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)				
(in thousands of Canadian dollars)	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] $
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
Consolidated statement of financial position	**Before adjustments $**	**IFRS 9 $**	**IFRS 15 $**	**After adjustments $**
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
Consolidated statement of financial position	**Before adjustments $**	**IFRS 9 $**	**IFRS 15 $**	**After adjustments $**
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	Outstanding options			Options exercisable	
	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
$			$		$
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.