Aircraft leases

As at October 31, 2019, the Corporation operated 31 aircraft under operating leases [27 as at October 31, 2018] for which right-of-use assets and lease obligations will be recognized upon application of IFRS 16; these aircraft are part of the permanent fleet. During the winter season, the Corporation also has aircraft under operating leases for a period of approximately six months; these aircraft are part of the seasonal fleet. The Corporation has elected to apply the provisions of IFRS 16 for the seasonal fleet to continue to recognize the expenses associated with these leases under Aircraft rent on a straight-line basis over the lease term.

For the permanent fleet, right-of-use assets will be broken down and eligible maintenance costs will be capitalized and depreciated over the shorter of the lease term or expected useful life. In addition, eligible maintenance costs over the lease term will be capitalized and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft will decrease and the depreciation expense will increase following the adoption of IFRS 16. The Corporation is currently assessing the impact of this change on its consolidated financial statements.

All aircraft-related operating leases are denominated in U.S. dollars. The lease obligation in respect of leased aircraft and the provision for return conditions are denominated in U.S. dollars and must be revalued at the prevailing exchange rate as at the reporting date. Accordingly, the volatility of the foreign exchange gain (loss) recognized in the consolidated statements of income (loss) will be higher upon application of IFRS 16.

Real estate leases

The Corporation is party to real estate leases, in particular for spaces in airports, offices and travel agencies. Right-of-use assets and lease obligations will be recognized upon application of IFRS 16 in respect of such leases, except for short-term leases and leases that include a substantial right of substitution.

Other leases

The Corporation is party to equipment leases, in particular for aircraft engines and automotive equipment. Right-of-use assets and lease obligations will be recognized upon application of IFRS 16 in respect of such leases, except for short-term leases and leases of low value assets.

Provision for return conditions

Aircraft- and equipment-related leases contain obligations arising from the conditions under which the assets must be returned to the lessor on expiry of the lease [the "return conditions"]. The Corporation will recognize a provision for the return conditions of leased aircraft and engines upon application of IFRS 16. The Corporation will recognize the obligation arising from the return conditions of leased aircraft and engines upon commencement of the lease based on the degree of use until maintenance to meet the return condition or until expiry of the lease. The provision will be adjusted to reflect any change in the related maintenance expenses anticipated.

The Corporation pays maintenance deposits to lessors based on the use of maintenance components. Deposits made between the last maintenance performed by the Corporation and expiry of the lease will not be refunded to the Corporation when the maintenance is performed. These deposits will be included in the provision for return conditions of leased aircraft and engines.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to consider in the assessment of an uncertain tax treatment to determine whether it is probable that a taxation authority will accept the treatment. Application of IFRIC 23 will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation is currently assessing the impact of the adoption of this new IFRIC interpretation on its consolidated financial statements.

Note 6 Business disposal

Jonview Canada Inc.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price amounted to $48,896. The disposed subsidiary's net assets amounted to $13,430 as at November 30, 2017. During the fiscal year ended October 31, 2018, the Corporation recognized a gain on business disposal of $31,264. During the year ended October 31, 2019, the Corporation recorded a $289 downward adjustment to the gain on business disposal related to the amount claimed by H.I.S. Co. Ltd. for uncollected trade receivables as at May 31, 2019. As at October 31, 2018, an amount of $2,200 was receivable under certain contractual conditions; this amount was received during the year ended October 31, 2019, net of the amount claimed by H.I.S. Co. Ltd.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income (loss) and comprehensive income for the year ended October 31, 2018.

Note 7 Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2019, cash and cash equivalents in trust or otherwise reserved included $292,134 [$276,038 as at October 31, 2018] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $60,637, $51,224 of which was recorded as non-current assets [$62,881 as at October 31, 2018, $51,184 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit *[see note 24]*.

Note 8 Trade and other receivables

	2019	**2018 Restated** *[note 4]*
	$	**$**
Trade receivables	**25,669**	30,831
Government receivables	**21,863**	22,177
Cash receivable from lessors	**71,557**	67,027
Other receivables	**18,360**	19,944
	137,449	139,979

Note 9 Financial instruments

Classification of financial instruments

The classification of financial instruments and their carrying amounts and fair values are detailed as follows:

	Carrying amount				
	Fair value through net income	Fair value through other comprehensive income $	Amortized cost $	Total $	Fair value $
As at October 31, 2019					
Financial assets					
Cash and cash equivalents	564,844	–	–	564,844	564,844
Cash and cash equivalents in trust or otherwise reserved	352,771	–	–	352,771	352,771
Trade and other receivables	–	–	115,586	115,586	115,586
Deposits on leased aircraft and engines	–	–	38,415	38,415	38,415
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	407	–	–	407	407
-Other foreign currency derivatives	1,565	2,898	–	4,463	4,463
	919,587	2,898	154,001	1,076,486	1,076,486
Financial liabilities					
Trade and other payables	–	–	238,925	238,925	238,925
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	6,222	–	–	6,222	6,222
-Other foreign currency derivatives	2,621	3,238	–	5,859	5,859
Non-controlling interest	38,300	–	–	38,300	38,300
	47,143	3,238	238,925	289,306	289,306

	Carrying amount				
	Fair value through net income	Fair value through other comprehensive income $	Amortized cost $	Total $	Fair value $
As at October 31, 2018					
Financial assets					
Cash and cash equivalents	593,654	–	–	593,654	593,654
Cash and cash equivalents in trust or otherwise reserved	338,919	–	–	338,919	338,919
Trade and other receivables	–	–	117,802	117,802	117,802
Deposits on leased aircraft and engines	–	–	34,874	34,874	34,874
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	6,873	–	–	6,873	6,873
-Other foreign currency derivatives	–	13,624	–	13,624	13,624
	939,446	13,624	152,676	1,105,746	1,105,746
Financial liabilities					
Trade and other payables	–	–	243,718	243,718	243,718
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	844	–	–	844	844
-Other foreign currency derivatives	–	2,601	–	2,601	2,601
Non-controlling interest	48,700	–	–	48,700	48,700
	49,544	2,601	243,718	295,863	295,863

Determination of fair value of financial instruments

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

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

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

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

The fair value of the non-controlling interest in respect of which a shareholder holds an option entitling him to require the Corporation to buy back his shares corresponds to its redemption price. The redemption price is based on a formula that factors in financial indicators.

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

	Quoted prices in active markets (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2019				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	–	407	–	407
-Foreign exchange forward contracts and other foreign currency derivatives	–	4,463	–	4,463
	–	4,870	–	4,870
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	–	6,222	–	6,222
-Foreign exchange forward contracts and other foreign currency derivatives	–	5,859	–	5,859
Non-controlling interest	–	–	38,300	38,300
	–	12,081	38,300	50,381

	Quoted prices in active markets (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2018				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	–	6,873	–	6,873
-Foreign exchange forward contracts and other foreign currency derivatives	–	13,624	–	13,624
	–	20,497	–	20,497
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	–	844	–	844
-Foreign exchange forward contracts and other foreign currency derivatives	–	2,601	–	2,601
Non-controlling interest	–	–	48,700	48,700
	–	3,445	48,700	52,145

Non-controlling interest

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

The change in the non-controlling interest is as follows:

	2019 $	2018 $
Balance, beginning of year	**48,700**	49,300
Net income	**2,647**	3,542
Other comprehensive income	**1**	995
Dividends	**(2,892)**	(3,302)
Change in fair value of non-controlling interest	**(10,156)**	(1,835)
	38,300	48,700

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $25,669 as at October 31, 2019 [$30,831 as at October 31, 2018]. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2019 and 2018. As at October 31, 2019, approximately 7% [approximately 6% as at October 31, 2018] of accounts receivable were over 90 days past due, whereas approximately 90% [approximately 80% as at October 31, 2018] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $20,576 as at October 31, 2019 [$27,118 as at October 31, 2018]. These deposits are offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $38,414 as at October 31, 2019 [$34,874 as at October 31, 2018] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2019, the cash security deposits with lessors that have been claimed totalled $71,557 [$67,027 as at October 31, 2018] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2019 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2019.

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.

The maturities of the Corporation's financial liabilities as at October 31, 2019 are summarized in the following table:

	Maturing in under 1 year $	Maturing in 1 to 2 years $	Maturing in 2 to 5 years $	Contractual cash flows Total $	Carrying amount Total $
Accounts payable and accrued liabilities	**238,925**	**—**	**—**	**238,925**	**238,925**
Non-controlling interest	**38,300**	**—**	**—**	**38,300**	**38,300**
Derivative financial instruments	**10,543**	**1,650**	**—**	**12,193**	**12,081**
Total	**287,768**	**1,650**	**—**	**289,418**	**289,306**

Market risk

FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 74% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 19% of revenues are earned in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts and other types of derivative financial instruments, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

Net assets (liabilities)	**U.S. dollar**	**Euro**	**Pound sterling**	**Canadian dollar**	**Other currencies**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
2019						
Financial statement measurement currency of the group's companies						
Euro	**1**	**—**	**—**	**—**	**—**	**1**
Pound sterling	**2**	**339**	**—**	**39,684**	**—**	**40,025**
Canadian dollar	**22,805**	**(9,763)**	**58**	**—**	**3,972**	**17,072**
Other currencies	**(182)**	**6**	**—**	**(6)**	**(433)**	**(615)**
Total	**22,626**	**(9,418)**	**58**	**39,678**	**3,539**	**56,483**

Net assets (liabilities)	**U.S. dollar**	**Euro**	**Pound sterling**	**Canadian dollar**	**Other Currencies**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
2018						
Financial statement measurement currency of the group's companies						
Euro	6	—	—	—	—	6
Pound sterling	(94)	201	—	(1,759)	—	(1,652)
Canadian dollar	43,995	(9,413)	10,222	—	367	45,171
Other currencies	(911)	27	—	13	597	(274)
Total	42,996	(9,185)	10,222	(1,746)	964	43,251

For the year ended October 31, 2019, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in an $3,993 increase or decrease [$854 in 2018], respectively, in the Corporation's net loss for the year, whereas other comprehensive loss would have decreased or increased by $4,998 [$4,146 in 2018], respectively. For sensitivity analysis purposes, the impact of any single currency on the Corporation's income would not be material.

As at October 31, 2019, 63% of estimated requirements for fiscal 2020 were covered by foreign exchange derivatives [58% of estimated requirements for fiscal 2019 were covered as at October 31, 2018].

RISK OF FLUCTUATIONS IN FUEL PRICES

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

For the year ended October 31, 2019, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $6,842 decrease or increase [$4,283 in 2018], respectively, in the Corporation's net loss for the year.

As at October 31, 2019, 41% of estimated requirements for fiscal 2020 were covered by fuel-related derivative financial instruments [44% of estimated requirements for fiscal 2019 were covered as at October 31, 2018].

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.

For the year ended October 31, 2019, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $2,301 increase or decrease [$2,392 in 2018], respectively, in the Corporation's net loss.

CAPITAL RISK MANAGEMENT

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

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

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

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

	2019 **$**	**2018** **$**
Net debt		
Long-term debt	**—**	—
Adjusted operating leases	**718,920**	622,270
Cash and cash equivalents	**(564,844)**	(593,654)
	154,076	28,616
Equity	**534,783**	571,639
Adjusted debt/equity ratio	**28.8%**	5.0%

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2019, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

Note 10 Deposits

	2019 $	2018 $
Deposits on leased aircraft and engines	**38,415**	34,874
Deposits with suppliers	**20,576**	27,118
	58,991	61,992
Less current portion	**17,765**	20,250
	41,226	41,742

Note 11 Property, plant and equipment

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2018	**339,093**	**118,679**	**53,102**	**96,123**	**606,997**
Additions	**24,807**	**27,730**	**10,634**	**19,926**	**83,097**
Write-offs	**(35,163)**	**(21,307)**	**(3,601)**	**(352)**	**(60,423)**
Exchange difference	**—**	**—**	**(98)**	**(139)**	**(237)**
Balance as at October 31, 2019	**328,737**	**125,102**	**60,037**	**115,558**	**629,434**
Accumulated depreciation					
Balance as at October 31, 2018	**251,348**	**88,238**	**38,335**	**27,598**	**405,519**
Depreciation	**33,816**	**7,786**	**5,711**	**1,930**	**49,243**
Write-offs	**(35,163)**	**(21,307)**	**(3,601)**	**(352)**	**(60,423)**
Exchange difference	**—**	**—**	**(57)**	**(9)**	**(66)**
Balance as at October 31, 2019	**250,001**	**74,717**	**40,388**	**29,167**	**394,273**
Net book value as at October 31, 2019	**78,736**	**50,385**	**19,649**	**86,391**	**235,161**

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2017	343,567	106,800	57,799	33,222	541,388
Additions	29,954	11,879	6,941	62,563	111,337
Write-offs	(34,428)	—	(11,529)	(72)	(46,029)
Exchange difference	—	—	(109)	410	301
Balance as at October 31, 2018	339,093	118,679	53,102	96,123	606,997
Accumulated depreciation					
Balance as at October 31, 2017	253,297	83,106	44,523	25,790	406,716
Depreciation	32,479	5,132	5,265	1,883	44,759
Write-offs	(34,428)	—	(11,529)	(72)	(46,029)
Exchange difference	—	—	76	(3)	73
Balance as at October 31, 2018	251,348	88,238	38,335	27,598	405,519
Net book value as at October 31, 2018	87,745	30,441	14,767	68,525	201,478

Note 12 Intangible assets

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2018	**153,709**	**20,334**	**12,574**	**186,617**
Additions	**9,088**	**—**	**92**	**9,180**
Exchange difference	**3**	**47**	**123**	**173**
Balance as at October 31, 2019	**162,800**	**20,381**	**12,789**	**195,970**
Accumulated amortization and impairment				
Balance as at October 31, 2018	**115,695**	**15,809**	**12,424**	**143,928**
Amortization	**15,010**	**—**	**52**	**15,062**
Exchange difference	**5**	**—**	**123**	**128**
Balance as at October 31, 2019	**130,710**	**15,809**	**12,599**	**159,118**
Net book value as at October 31, 2019	**32,090**	**4,572**	**190**	**36,852**

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2017	148,028	20,406	12,219	180,653
Additions	7,587	—	129	7,716
Write-offs and impairment	(1,781)	—	—	(1,781)
Exchange difference	(125)	(72)	226	29
Balance as at October 31, 2018	153,709	20,334	12,574	186,617
Accumulated amortization and impairment				
Balance as at October 31, 2017	103,021	15,809	12,219	131,049
Amortization	14,445	—	44	14,489
Write-offs and impairment	(1,781)	—	—	(1,781)
Exchange difference	10	—	161	171
Balance as at October 31, 2018	115,695	15,809	12,424	143,928
Net book value as at October 31, 2018	38,014	4,525	150	42,689

Impairment test in 2019

The Corporation performed its annual impairment test as at April 30, 2019 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following this impairment test, the Corporation did not identify any impairment of its trademarks, which totalled $4,572 as at October 31, 2019.

The recoverable amount is determined based on value in use, using the royalty capitalization method. The Corporation prepares cash flow forecasts based on pre-established royalty rates, which represent what a third party would pay to use the trademark. The cash flow forecasts, which correspond to after-tax royalties, are then discounted.

As at April 30, 2019, after-tax discount rates used for impairment testing for trademarks ranged from 10.0% to 18.0% [between 10.0% and 18.0% as at April 30, 2018].

On April 30, 2019, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all other variables had remained the same, would not have resulted in any impairment charge.

On April 30, 2019, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would not have resulted in any impairment charge.

As at October 31, 2019, there was no indication that the conclusions of the test might have changed since April 30, 2019.

Note 13 Investment

The Corporation holds a 50% interest in Desarrollo Transimar, a Mexican company operating a hotel, the Marival Armony. This interest in a joint venture is accounted for using the equity method.

The change in the investment in Desarrollo Transimar is detailed as follows:

	2019 $	2018 $
Balance, beginning of year	**16,084**	15,888
Capital contribution	**1,690**	—
Share of net loss	**(1,250)**	(105)
Translation adjustment	**9**	301
	16,533	16,084

The investment was translated at the USD/CAD rate of 1.3142 as at October 31, 2019 [1.3130 as at October 31, 2018].

The following table shows the condensed financial information regarding Desarrollo Transimar as at October 31, 2019 and 2018:

	2019 $	2018 $
Statement of financial position:		
Current assets	**8,863**	13,341
Non-current assets	**93,287**	52,761
Current liabilities	**7,214**	1,272
Non-current liabilities	**62,063**	32,662
Net assets	**32,873**	32,168
Carrying amount of investment	**16,437**	16,084
Statement of comprehensive income:		
Revenues	**6,370**	4,558
Net loss and comprehensive loss	**(2,500)**	(210)
Share of net income (loss)	**(1,250)**	(105)

Note 14 Other assets

	2019 $	2018 $
Deferred rent	**33,733**	26,499
Sundry	**322**	186
	34,055	26,685

Note 15 Trade and other payables

	2019 $	2018 Restated [note 4] $
Trade payables	**128,522**	146,393
Accrued expenses	**21,939**	33,824
Salaries and employee benefits payable	**88,464**	63,501
Government remittances	**38,170**	28,314
Non-controlling interest *[note 9]*	**38,300**	48,700
	315,395	320,732

Note 16 Provision for overhaul of leased aircraft

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases. The change in the provision for overhaul of leased aircraft for the year ended October 31, 2019 is detailed as follows:

	$
Balance as at October 31, 2018	**57,228**
Additional provisions	**31,530**
Utilization of provisions	**(30,510)**
Balance as at October 31, 2019	**58,248**
Current provisions	**27,151**
Non-current provisions	**31,097**
Balance as at October 31, 2019	**58,248**

Note 17 Long-term debt

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its 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 ratios and conditions. As at October 31, 2019 and 2018, all financial ratios and conditions were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2019, $55,848 had been drawn down under the facility [$56,151 as at October 31, 2018], $51,224 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

Note 18 Other liabilities

	2019 $	2018 $
Employee benefits *[note 24]*	**46,986**	40,388
Deferred lease inducements	**50,512**	51,637
	97,498	92,025

Note 19 Equity

Authorized share capital

CLASS A VARIABLE VOTING SHARES

An unlimited number of participating Class A Variable Voting Shares ["Class A Shares"] which may be owned or controlled only by non-Canadians as defined by the Canada Transportation Act ["CTA"].

Following the entry into force, on May 8, 2019, of the plan of arrangement approved by the Corporation's shareholders and the Superior Court of Québec, the Class A Shares carry one vote per share at any meeting of shareholders subject to an automatic reduction of the voting rights attached thereto in the event that [i] any non-Canadian, individually or with persons of the same group, holds more than 25% of the votes cast, [ii] any non-Canadian authorized to provide an air service in any jurisdiction (in aggregate) holds more than 25% of the votes cast, or [iii] the votes that would be cast by holders of Class A Shares would be more than 49%. If any of the above-mentioned applicable limitations are exceeded, the votes that should be attributed to holders of Class A Shares will be attributed as follows:

- first, if applicable, there will be a reduction in the voting rights of any non-Canadian individual (including a non-Canadian authorized to provide an air service) whose votes total more than 25% of the votes cast, so that such non-Canadian holder may never hold more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast at a meeting;

- next, if applicable, and once the pro rata distribution as described above is made, a further pro rata reduction will be made in the voting rights of all holders of Class A non-Canadian Shares authorized to provide an air service, so that such non-Canadian holders may never hold votes totalling more than 25% (or such other percentage as may be prescribed by law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting;

- last, if applicable, and once the two pro rata allocations described above have been made, a proportional reduction will be made in the voting rights of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares may never hold votes totalling more than 49% (or such other percentage as may be prescribed by law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting.

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

Issued and outstanding share capital

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

	Number of shares	$
Balance as at October 31, 2017	37,063,626	215,444
Issued from treasury	188,785	1,555
Exercise of options	292,924	2,685
Balance as at October 31, 2018	37,545,335	219,684
Issued from treasury	**169,862**	**940**
Exercise of options	**31,893**	**388**
Balance as at October 31, 2019	**37,747,090**	**221,012**

As at October 31, 2019, the number of Class A Shares and Class B Shares was 4,243,821 and 33,503,269, respectively [2,931,020 and 34,614,315, respectively, as at October 31, 2018].

Subscription rights plan

The shareholders' subscription rights plan [the "rights plan"] entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider alternatives, thus allowing shareholders to receive full and fair value for their shares. The time limit for a permitted bid under the rights plan is 105 days. The rights plan will terminate on the day after the 2020 annual general meeting, unless terminated prior to said annual general meeting.

Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 829,196 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the performance criteria are determined on each grant. The options granted between January 14, 2009 and October 31, 2015 are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. For options granted starting November 1, 2015, vesting will no longer depend on meeting performance criteria. The options granted before October 31, 2013 are exercisable over a ten-year period, whereas those granted after that date are exercisable over a seven-year period, respectively. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years. Under the plan, in the event of a change of control, all outstanding stock options vest.

The following tables summarize all outstanding options:

	2019		2018	
	Number of options	Weighted average price $	Number of options	Weighted average price $
Beginning of year	**1,786,588**	**10.13**	2,246,032	10.57
Granted	**—**	**—**	157,735	10.94
Exercised	**(31,893)**	**8.41**	(292,924)	6.40
Cancelled	**(4,125)**	**15.76**	(160,801)	13.43
Expired	**(2,000)**	**10.52**	(163,454)	20.46
End of year	**1,748,570**	**10.15**	1,786,588	10.13
Options exercisable, end of year	**1,471,592**	**10.05**	1,412,111	10.03

Range of exercise price	Number of options outstanding as at October 31, 2019	Weighted average remaining life	Weighted average price	Number of options exercisable as at October 31, 2019	Weighted average price
	Outstanding options			Options exercisable	
$			$		$
6.01 to 7.48	**572,758**	**2.6**	**6.87**	**572,758**	**6.87**
8.73 to 11.22	**620,269**	**2.8**	**10.07**	**419,810**	**10.13**
12.25 to 12.49	**455,493**	**0.9**	**12.37**	**378,974**	**12.35**
19.24	**100,050**	**1.2**	**19.24**	**100,050**	**19.24**
	1,748,570	**2.1**	**10.15**	**1,471,592**	**10.05**

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2019, the Corporation granted no stock options [157,735 in 2018] to its key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

	2019	2018
Risk-free interest rate	–	1.80%
Expected life	–	4 years
Expected volatility	–	39.0%
Dividend yield	–	0.0%
Weighted average fair value at date of grant	–	$3,59

During the year ended October 31, 2019, the Corporation recorded a compensation expense of $427 [$496 in 2018] for its stock option plan.

Performance share unit plan

Performance share units ["PSUs"] are awarded in connection with the performance share unit plan for senior executives. Under this plan, each eligible senior executive receives a portion of his or her compensation in the form of PSUs. PSUs consist of a number equal to a percentage of the participant's basic salary, divided by the fair market value of Class B Shares as at the award date. Once vested, PSUs give the participant the right to receive an equal number of shares or a cash payment, at the Corporation's discretion. Starting in 2017, PSUs awarded vest 100% in mid-January three years following the award, provided the performance criteria determined on the award are met. PSUs awarded prior to 2017 vest in three tranches of 16.67% in mid-January of each year for three years following the award, provided the performance criteria determined on each award are met. The remaining 50% of PSUs awarded vest in mid-January three years following their award, provided the plan member is still an employee of the Corporation. Under the plan, in the event of a change of control, all outstanding PSUs vest.

During the year ended October 31, 2019, the Corporation granted no PSUs [236,492 in 2018] to its key executives and employees. As at October 31, 2019, the number of PSUs awarded amounted to 451,755. During the year ended October 31, 2019, the Corporation recognized a compensation expense of $2,945 [$1,714 in 2018] for its performance share unit plan, of which $1,185 was recorded as an equity-settled transaction and $1,760 was recorded as a cash-settled transaction.

Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2019, the Corporation was authorized to issue up to 355,790 shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 169,862 shares [188,785 Class B Shares in 2018] for a total of $940 [$1,555 in 2018] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of shares, the aggregate purchase price of which is equal to an amount of 30% or 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest to the eligible employee, subject to the retention during the first six months of the vesting period of all the shares purchased under the Corporation's share purchase plan.

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

During the year ended October 31, 2019, the Corporation recognized a compensation expense of $84 [$188 in 2018] for its stock ownership incentive and capital accumulation plan.

Permanent stock ownership incentive plan

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

During the year ended October 31, 2019, the Corporation recognized a compensation expense of $243 [$238 in 2018] for its permanent stock ownership incentive plan.

Deferred share unit plan

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

As at October 31, 2019, the number of DSUs awarded amounted to 306,775 [274,345 as at October 31, 2018]. During the year ended October 31, 2019, the Corporation recorded a compensation expense of $2,946 [compensation expense reversal of $496 in 2018] for its deferred share unit plan.

Restricted share unit plan

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

As at October 31, 2019, the number of RSUs awarded amounted to 393,601 [925,929 as at October 31, 2018]. During the year ended October 31, 2019, the Corporation recorded a $5,615 compensation expense [nil compensation expense in 2018] for its restricted share unit plan.

Earnings per share

Basic and diluted earnings per share were calculated as follows:

[In thousands, except per share amounts]	2019 $	2018 Restated *[note 4]* $
NUMERATOR		
Net income (loss) attributable to shareholders	**(33,191)**	6,451
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,673**	37,394
Effect of dilutive securities		
Stock options	**—**	168
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,673**	37,562
Earnings (loss) per share		
Basic	**(0.88)**	0.17
Diluted	**(0.88)**	0.17

Given the net loss recorded for the year ended October 31, 2019, all 1,748,570 outstanding stock options were excluded from the calculation due to their anti-dilutive effect. For the purposes of calculating diluted earnings (loss) per share for the year ended October 31, 2018, 911,734 outstanding stock options were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

Note 20 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

Revenue from contracts with customers is broken down as follows:

	2019 $	2018 Restated *[note 4]* $
Customers		
Transatlantic	**1,173,884**	1,112,818
Americas	**1,705,753**	1,679,514
Other	**57,493**	56,623
Total revenues	**2,937,130**	2,848,955

Contract balances

Contract balances with customers are detailed as follows:

	2019 $	2018 $
Trade accounts receivable *[note 8]*	**25,669**	30,831
Contract costs, included in Prepaid expenses	**52,761**	38,414
Customer deposits and deferred revenues	**561,404**	517,352

Salaries and employee benefits

	2019 $	2018 $
Salaries and other employee benefits	**407,836**	381,889
Long-term employee benefits *[note 24]*	**2,927**	2,799
Share-based payment expense	**1,612**	2,210
	412,375	386,898

Depreciation and amortization

	2019 $	2018 $
Property, plant and equipment	**49,243**	44,759
Intangible assets subject to amortization	**15,062**	14,489
Other assets	**12**	118
Deferred lease inducements	**(239)**	(241)
	64,078	59,125

Note 21 Special items

Special items generally include restructuring charges and other significant unusual items. For the year ended October 31, 2019, professional fees of $10,302 and compensation expenses of $13,573 were recorded in connection with the transaction with Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions subsequent to the significant rise in the share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period.

During the year ended October 31, 2018, the Corporation recorded a restructuring charge of $2,262, comprising mainly termination benefits. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5,000 [$6,700], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded under Special items in the consolidated statements of income for the year ended October 31, 2018.

Note 22 Income taxes

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

Consolidated statements of income	2019	2018 Restated *[note 4]*
	$	$
Current		
Current income taxes	**1,243**	(7,505)
Adjustment to taxes payable for prior years	**(215)**	1,011
	1,028	(6,494)
Deferred		
Relating to temporary differences	**(9,136)**	2,077
Adjustment to deferred taxes for prior years	**(114)**	(532)
	(9,250)	1,545
Income tax recovery	**(8,222)**	(4,949)

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

	2019		2018 Restated *[note 4]*	
	%	$	%	$
Income taxes at the statutory rate	**26.6**	**(10,312)**	26.7	1,346
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	**7.0**	**(2,718)**	(63.9)	(3,220)
Non-taxable items	**(7.9)**	**3,051**	(90.5)	(4,563)
Recognition of previously unrecorded tax benefits	**1.1**	**(421)**	(3.1)	(156)
Derecognition of a future income tax asset	**(6.1)**	**2,353**	17.3	874
Adjustments for prior years	**0.8**	**(328)**	9.5	479
Effect of tax rate changes	**(0.2)**	**84**	(0.2)	(12)
Other	**(0.1)**	**69**	6.0	303
	21.2	**(8,222)**	(98.2)	(4,949)

The applicable statutory income tax rate was 26.6% for the year ended October 31, 2019 [26.7% for the year ended October 31, 2018]. The 0.1% rate decrease is due to the reduction in the applicable Québec tax rate which was lowered from 11.7% to 11.6%. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate.

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components and changes in temporary differences in deferred tax assets and liabilities for fiscal 2019 and 2018 were as follows:

	2019					
	Balance, beginning of year	**Recognized in net income**	**Recognized in other comprehensive income**	**Recognized in equity**	**Exchange differences**	**Balance, end of year**
		$	**$**	**$**	**$**	**$**
Deferred tax losses	**243**	**2,828**	**—**	**—**	**—**	**3,071**
Excess of tax value over net carrying value of:						
Property, plant and equipment and software	**(12,103)**	**(717)**	**—**	**(612)**	**(10)**	**(13,442)**
Intangible assets, excluding software	**855**	**(129)**	**—**	**—**	**(21)**	**705**
Derivative financial instruments	**(4,353)**	**2,226**	**4,019**	**—**	**—**	**1,892**
Other financial assets and other assets	**1,141**	**142**	**—**	**—**	**—**	**1,283**
Provisions	**17,936**	**2,192**	**—**	**382**	**—**	**20,510**
Employee benefits	**10,703**	**523**	**1,225**	**—**	**—**	**12,451**
Other financial liabilities and other liabilities	**(2,720)**	**2,185**	**—**	**—**	**—**	**(535)**
Deferred tax	**11,702**	**9,250**	**5,244**	**(230)**	**(31)**	**25,935**

	2018				
	Balance, beginning of year	**Recognized in net income**	**Recognized in other comprehensive income**	**Exchange differences**	**Balance, end of year**
	Restated	**Restated**	**Restated**		**Restated**
	[note 4]	*[note 4]*	*[note 4]*		*[note 4]*
	$	**$**	**$**	**$**	**$**
Deferred tax losses	1,467	(1,224)	—	—	243
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	(12,646)	525	—	18	(12,103)
Intangible assets, excluding software	837	9	—	9	855
Derivative financial instruments	(2,750)	(2,295)	692	—	(4,353)
Other financial assets and other assets	1,289	(148)	—	—	1,141
Provisions	13,151	4,785	—	—	17,936
Employee benefits	10,802	496	(595)	—	10,703
Other financial liabilities and other liabilities	973	(3,693)	—	—	(2,720)
Deferred tax	13,123	(1,545)	97	27	11,702

The net deferred tax assets are detailed below:

	2019	**2018**
		Restated
		[note 4]
	$	**$**
Deferred tax assets	**27,209**	14,954
Deferred tax liabilities	**(1,274)**	(3,252)
Net deferred tax assets	**25,935**	11,702

Non-capital losses recorded in various jurisdictions expire as follows:

Year of expiry	Unrecognized $	Recognized $
2020 - 2024	**5,757**	**—**
2025 - 2029	**6,789**	**—**
2030 - 2034	**49**	**—**
2035 - 2040	**1,871**	**8,722**
With no expiry	**708**	**—**
	15,174	**8,722**

As at October 31, 2019, non-capital losses carried forward and other unrecognized tax deductions available to reduce future taxable income of certain subsidiaries in Mexico total MXP180,449 [$12,366] [MXP91,014 [$5,895] as at October 31, 2018]. These losses and deductions expire in 2020 and thereafter. Unrecognized capital losses as at October 31, 2019 totalled $4,574 ($4,317 as at October 31, 2018).

The Corporation recognized no deferred tax liability on retained earnings of its foreign subsidiaries and its joint venture as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad. As of October 31, 2019, there are no taxable temporary differences for which a deferred income tax liability was recorded.

Note 23 Related party transactions and balances

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

	Country of incorporation	Interest (%) 2019	2018
Air Transat A.T. inc.	Canada	**100.0**	100.0
Transat Tours Canada inc.	Canada	**100.0**	100.0
Transat Distribution Canada inc.	Canada	**100.0**	100.0
11061987 Florida Inc.	United States	**100.0**	100.0
Transat Holidays USA Inc.	United States	**100.0**	100.0
The Airline Seat Company Ltd.	United Kingdom	**100.0**	100.0
Air Consultants France S.A.S.	France	**100.0**	100.0
Caribbean Transportation Inc.	Barbados	**70.0**	70.0
CTI Logistics Inc.	Barbados	**70.0**	70.0
Sun Excursions Caribbean Inc.	Barbados	**70.0**	70.0
Propiedades Profesionales Dominicanas Carhel S.R.L.	Dominican Republic	**70.0**	70.0
Servicios y Transportes Punta Cana S.R.L.	Dominican Republic	**70.0**	70.0
TTDR Travel Company S.A.S.	Dominican Republic	**70.0**	70.0
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	**70.0**	70.0
Turissimo Jamaica Ltd.	Jamaica	**70.0**	70.0
Laminama S.A. de C.V.	Mexico	**100.0**	100.0
Promociones Residencial Morelos S.A. de C.V.	Mexico	**100.0**	—
Promotora Turística Regional S.A. de C.V.	Mexico	**100.0**	100.0
Trafictours de Mexico S.A. de C.V.	Mexico	**70.0**	70.0
Desarrollo Transimar S.A. de C.V.	Mexico	**50.0**	50.0

Compensation of key senior executives

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

	2019 $	2018 $
Salaries and other employee benefits	**6,958**	5,566
Long-term employee benefits	**1,280**	1,331
Share-based payment expense	**2,412**	1,753

Note 24 Employee future benefits

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

Defined benefit arrangements and post-employment benefits

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $51,224 letter of credit to the trustee *[see note 7]*. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation as at October 31, 2019 and 2018:

	2019	**2018**
	$	**$**
Present value of obligations, beginning of year	**40,388**	40,764
Current service cost	**1,280**	1,342
Financial costs	**1,647**	1,457
Benefits paid	**(960)**	(956)
Experience losses (gains)	**(648)**	238
Actuarial loss (gain) on obligation	**5,279**	(2,457)
Present value of obligations, end of year	**46,986**	40,388

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

	2019	**2018**
	$	**$**
Current service cost	**1,280**	1,342
Interest cost	**1,647**	1,457
Total cost of retirement benefits	**2,927**	2,799

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2019:

	$
Under one year	**959**
One to five years	**11,175**
Between five and 10 years	**14,970**
Between 10 and 15 years	**13,257**
Between 15 and 20 years	**11,126**
	51,487

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.6 years as at October 31, 2019.

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

	2019 %	2018 %
Retirement benefit obligation		
Discount rate	**3.00**	4.00
Rate of increase in eligible earnings	**2.75**	2.75
Retirement benefit expense		
Discount rate	**4.00**	3.50
Rate of increase in eligible earnings	**2.75**	2.75

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

Increase (decrease)	Retirement benefit expense for the year ended October 31, 2019 $	Retirement benefit obligations as at October 31, 2019 $
Discount rate	**(1)**	**(1,406)**
Rate of increase in eligible earnings	**13**	**80**

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

	2019 $	2018 $
Plan assets at fair value	**—**	—
Accrued benefit obligation	**46,986**	40,388
Retirement benefit deficit	**46,986**	40,388

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

Gains (losses)	**$**
October 31, 2017	(8,808)
Actuarial gains	2,219
Income taxes	(595)
October 31, 2018	(7,184)
Actuarial losses	**(4,631)**
Income taxes	**1,225**
October 31, 2019	**(10,590)**

Defined contribution pension plans

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

Contributions to defined contribution pension plans, which correspond to the cost recognized, amounted to $14,310 for the year ended October 31, 2019 [$13,559 for the year ended October 31, 2018].

Note 25 Commitments and contingencies

Operating leases

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

	2019 $
Under one year	**217,210**
One to five years	**860,377**
Over five years	**1,106,884**
	2,184,471

The lease expense totalled $163,865 for the year ended October 31, 2019 [$143,805 for the year ended October 31, 2018].

Other commitments

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

	2019 $
Under one year	**41,862**
One to five years	**10,218**
Over five years	**4,750**
	56,830

Litigation

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the paragraph hereunder. The Corporation has directors' and officers' liability insurance as well as professional liability insurance and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

Other

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15,100 to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount was recognized as income taxes receivable as at October 31, 2019 and 2018.

Note 26 Guarantees

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

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

Notes 7, 9, 17, 24 and 25 to the consolidated financial statements provide information about some of these agreements. The following constitutes additional disclosure.

Operating leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2019, the total amount of these guarantees unsecured by deposits was $472. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2019, no amounts had been accrued with respect to the above-mentioned agreements.

Irrevocable credit facility unsecured by deposits

The Corporation has a guarantee facility that is renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50,000. As at October 31, 2019, $24,350 had been drawn down under the facility [$31,221 in 2018].

Note 27 Segmented disclosure

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

Information

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For additional information, write to the Vice-President, Finance and Administration, and Chief Financial Officer.

Ce rapport annuel est disponible en français.

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TRZ

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Montréal (Québec)

Annual and Special Meeting of Shareholders

Thursday, March 12, 2020
10:00 a.m.

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