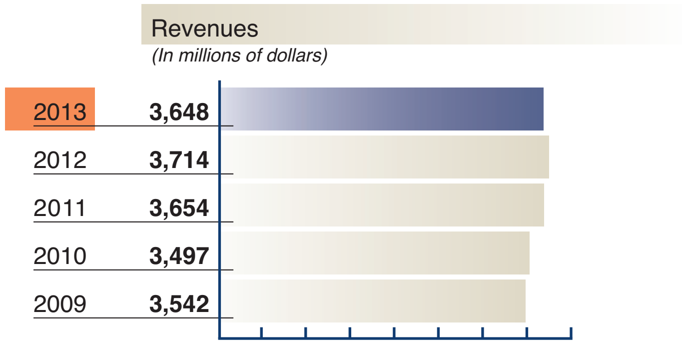
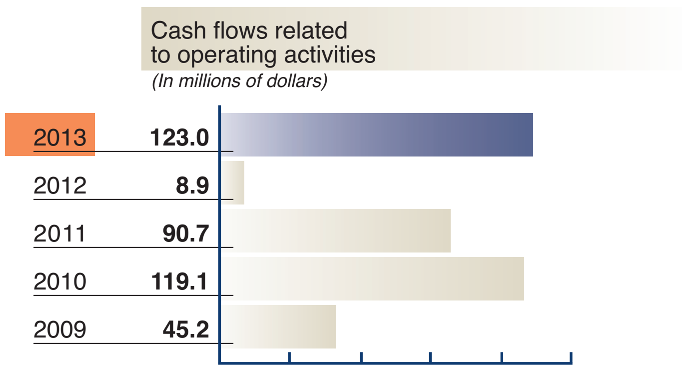
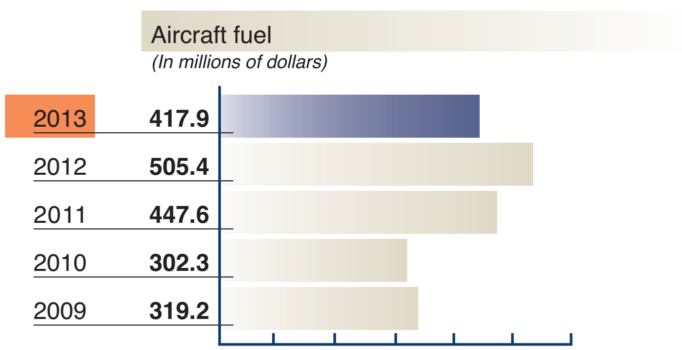
Annual Report

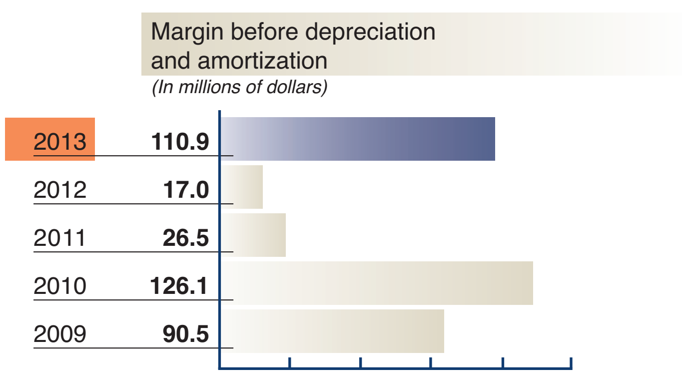
Transat A.T. Inc.

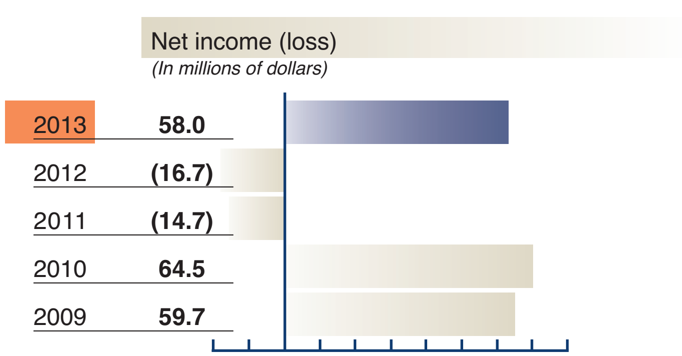
2013











Transat A. T. inc. is an integrated international tour operator that specializes in holiday travel. It offers more than 60 destination countries and distributes products in approximately 50 countries.

(In thousands of dollars, except per share amounts and ratios)

Highlights

	2013	2012	Variance $	Variance %
Revenues	**3,648,158**	3,714,219	(66,061)	(1.8)
Margin before depreciation and amortization [1]	**110,906**	16,955	93,951	554.1
Net income (loss) attributable to shareholders	**57,955**	(16,669)	74,624	447.7
Diluted earnings (loss) per share	**1.51**	(0.44)	1.95	443.2
Cash flows relating to operating activities	**123,039**	8,872	114,167	1,286.8
Cash and cash equivalents	**265,818**	171,175	94,643	55.3
Total assets	**1,290,073**	1,163,301	126,772	10.9
Long-tem debt (including current portion)	**—**	—	N.A.	N.A.
Debt ratio [2]	**0.66**	0.69	(0.03)	(4.1)
Return on average shareholders' equity (%) [3]	**14.4**	(4.4)	18.8	424.2
Book value per share [4]	**11.47**	9.57	1.90	19.9
Stock price as at October 31 (TRZ.B)	**12.87**	5.30	7.57	142.8
Oustanding shares, end of year (thousands)	**38,468**	38,296	172	0.4

[1] Margin before depreciation and amortization: Gross margin (operating loss) before depreciation and amortization expense.

[2] Debt ratio: Total liabilities divided by total assets.

[3] Return on average shareholders's equity: Net income (loss) divided by average shareholders' equity.

[4] Book value per share: Shareholders' equity divided by total number of shares oustanding.

A turnaround that is off to a good start

Following two difficult fiscal years, Transat became profitable again in 2013. This was thanks in large part to the strategies and measures put forward in recent years, especially those implemented since late in 2011. The Sun destinations market, which accounts for approximately 80% of our sales in winter, continues to pose its share of challenges, but our results for 2013 showed substantial improvement in this market over the previous year. On travel outbound from France, where the market remains in the doldrums and conditions are still difficult, we turned a profit in 2013—quite a feat under the circumstances—a significant turnaround from the loss posted in 2012. Our excellent performance on the transatlantic market—the source of 65% of our revenues in summer and 10% in winter—was the main factor behind our return to profitability. We posted a margin of $133.1 million in the summer, which made it our best ever, thanks to an improved performance in all market segments. We recorded an operating loss of $22.2 million over the winter, and a margin of $110.9 million for the whole fiscal year.

Several factors explain these improved results, particularly in the Sun market. We reined in our operating costs, changing many of our working methods to do so. We also rolled out a new reservations system and made enhancements to our yield-management processes, which further contributed to the improvement. The impact of these changes should continue to be felt in 2014, as the year gone by can be seen as a break-in period.

On the strategy front, we further refined our product to bring customers a range of products segmented based on their needs as well as an enhanced experience, while implementing a more sharply defined hotel strategy. During winter 2013, we funnelled close to 20% of volume marketed under the Nolitours and Transat Holidays brands to our two main collections (Distinction and Luxury), which accounted for nearly half of our margin. In addition, 60% of room-nights sold through these brands were marketed as part of an exclusive collection or with a property over which we have exclusivity on the Canadian market.

In France, contrary to all of our main competitors, we turned things around and went from a loss in 2012 to a profit in 2013. The essential ingredients in this success were strategic capacity management, which paved the way for improvements in average sales prices and margins; a lowering of distribution and structure costs; elimination of routes with insufficient margins; and development of new, more profitable destinations. On another front, we proceeded with the formal merger—effective November 1, 2013—of all our France-based business units, simultaneously making changes to the way their work is organized, which will drive new efficiency gains.

Competition in the transatlantic market remains extremely intense. In this market, however, we are at the top of our game, as our summer results clearly showed. We estimate our overall market share for the city-pairs we serve in the summer season to be 23%. Our cost structure is also very competitive, and we enjoy significant advantages in the transatlantic market with our unique line-up of direct destinations, upgraded cabins, land portion offerings adapted to the needs of both Canadian and European tourists, and well-established distribution networks on both continents.

Our cost structure will be further streamlined in the wake of our decision to operate our own narrow-body fleet and to introduce new operating methods, the full effect of which will be felt in 2015. We have already signed a contract for the long-term lease of four Boeing 737-800 aircraft, which will form the core of Air Transat's permanent narrow-body fleet. We have also signed a five-year contract to lease further Boeing 737-800s seasonally.

While for the past 10 years we have operated variable numbers of narrow-body aircraft depending on seasonal requirements, we are also striving to reduce fixed costs related to our wide-body fleet, especially in winter. To this end, we have reached an agreement to extend through 2020 and 2021 the leases on six of our Airbus A330 aircraft, with better terms and a formula that will allow Transat to achieve its cost-reduction objective. The end result: we will be flying a scalable fleet with a cost structure that is more competitive and ideally suited to the seasonal nature of our operations.

As these projects show, we are currently engaged in a wide-ranging program to reduce costs and grow the margin. This program enabled us to recoup some $20 million in 2012, and another $15 million in 2013, and these savings will be recurrent. We have forecast a cumulative impact of $75 million by 2015, and our indicators show that we are on track.

In addition to working to improve our performance as a producer, we have moved to strengthen our role as a distributor. The marketing of travel services is multifaceted, and constantly evolving. Our end customers, travellers, are becoming increasingly empowered, with the channels through which they can buy what they are looking for multiplying constantly. As a result, Transat has for years relied on a multichannel distribution strategy, which has clearly proven to be the correct one, and we now intend to ramp up its deployment. This major initiative has multiple components, ranging from greater added value and improved usability on our websites to development and implementation of a strategy for mobile devices, increased customer proximity and, above all, enrichment of the product supply itself. On this front, we have considerably increased the number of hotels available through us, and we intend to continue in this direction, given that travellers' needs are increasingly varied. In France, we have successfully implemented a true online travel agency, under the Look Voyages banner.

These efforts with regard to online distribution channels are being accompanied by development of our traditional network and enhancement of its online presence. In 2013, we began a major pilot project to introduce a new brand (Transat Travel) within the traditional travel-agency–based distribution network. The preliminary results show promise.

Our sustainability efforts continue. Our main programs are all proceeding apace, and early in the year we issued our third corporate responsibility report (see **www.resp.transat.com**). Moreover, in 2013 we took innovative actions with respect to the product itself. Responding to travellers' growing interest in discovery and contact with local communities, we developed a new collection featuring a new kind of sun vacation. We are particularly proud to have partnered with the Government of Haiti to launch holiday packages to that country, departing from Montreal and the United States. These products combine stays in Port-au-Prince and the beach resorts of the Côte des Arcadins with an extensive program of escorted tours.

In 2013 we continued strengthening our executive team, making appointments to the top positions at Transat Tours Canada, Canadian Affair, Transat Distribution Canada and Air Transat, among others, but also instituting new working methods that are leading to timelier decision-making processes. Our organizational structures have evolved and will continue to advance in this direction in 2014.

Our shareholders can therefore see that new directions have been taken and that they are yielding positive results. These new approaches require adaptability and openness, and—as I am always proud to note—those are qualities readily shown by our employees. From our aircraft cabins to our destination countries, in our travel agencies and in all of our offices, the entire Transat team has had to engage, and continues to show unwavering determination. Our positive results in 2013 are therefore the fruit of a collective effort, something for which I sincerely thank each and every member of our personnel. I am also most grateful to the members of the Board of Directors for their support and determination, and to our partners and shareholders, whose confidence, as always, is appreciated.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer
December 12, 2013

Board of Directors

Jean-Marc Eustache

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

Jean-Yves Leblanc

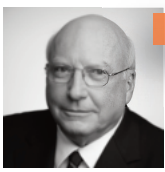
Lead director
Corporate Director

Louis-Marie Beaulieu

Chairman of the Board and
President and Chief Executive Officer,
Groupe Desgagné inc.

Lina De Cesare

Advisor to the President,
Transat A.T. Inc.

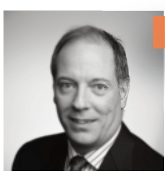


Jean Pierre Delisle

Corporate Director
and Executor of estates

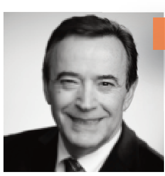
W. Brian Edwards

Corporate Director



Jacques Simoneau

President and Chief Executive Officer,
Gestion Univalor, LP



Philippe Sureau

Advisor to the President,
Transat A.T. Inc.

John D. Thompson

Corporate Director

Denis Wood, O.C.

President and Chief Executive Officer,
DWH Inc.

Executive Committee
Jean-Marc Eustache (President)
Jean-Yves Leblanc
Jacques Simoneau
W. Brian Edwards

Human Resources and Compensation Committee
W. Brian Edwards (President)
Jean-Yves Leblanc
John D. Thompson
Dennis Wood

Audit Committee
Jean-Yves Leblanc (President)
Jean Pierre Delisle
Jacques Simoneau
John D. Thompson

Corporate Governance and Nominating Committee
Jacques Simoneau (President)
Jean Pierre Delisle
W. Brian Edwards

Management

Jean-Marc Eustache
President and Chief Executive Officer

Joseph Adamo
General Manager,
Transat Distribution Canada

Patrice Caradec
President and General Manager,
Transat France

André De Montigny
President, Transat International
Vice-President, Corporate Development

Annick Guérard
General Manager, Transat Tours Canada

Jean-François Lemay
General Manager, Air Transat
Vice-President, Human Resources
and Talent Management

Michel Bellefeuille
Vice-President
and Chief Information Officer

Bernard Bussières
Vice-President, General Counsel
and Corporate Secretary

Daniel Godbout
Vice-President, Transport
and Yield Management

Michel Lemay
Vice-President, Communications
and Corporate Affairs and Chief Brand Officer

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2013, compared with the year ended October 31, 2012, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 11, 2013. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2013 and Annual Information Form.

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

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. We occasionally use non-IFRS financial measures. Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. The non-IFRS measures used by the Corporation are as follows:

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

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

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

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

[1] See non-IFRS financial measures

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

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

VISION

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

STRATEGY

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

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

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

For fiscal 2014, Transat has set the following targets:

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

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

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

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

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

REVIEW OF 2013 OBJECTIVES AND ACHIEVEMENTS

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

1. Optimize financial performance and market strategy

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

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

2. Enhance product and customer experience

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

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

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

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

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

KEY PERFORMANCE DRIVERS

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

MARGIN BEFORE DEPRECIATION AND AMORTIZATION	Generate margins greater than 3%.
MARKET SHARE	Remain the leader in Canada in all provinces and increase market share in Ontario, across the rest of the country and in Europe.
REVENUE GROWTH	Grow revenues by more than 3%, excluding acquisitions.

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $265.8 million as at October 31, 2013. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels.
Credit facility	We have a revolving credit facility totalling $50.0 million, up for renewal in 2015.

Our non-financial resources include:

Brand	The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.
Structure	Our vertically integrated structure enables us to ensure better quality control of our products and services.
Employees	In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.
Supplier relationships	We have exclusive access to certain hotels at sun destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

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

BUSINESS ACQUISITION

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

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

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

DISPOSAL OF A SUBSIDIARY

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

CONSOLIDATED OPERATIONS

REVENUES

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

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

For the year ended October 31, 2013, the Corporation's revenues were down $66.1 million, following our decision to reduce our offering in all our markets for both winter and summer seasons. Generally speaking, average selling prices during the fiscal year were slightly higher than in 2012 while traveller volumes were down 9.2%.

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

OPERATING EXPENSES

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

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

COSTS OF PROVIDING TOURISM SERVICES

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

AIRCRAFT FUEL

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

SALARIES AND EMPLOYEE BENEFITS

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

COMMISSIONS

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

AIRCRAFT MAINTENANCE

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

AIRPORT AND NAVIGATION FEES

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

AIRCRAFT RENT

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

OTHER

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

DEPRECIATION AND AMORTIZATION

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

RESTRUCTURING CHARGE

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

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

GROSS MARGIN

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

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

GEOGRAPHIC AREAS

AMERICAS

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

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

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

EUROPE

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

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

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

OTHER EXPENSES (REVENUES)

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

FINANCING COSTS

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

FINANCING INCOME

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

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

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

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

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

GAIN ON INVESTMENTS IN ABCP

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

GAIN ON DISPOSAL OF A SUBSIDIARY

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

IMPAIRMENT OF GOODWILL

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

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

RESTRUCTURING CHARGE (GAIN)

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

SHARE OF NET INCOME OF AN ASSOCIATE

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

INCOME TAXES

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

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Compared with the corresponding periods in previous fiscal years, on the whole, winter season revenues were down, following our decision to reduce our offering in all our markets, while summer season revenues were up, due to higher average selling prices. Overall, average selling prices were up while traveller volumes declined. Year over year, our margins improved each quarter, mainly due to higher average selling prices and our cost reduction and margin improvement initiatives. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information (in thousands of dollars, except per share data)	Q1-2012 $	Q2-2012 $	Q3-2012 $	Q4-2012 $	Q1-2013 $	Q2-2013 $	Q3-2013 $	Q4-2013 $
Revenues	829,296	1,212,426	909,056	763,441	805,714	1,106,824	927,004	808,616
Gross margin (operating loss)	(41,747)	(36,320)	12,498	41,731	(29,936)	(10,125)	41,803	70,096
Margin (operating loss) before depreciation and amortization	(31,839)	(26,226)	22,074	52,946	(21,017)	(1,185)	53,053	80,055
Net income (loss)	(28,580)	(11,774)	9,664	17,154	(13,940)	(21,556)	41,469	55,229
Net income (loss) attributable to shareholders	(29,489)	(13,199)	9,405	16,614	(15,137)	(22,760)	41,149	54,723
Basic earnings (loss) per share	(0.77)	(0.35)	0.25	0.43	(0.39)	(0.59)	1.07	1.42
Diluted earnings (loss) per share	(0.77)	(0.35)	0.25	0.43	(0.39)	(0.59)	1.07	1.40
Adjusted after-tax income (loss)	(29,941)	(24,536)	10,521	13,684	(21,564)	(1,432)	30,759	54,804
Adjusted after-tax income (loss) per share	(0.79)	(0.64)	0.28	0.75	(0.56)	(0.04)	0.80	1.40

FOURTH-QUARTER HIGHLIGHTS

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

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

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

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

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

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

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

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

CASH FLOWS

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

OPERATING ACTIVITIES

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

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

INVESTING ACTIVITIES

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

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

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

FINANCING ACTIVITIES

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

CONSOLIDATED FINANCIAL POSITION

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

FINANCING

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEBT LEVELS

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

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

SHARES ISSUED AND OUTSTANDING

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

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

STOCK OPTIONS

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

INVESTMENTS IN ABCP

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

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

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

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

OTHER

FLEET

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

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

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

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

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major class of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal. The amortization period is determined based on the fleet renewal schedule, currently slated for completion by 2016. The estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. Generally speaking, the main assumptions would have to be reduced by 10% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

No event or change in situation arising during the year ended October 31, 2013 could have required an impairment of property, plant and equipment and intangible assets with finite lives. During the year ended October 31, 2011, the Corporation recorded a $10.0 million write-off in respect of software in development under its restructuring program.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

NON-CONTROLLING INTERESTS

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

EMPLOYEE FUTURE BENEFITS

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

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

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

FINANCIAL INSTRUMENTS

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

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

MANAGEMENT OF FUEL PRICE RISK

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

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

CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $67.0 million as at October 31, 2013. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2013, approximately 5% of accounts receivable were over 90 days past due, whereas approximately 82% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2013, the deposits totalled $24.2 million and were generally offset by purchases of person-nights at those hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $12.4 million as at October 31, 2013 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2013, the cash security deposits with lessors that had been claimed totalled $9.5 million and have been included under *Trade and other receivables*. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2013 relates to cash and cash equivalents, including cash and cash equivalents reserved and derivative financial instruments accounted for as assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

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

LIQUIDITY RISK

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

INTEREST RATE RISK

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

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

RELATED PARTY TRANSACTIONS AND BALANCES

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

CHANGES IN ACCOUNTING POLICIES

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

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

IFRS 13, *FAIR VALUE MEASUREMENT*

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

IAS 19, *EMPLOYEE BENEFITS*

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

RISKS AND UNCERTAINTIES

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

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

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

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

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

ECONOMIC AND GENERAL RISKS

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

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

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

COMPETITION RISKS

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

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

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

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

REPUTATION RISK

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

KEY SUPPLY AND SUPPLIER RISKS

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

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

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

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

AVIATION RISKS

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

REGULATORY RISKS

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

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

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

HUMAN RESOURCE RISKS

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

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

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

INSURANCE COVERAGE RISKS

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

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

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

CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

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

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

OUTLOOK

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

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

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

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

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

MANAGEMENT'S REPORT

The consolidated financial statements of Transat A.T. Inc. are the responsibility of management and have been approved by the Board of Directors. Management's responsibility in this respect includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with Canadian generally accepted accounting principles which are adequate in the circumstances. The financial information presented throughout this annual report is consistent with that appearing in the financial statements.

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

The Board of Directors is responsible for the consolidated financial statements through its Audit Committee. The Audit Committee reviews the annual consolidated financial statements 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 financial statements have been audited by Ernst & Young LLP, the external auditors. 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 AUDITORS' REPORT

To the Shareholders of Transat A.T. Inc.

We have audited the accompanying consolidated financial statements of Transat A.T. Inc., which comprise the consolidated statements of financial position as at October 31, 2013 and 2012, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transat A.T. Inc. as at October 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 11, 2013
[1]CPA auditor, CA, public accountancy permit No. A121006

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

As at October 31 (in thousands of Canadian dollars)	2013 $	2012 $
ASSETS		
Cash and cash equivalents	265,818	171,175
Cash and cash equivalents in trust or otherwise reserved *[note 8]*	361,743	331,172
Trade and other receivables *[note 9]*	112,738	111,525
Income taxes receivable	5,645	14,690
Inventories	13,143	11,469
Prepaid expenses	73,453	57,234
Derivative financial instruments	7,720	7,460
Current portion of deposits	13,267	12,968
Current assets	853,527	717,693
Cash and cash equivalents reserved	41,725	39,119
Investments in ABCP *[note 10]*	—	27,350
Deposits *[note 12]*	23,308	30,735
Deferred tax assets *[note 23]*	22,048	24,338
Property, plant and equipment *[note 13]*	115,025	96,415
Goodwill *[note 14]*	94,723	91,494
Intangible assets *[note 14]*	67,333	66,531
Investments and other assets *[note 15]*	72,384	69,626
Non-current assets	436,546	445,608
	1,290,073	1,163,301
LIABILITIES		
Trade and other payables *[note 16]*	326,687	307,219
Current portion of provision for overhaul of leased aircraft	11,029	19,513
Income taxes payable	19,729	932
Customer deposits and deferred revenues	410,340	382,823
Derivative financial instruments	4,675	8,416
Current liabilities	772,460	718,903
Provision for overhaul of leased aircraft *[note 17]*	17,028	12,356
Other liabilities *[note 19]*	48,096	54,448
Deferred tax liabilities *[note 23]*	11,096	11,268
Non-current liabilities	76,220	78,072
EQUITY		
Share capital *[note 20]*	221,706	220,736
Share-based payment reserve	15,391	13,336
Retained earnings	206,835	145,198
Unrealized gain (loss) on cash flow hedges	2,380	(475)
Cumulative exchange differences	(4,919)	(12,469)
	441,393	366,326
	1,290,073	1,163,301

Commitments and contingencies *[note 26]*

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	2013	2012
(in thousands of Canadian dollars, except per share amounts)	$	$
Revenues	3,648,158	3,714,219
Operating expenses		
Costs of providing tourism services	1,951,329	1,975,892
Aircraft fuel	417,891	505,422
Salaries and employee benefits *[note 21]*	368,477	374,980
Commissions	163,606	158,357
Aircraft maintenance	106,732	119,613
Airport and navigation fees	95,635	108,112
Aircraft rent	81,270	88,361
Other	346,572	366,527
Depreciation and amortization *[note 21]*	39,068	40,793
Restructuring – Termination benefits *[note 22]*	5,740	—
	3,576,320	3,738,057
Gross margin (operating loss)	71,838	(23,838)
Financing costs	2,512	2,962
Financing income	(7,357)	(6,693)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	493	(701)
Foreign exchange gain on long-term monetary items	(846)	(370)
Gain on investments in ABCP *[note 10]*	—	(7,936)
Gain on disposal of a subsidiary	—	(5,655)
Impairment of goodwill *[note 14]*	—	15,000
Share of net income of an associate *[note 15]*	(3,676)	(3,495)
Income (loss) before income tax expense	80,712	(16,950)
Income taxes (recovery) *[note 23]*		
Current	18,512	(4,301)
Deferred	998	887
	19,510	(3,414)
Net income (loss) for the year	61,202	(13,536)
Net income (loss) attributable to :		
Shareholders	57,955	(16,669)
Non-controlling interests	3,247	3,133
	61,202	(13,536)
Earnings (loss) per share *[note 20]*		
Basic	1.51	(0.44)
Diluted	1.51	(0.44)

See accompanying notes to consolidated financial statements

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

Years ended October 31	2013	2012
(in thousands of Canadian dollars)	$	$
Net income (loss) for the year	61,202	(13,536)
Other comprehensive income (loss)		
Items that will be reclassified to net income (loss)		
Change in fair value of derivatives designated as cash flow hedges	2,786	(7,044)
Reclassification to net income (loss)	1,027	3,652
Deferred taxes *[note 23]*	(958)	969
	2,855	(2,423)
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	7,550	(2,511)
Items that will never be reclassified to net income (loss)		
Retirement benefits – Net actuarial gains and losses *[note 25]*	2,986	(2,405)
Deferred taxes *[note 23]*	(806)	435
	2,180	(1,970)
Total other comprehensive income (loss)	12,585	(6,904)
Comprehensive income (loss) for the year	73,787	(20,440)
Attributable to:		
Shareholders	69,891	(23,654)
Non-controlling interests	3,896	3,214
	73,787	(20,440)

See accompanying notes to consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Retained earnings $	Accumulated other comprehensive income (loss) — Unrealized gain (loss) on cash flow hedges $	Accumulated other comprehensive income (loss) — Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at October 31, 2011	219,462	11,063	161,726	1,948	(9,958)	384,241	—	384,241
Net income (loss) for the year	—	—	(16,669)	—	—	(16,669)	3,133	(13,536)
Other comprehensive income (loss)	—	—	(1,970)	(2,423)	(2,592)	(6,985)	81	(6,904)
Comprehensive income (loss) for the year	—	—	(18,639)	(2,423)	(2,592)	(23,654)	3,214	(20,440)
Issued from treasury	1,274	—	—	—	—	1,274	—	1,274
Share-based payment expense	—	2,273	—	—	—	2,273	—	2,273
Dividends	—	—	—	—	—	—	(5,635)	(5,635)
Other changes in non-controlling interest liabilities	—	—	2,111	—	—	2,111	(2,111)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	4,613	4,613
Reclassification of non-controlling interest exchange difference	—	—	—	—	81	81	(81)	—
	1,274	2,273	2,111	—	81	5,739	(3,214)	2,525
Balance as at October 31, 2012	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326
Net income for the year	—	—	57,955	—	—	57,955	3,247	61,202
Other comprehensive income (loss)	—	—	2,180	2,855	6,901	11,936	649	12,585
Comprehensive income for the year	—	—	60,135	2,855	6,901	69,891	3,896	73,787
Issued from treasury	965	—	—	—	—	965	—	965
Exercise of options	5	—	—	—	—	5	—	5
Share-based payment expense	—	2,055	—	—	—	2,055	—	2,055
Dividends	—	—	—	—	—	—	(2,787)	(2,787)
Other changes in non-controlling interest liabilities	—	—	1,502	—	—	1,502	(1,502)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,042	1,042
Reclassification of non-controlling interest exchange difference	—	—	—	—	649	649	(649)	—
	970	2,055	1,502	—	649	5,176	(3,896)	1,280
Balance as at October 31, 2013	221,706	15,391	206,835	2,380	(4,919)	441,393	—	441,393

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)	2013 $	2012 $
OPERATING ACTIVITIES		
Net income (loss) for the year	61,202	(13,536)
Operating items not involving an outlay (receipt) of cash :		
Depreciation and amortization	39,068	40,793
Change in fair value of derivative financial instruments used for aircraft fuel purchases	493	(701)
Foreign exchange gain on long-term monetary items	(846)	(370)
Gain on investments in ABCP	—	(7,936)
Gain on disposal of a subsidiary	—	(5,655)
Impairment of goodwill	—	15,000
Share of net income of an associate	(3,676)	(3,495)
Deferred taxes	998	887
Employee benefits	2,561	2,088
Share-based payment expense	2,055	2,273
	101,855	29,348
Net change in non-cash working capital balances related to operations	27,330	(5,646)
Net change in provision for overhaul of leased aircraft	(3,812)	(1,449)
Net change in other assets and liabilities related to operations	(2,334)	(13,381)
Cash flows related to operating activities	123,039	8,872
INVESTING ACTIVITIES		
Additions to property, plant and equipment and other intangible assets	(55,457)	(64,639)
Increase in cash and cash equivalent reserved	(3,913)	(2,871)
Proceeds from sale of investments in ABCP	27,350	57,448
Net proceeds from disposal of subsidiary	3,000	2,110
Dividend received from an associate	731	—
Realization of principal of investments in ABCP	—	1,889
Net consideration paid for acquired business	—	(4,961)
Cash flows related to investing activities	(28,289)	(11,024)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	970	1,274
Dividends paid by a subsidiary to a non-controlling shareholder	(2,787)	(5,635)
Cash flows related to financing activities	(1,817)	(4,361)
Effect of exchange rate changes on cash and cash equivalents	1,710	(3,888)
Net change in cash and cash equivalents	94,643	(10,401)
Cash and cash equivalents, beginning of year	171,175	181,576
Cash and cash equivalents, end of year	265,818	171,175
Supplementary information (as reported in operating activities)		
Income taxes paid (recovered)	(6,146)	(1,449)
Interest paid	841	1,485

See accompanying notes to consolidated financial statements

October 31, 2013 and 2012
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

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*. The Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange.

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of tour operators based in Canada and Europe which are 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, 2013 were approved by the Corporation's Board of Directors on December 11, 2013.

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 (loss);
- Contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the statement of income (loss) 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 (loss);
- For each business combination including non-controlling interests, 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.

Non-controlling interests, which represent the portion of net income (loss) and net assets in subsidiaries that are not 100% owned by the Corporation, are reported separately within equity in the consolidated statement of financial position. Non-controlling interests in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares are reclassified from equity to liabilities, deeming exercise of the option. The carrying amount of reclassified interests is also adjusted to match the 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 intragroup balances, transactions, unrealized gains and losses resulting from intragroup transactions and dividends are fully eliminated on consolidation.

INVESTMENT IN AN ASSOCIATE

An associate is an entity over which the Corporation has significant influence, but no control. The Corporation's investment in an associate 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 (loss) and is also netted against the carrying amount of the investment; and
- Gains on transactions between the Corporation and its equity accounted investee 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 retranslated at 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 (loss), 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 Foreign currency translation differences in Accumulated other comprehensive income (loss) in equity. On disposal of an interest, the component of Foreign currency translation differences relating to that particular foreign interest is recognized in the consolidated statement of income (loss).

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 aircraft parts, 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 used as input for 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 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

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 (loss) 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 if 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 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 if appropriate.

Intangible assets with indefinite useful lives, consisting mainly of trademarks, are not amortized but are tested for impairment at least annually, either individually or at the CGU level. The 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, deposits on leased aircraft and engines, investments in ABCP (non-bank asset-backed commercial paper) and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, derivative financial instruments with a negative fair value and put options held by non-controlling interests.

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, loans and receivables, or other financial liabilities. 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. Classification is determined by management on initial recognition based on the purpose for their acquisition.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and 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 (loss) as they occur.

Loans and receivables and other financial liabilities

Financial assets as loans and receivables and financial liabilities classified as other financial liabilities are recorded 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 its derivative financial instruments related to foreign currencies 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 statements of financial position. 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 (loss). Any ineffective portion within a cash flow hedge is recognized in net income (loss), as it arises, in the same account in the consolidated statement of income (loss) as the hedged item when realized. 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 (loss) prospectively. Changes in value of the effective portion of a cash flow hedge remain 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 account in the consolidated statement of income (loss) in which the hedged item is recorded. 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 (loss) as the hedged item.

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

In the normal course of business and to manage exposure to fuel pricing instability, the Corporation also enters into derivative financial instruments used for aircraft fuel purchases 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 derivative financial instruments used for aircraft fuel purchases in the consolidated statement of income (loss). When realized at maturity of these derivative financial instruments, any gains or losses are reclassified to Aircraft fuel.

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. Transactions costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities 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 AS LOANS AND RECEIVABLES

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only 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 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. Impairment losses are recognized through profit or loss.

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 or CGU'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 or CGU. 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 or CGU 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:

GOODWILL

Goodwill is tested annually [as at October 31] for impairment and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU [or group of CGUs] to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment annually [as at October 31] either individually or at the CGU level, as appropriate, 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 (loss). 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 are charged to operating expenses in the statement of income (loss) as expenses are 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 (loss). 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 statements 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 terms 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 (loss).

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 once the service is rendered and all the significant risks and rewards of the service have been transferred to the customer. As a result, revenue earned from passenger transportation is recognized upon each return flight. Revenue from tour operators and the related costs are recognized when passengers depart. Commission revenue from travel agencies is recognized when travel is reserved. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred income.

Revenue for which the Corporation provides multiple services such as air transportation, tour operator and travel agency services is deferred and only recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. The Corporation treats these different services as separate units of accounting as each service has a value to the customer on a stand-alone basis and the consideration paid for these services is allocated using the relative fair value of each deliverable.

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, 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 operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash payments.

EQUITY-SETTLED TRANSACTIONS

For equity-settled share-based compensation [stock option plan], the expense is based on the grant date fair value of the 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. The value of the compensation is measured using a Black-Scholes option pricing model. 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 stock options and the corresponding portion previously credited to 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 Class B 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 (LOSS) PER SHARE

Basic earnings (loss) per share is computed based on net income (loss) 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 (loss) per share is calculated by adjusting net income (loss) 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 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 the future periods.

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

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

Property, plant and equipment, intangible assets and goodwill represented $115,025, $67,333 and $94,723 respectively, of total assets in the consolidated statement of financial position as at October 31, 2013.

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of fair value less costs to sell 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 and the financial projections 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 14.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major 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.

ASSET-BACKED COMMERCIAL PAPER

The fair value of the asset-backed commercial paper recorded in the statement of financial position may not be entirely derived from active markets. Where it is not, fair value is determined using the discounted cash flow model. The inputs to that model are derived from observable markets where possible, otherwise judgment is required to determine fair value. Management's judgment takes into account inputs such as credit risk exposures attributable to the underlying assets, prevailing interest rates in the relevant markets and the amounts receivable. Actual results differed from estimated results based on assumptions. As at October 31, 2012, the fair value of ABCP was calculated using information available in the market.

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 INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

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

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 9, FINANCIAL INSTRUMENTS

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

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

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

IFRS 13, *FAIR VALUE MEASUREMENT*

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

IAS 19, *EMPLOYEE BENEFITS*

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

Note 6 BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5,778. TMR specializes in the sale of packages to sun destinations for Canadian travellers, including Cuba, the Dominican Republic and Mexico, and a large portion of the flights are provided by Transat. With this acquisition, the Corporation extends its offering and services to customers in its existing markets.

The Corporation has completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. The excess of the total consideration over the fair value of net assets acquired was allocated to the trademark. The net amounts of assets acquired and liabilities assumed are detailed as follows:

	$
Cash and cash equivalents in trust or otherwise reserved	23,976
Trade and other receivables	6,566
Prepaid expenses	11,238
Property, plant and equipment	291
Intangible assets	4,483
Trade and other payables	(7,766)
Customer deposits and deferred income	(33,827)
Net assets at fair value	4,961
Cash and cash equivalents of acquired business	817
Total consideration	5,778

The results of the acquired business have been consolidated as of the date of acquisition. For the year ended October 31, 2012, since the date of its acquisition, TMR has generated revenues of $97,241 with a pre-tax loss of $5,372, which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated net loss for fiscal 2012 would have included additional revenues of $37,200 and a pre-tax loss of $863.

Note 7 DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex, which provides airport ground-handling services at Montréal, Toronto and Vancouver international airports, to Servisair Holding Canada Inc. for a total consideration of $9,000, of which $6,000 is receivable in two equal annual payments. The balance of sale price receivable of $3,000 as at October 31, 2013 [$6,000 as at October 31, 2012] bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation. The carrying amount of the net assets disposed of on June 12, 2012 amounted to $3,345, which gave rise to a $5,655 gain on disposal of a subsidiary. The transaction did not trigger any tax expense, as the Corporation used unrecognized capital losses to eliminate the taxation of the capital gain realized on the transaction. The transaction includes a service agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operating hubs.

The carrying value of net assets sold is detailed as follows:

	$
Cash and cash equivalents	890
Trade and other receivables	3,277
Income taxes receivable	598
Inventories	395
Prepaid expenses	506
Property, plant and equipment	3,910
Intangible assets	297
Trade and other payables	(6,333)
Deferred tax liabilities	(195)
Net assets sold	3,345

Note 8 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2013, cash and cash equivalents in trust or otherwise reserved included $294,473 [$288,789 as at October 31, 2012] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for some of which the availability period had not ended, in accordance with Canadian regulators and the Corporation's business agreement with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $108,995, of which $41,725 was recorded as non-current assets [$81,502 as at October 31, 2012, of which $39,119 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 9 TRADE AND OTHER RECEIVABLES

	October 31, 2013 $	October 31, 2012 $
Trade receivables	66,921	57,983
Due from government	17,402	15,136
Other receivables	28,415	38,406
	112,738	111,525

Note 10 INVESTMENTS IN ABCP

On November 9, 2012, the Corporation sold its ABCP for a total consideration of $27,350.

During the year ended October 31, 2012, the Corporation received proceeds totalling $57,448 from the sale of ABCP with a notional value of $80,000 ($78,814 of ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] and $1,186 of ABCP supported solely by traditional securitized assets [MAV3 Traditional]). The Corporation also received $1,889 in principal repayments on ABCP supported solely by traditional securitized assets [MAV3 Traditional].

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

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

Note 11 FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments, other than financial derivative instruments designated as hedges, and their carrying amounts and fair values are detailed as follows:

	Carrying amount				Fair value
	Financial assets/liabilities at fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	$
As at October 31, 2013					
Financial assets					
Cash and cash equivalents	265,818	—	—	265,818	265,818
Cash and cash equivalents in trust or otherwise reserved	403,468	—	—	403,468	403,468
Trade and other receivables	—	95,336	—	95,336	95,336
Deposits on leased aircraft and engines	—	12,384	—	12,384	12,384
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	1,220	—	—	1,220	1,220
	670,506	107,720	—	778,226	778,226
Financial liabilities					
Trade and other payables	—	—	298,780	298,780	298,780
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	1,790	—	—	1,790	1,790
Non-controlling interests	—	—	23,800	23,800	23,800
	1,790	—	322,580	324,370	324,370

	Carrying amount				Fair value
	Financial assets/liabilities at fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	$
As at October 31, 2012					
Financial assets					
Cash and cash equivalents	171,175	—	—	171,175	171,175
Cash and cash equivalents in trust or otherwise reserved	370,291	—	—	370,291	370,291
Trade and other receivables	—	96,389	—	96,389	96,389
Investments in ABCP	27,350	—	—	27,350	27,350
Deposits on leased aircraft and engines	—	12,297	—	12,297	12,297
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,159	—	—	4,159	4,159
	572,975	108,686	—	681,661	681,661
Financial liabilities					
Trade and other payables	—	—	276,771	276,771	276,771
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,202	—	—	4,202	4,202
Non-controlling interests	—	—	24,193	24,193	24,193
	4,202	—	300,964	305,166	305,166

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 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 contract value.

The fair value of investments in ABCP was determined using quoted prices in active markets.

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 non-controlling interests in respect of which non-controlling shareholders hold an option to require the Corporation to buy back their shares corresponds to their redemption price. The redemption price is based either on a formula that factors in financial and non-financial indicators or on the fair value of shares held, which is determined using a discounted cash flow model similar to that used for the goodwill impairment test *[see note 14]*.

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

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2013				
Financial assets				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	1,220	—	1,220
- Foreign exchange forward contracts – designated as cash flow hedges	—	6,500	—	6,500
	—	7,720	—	7,720
Financial liabilities				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	1,790	—	1,790
- Foreign exchange forward contracts – designated as cash flow hedges	—	2,885	—	2,885
Non-controlling interests	—	—	23,800	23,800
	—	4,675	23,800	28,475

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2012				
Financial assets				
Investments in ABCP	27,350	—	—	27,350
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	4,159	—	4,159
- Foreign exchange forward contracts – designated as cash flow hedges	—	3,301	—	3,301
	27,350	7,460	—	34,810
Financial liabilities				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	4,202	—	4,202
- Foreign exchange forward contracts – designated as cash flow hedges	—	4,214	—	4,214
Non-controlling interests	—	—	24,193	24,193
	—	8,416	24,193	32,609

The changes in non-controlling interests are as follows:

	2013 $	2012 $
Balance, beginning of year	24,193	28,725
Net income	3,247	3,133
Other comprehensive income	649	81
Dividends	(2,787)	(5,635)
Changes in fair value of non-controlling interest	(1,502)	(2,111)
	23,800	24,193

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

Trade accounts receivable included under Trade and other receivables in the statements of financial position totalled $66,921 as at October 31, 2013 [$57,983 as at October 31, 2012]. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2013 and 2012. As at October 31, 2013, approximately 5% [approximately 8% as at October 31, 2012] of accounts receivable were over 90 days past due, whereas approximately 82% [approximately 79% as at October 31, 2012] were up to date, 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. As at October 31, 2013, these deposits totalled $24,191 [$31,406 as at October 31, 2012] and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $12,384 as at October 31, 2013 [$12,297 as at October 31, 2012] 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, 2013, the cash security deposits with lessors that have been claimed totalled $9,549 [$18,801 as at October 31, 2012] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claimed cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2013 relates to cash and cash equivalents, including cash and cash equivalents reserved, and derivative financial instruments accounted for 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 DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

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

LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

The maturities of the Corporation's financial liabilities as at October 31, 2013 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	298,780	—	—	298,780	298,780
Non-controlling interests	22,680	—	1,120	23,800	23,800
Derivative financial instruments	4,685	—	—	4,685	4,675
Total	326,145	—	1,120	327,265	327,255

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 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas less than 10% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts and other types of derivative financial instruments, expiring in generally less than 15 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 $
2013						
Financial statement measurement currency of the group's companies						
Euro	(7,847)	—	(12)	1,532	(746)	(7,073)
Pound sterling	14	191	—	625	—	830
Canadian dollar	(2,075)	(8,082)	(608)	—	(80)	(10,845)
Other currencies	(283)	57	—	—	1,142	916
Total	(10,191)	(7,834)	(620)	2,157	316	(16,172)

Net assets (liabilities)	U.S. dollar $	Euro $	Pound sterling $	Canadian dollar $	Other currencies $	Total $
2012						
Financial statement measurement currency of the group's companies						
Euro	(7,080)	—	526	2,520	(680)	(4,714)
Pound sterling	37	518	—	1,509	—	2,064
Canadian dollar	(143)	(1,780)	3,109	—	(314)	872
Other currencies	846	44	—	(14)	368	1,244
Total	(6,340)	(1,218)	3,635	4,015	(626)	(534)

On October 31, 2013, 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 a $188 increase or decrease [$226 as at October 31, 2012], respectively, in the Corporation's net income for the year ended October 31, 2013, whereas other comprehensive income would have increased or decreased by $1,135 [$1,300 as at October 31, 2012], respectively.

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 15 months.

On October 31, 2013, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $15,983 increase or decrease [$12,064 as at October 31, 2012], respectively, in the Corporation's net income for the year ended October 31, 2013.

As at October 31, 2013, 46% of estimated fuel requirements for fiscal 2014 were covered by fuel-related derivative financial instruments [34% of estimated requirements for fiscal 2013 were covered as at October 31, 2012].

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. 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.

For the year ended October 31, 2013, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $1,165 increase or decrease [$1,400 in 2012], respectively, in the Corporation's net income.

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 as follows: net debt/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] and investments in ABCP. The amount of adjusted operating leases is equal to the annualized lease rental expense multiplied by 5.0, a factor used in our 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 debt/equity ratio below 1. The calculation of the adjusted debt/equity ratio is summarized as follows:

	2013 $	2012 $
Net debt		
Long–term debt	—	—
Adjusted operating leases	406,350	441,805
Cash and cash equivalents	(265,818)	(171,175)
Investments in ABCP	—	(27,350)
	140,532	243,280
Equity	443,075	366,236
Debt/equity ratio	31.7%	66.4%

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, 2013, 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 12 DEPOSITS

	October 31, 2013 $	October 31, 2012 $
Deposits on leased aircraft and engines	12,384	12,297
Deposits with suppliers	24,191	31,406
	36,575	43,703
Less current portion	13,267	12,968
	23,308	30,735

Note 13 PROPERTY, PLANT AND EQUIPMENT

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2012	254,917	78,088	67,918	43,551	444,474
Additions	34,119	2,313	7,899	1,187	45,518
Disposals	—	—	(2,210)	(957)	(3,167)
Exchange difference	—	—	920	1,175	2,095
Balance as at October 31, 2013	289,036	80,401	74,527	44,956	488,920
Accumulated depreciation					
Balance as at October 31, 2012	198,769	64,200	57,407	27,683	348,059
Depreciation	15,415	3,367	6,053	2,898	27,733
Disposals	—	—	(2,210)	(957)	(3,167)
Exchange difference	—	—	818	452	1,270
Balance as at October 31, 2013	214,184	67,567	62,068	30,076	373,895
Net book value as at October 31, 2013	74,852	12,834	12,459	14,880	115,025

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2011	214,953	95,574	68,348	45,968	424,843
Additions	36,017	3,327	4,767	1,244	45,355
Disposals	—	(16,866)	(4,517)	(2,788)	(24,171)
Transfers	3,947	(3,947)	—	—	—
Exchange difference	—	—	(680)	(873)	(1,553)
Balance as at October 31, 2012	254,917	78,088	67,918	43,551	444,474
Accumulated depreciation					
Balance as at October 31, 2011	177,071	77,394	56,531	27,327	338,323
Depreciation	17,889	3,783	5,749	3,399	30,820
Disposals	—	(13,168)	(4,416)	(2,780)	(20,364)
Transfers	3,809	(3,809)	—	—	—
Exchange difference	—	—	(457)	(263)	(720)
Balance as at October 31, 2012	198,769	64,200	57,407	27,683	348,059
Net book value as at October 31, 2012	56,148	13,888	10,511	15,868	96,415

Note 14 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at October 31, 2012	106,494	117,674	19,232	12,187	255,587
Additions	—	9,892	—	—	9,892
Disposals	—	(956)	—	—	(956)
Exchange difference	3,229	1,493	479	367	5,568
Balance as at October 31, 2013	109,723	128,103	19,711	12,554	270,091
Accumulated amortization and impairment					
Balance as at October 31, 2012	15,000	74,325	—	8,237	97,562
Amortization	—	9,172	—	1,172	10,344
Impairment	—	—	—	—	—
Disposals	—	(956)	—	—	(956)
Exchange difference	—	818	—	267	1,085
Balance as at October 31, 2013	15,000	83,359	—	9,676	108,035
Net book value as at October 31, 2013	94,723	44,744	19,711	2,878	162,056

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at October 31, 2011	109,495	100,584	14,694	12,145	236,918
Additions	—	20,313	4,487	—	24,800
Disposals	—	(2,630)	—	—	(2,630)
Exchange difference	(3,001)	(593)	51	42	(3,501)
Balance as at October 31, 2012	106,494	117,674	19,232	12,187	255,587
Accumulated amortization and impairment					
Balance as at October 31, 2011	—	68,206	—	6,870	75,076
Amortization	—	8,241	—	1,334	9,575
Impairment	15,000	—	—	—	15,000
Disposals	—	(1,713)	—	—	(1,713)
Exchange difference	—	(409)	—	33	(376)
Balance as at October 31, 2012	15,000	74,325	—	8,237	97,562
Net book value as at October 31, 2012	91,494	43,349	19,232	3,950	158,025

The aggregate carrying amounts of goodwill and trademarks allocated to each CGU are as follows:

	October 31, 2013		October 31, 2012	
	Goodwill $	Trademarks $	Goodwill $	Trademarks $
Canada – United Kingdom – Netherlands	64,399	19,711	64,262	19,221
France	19,913	—	18,471	—
Other *	10,411	—	8,761	11
Net book value	94,723	19,711	91,494	19,232

* Multiple individual CGUs

IMPAIRMENT TEST IN 2013

The Corporation performed an impairment test as at October 31, 2013 to determine whether the carrying amount of CGUs was higher than their recoverable amount. No impairment was detected.

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

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

On October 31, 2013, a 1% increase in the after-tax discount rate used for impairment tests, assuming that all other variables had remained the same, would not have required any impairment charge.

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

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

On October 31, 2013 and 2012, the Corporation performed its annual tests for impairment of trademarks and no impairment was detected. Management is of the opinion that no reasonable change in the key assumptions used in the annual impairment test could have produced carrying amounts for trademarks that are significantly higher than the calculated fair values.

IMPAIRMENT OF GOODWILL IN 2012

As at October 31, 2012, following the impairment test performed on a CGU in France, which includes outgoing tour operators that generate a significant percentage of their revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt, and a travel agency network, the Corporation recognized an impairment loss on goodwill of $15,000. Goodwill for the CGU in France totalled $18,471, net of impairment loss.

The recoverable amount of the CGU in France was determined based on its value in use, using a discounted cash flow model. The recognized impairment loss resulted primarily from the decrease in revenues from the sale of products to North African countries (Tunisia, Morocco and Egypt) and Greece, and the CGU's lower profitability estimated to date.

Note 15 INVESTMENTS AND OTHER ASSETS

	October 31, 2013 $	October 31, 2012 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	70,041	64,189
Balance of sale price receivable	—	3,000
Deferred costs, unamortized balance	639	793
Sundry	1,704	1,644
	72,384	69,626

Transat has a 35% interest in CIBV, an associate which owns and operates hotels in Mexico, the Dominican Republic and Cuba. CIBV's fiscal year-end is December 31 and the Corporation recognizes its investment using the equity method and results for the 12-month period ended September 30 of each year.

The change in the investment in CIBV is detailed as follows:

	2013 $	2012 $
Balance, beginning of year	64,189	60,612
Share of net income	3,676	3,495
Dividend received	(731)	—
Translation adjustment	2,907	82
	70,041	64,189

The financial information regarding the Corporation's investment in CIBV is summarized in the following table:

	2013 $	2012 $
Share of statement of financial position:		
Total assets	120,471	109,071
Total liabilities	50,430	44,882
Carrying amount of investment in CIBV	70,041	64,189
Share of revenues and net income:		
Revenues	31,941	29,365
Net income	3,676	3,495

CIBV's majority shareholder may demand that the Corporation provide the necessary funds to repay one of CIBV's long-term debts should CIBV be unable to cover the scheduled repayments. However, the maximum amount that the Corporation could be required to provide may not exceed its 35% share of said long-term debt. As at October 31, 2013, the Corporation's share of the long-term debt amounted to $2,107 [US$2,197].

Note 16 TRADE AND OTHER PAYABLES

	October 31, 2013 $	October 31, 2012 $
Trade payables	167,782	157,811
Accrued expenses	76,777	64,381
Salaries and employee benefits payable	54,221	54,579
Non-controlling interests	22,680	21,391
Amounts due to the government	5,227	9,057
	326,687	307,219

Note 17 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

	$
Balance as at October 31, 2012	31,869
Additional provisions	13,016
Utilization of provisions	(14,821)
Unused amounts released	(2,007)
Balance as at October 31, 2013	28,057
Current provisions	11,029
Non-current provisions	17,028
Balance as at October 31, 2013	28,057

	$
Balance as at October 31, 2011	33,318
Additional provisions	11,574
Utilization of provisions	(10,441)
Unused amounts released	(2,582)
Balance as at October 31, 2012	31,869
Current provisions	19,513
Non-current provisions	12,356
Balance as at October 31, 2012	31,869

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.

Note 18 LONG–TERM DEBT

The Corporation has a $50,000 revolving term credit facility for its operations, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and will be further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2013, all financial ratios were met and the credit facility was undrawn.

The Corporation also has a $60,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at October 31, 2013, $58,503 had been drawn down under the facility [$52,525 as at October 31, 2012].

Operating lines of credit totalling €11,500 [$16,304] [€11,500 [$14,896] in 2012] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2013 and 2012.

Note 19 OTHER LIABILITIES

	October 31, 2013 $	October 31, 2012 $
Employee benefits *[note 25]*	30,940	31,961
Deferred lease inducements	16,036	19,685
Non-controlling interests	23,800	24,193
	70,776	75,839
Less non-controlling interests included in Trade and other payables	(22,680)	(21,391)
	48,096	54,448

NON-CONTROLLING INTERESTS

a) The minority shareholder in the subsidiary Jonview Canada Inc., which is also a shareholder of the Corporation, may require the Corporation to buy its Jonview Canada Inc. shares at a price equal to their fair market value. The price paid may be settled, at the Corporation's option, in cash or by a share issue. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

b) Between 2014 and 2018, the minority shareholders of the subsidiary Travel Superstore Inc. could require that the Corporation purchase their Travel Superstore Inc. shares at a price equal to their fair market value, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

c) 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.

Note 20 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"], carrying one vote per Class A Share unless [i] the number of issued and outstanding Class A Shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the CTA); or [ii] the total number of votes cast by or on behalf of holders of Class A Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A Share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph [i] above, the Class A Shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph [ii] above, the Class A Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without further action on the part of the Corporation or of the holder if [i] the Class A Share is or becomes owned and 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 by Canadians as defined by the CTA only 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 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, 2011	38,021,720	219,462
Issued from treasury	273,948	1,274
Balance as at October 31, 2012	38,295,668	220,736
Issued from treasury	171,503	965
Exercise of options	1,316	5
Balance as at October 31, 2013	38,468,487	221,706

As at October 31, 2013, the number of Class A Shares and Class B Shares stood at 672,404 and 37,796,083, respectively [884,484 and 37,411,184 as at October 31, 2012].

SUBSCRIPTION RIGHTS PLAN

At the Annual General Meeting (AGM) held on March 10, 2011, the shareholders ratified the shareholders' subscription rights plan amended and updated on January 12, 2011 [the "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 offers, thus allowing shareholders to receive full and fair value for their shares. The rights plan will terminate at the 2014 shareholders' AGM, unless terminated prior to said AGM.

STOCK OPTION PLAN

Under the stock option plan, the Corporation may grant up to a maximum of 1,945,000 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. Options granted are exercisable over a ten-year period, provided the performance criteria determined on each grant are met. The remaining options available for grant under the former plan totalled 251,814. The options granted are exercisable over a ten-year period in three tranches of 33.33% as of mid-December of each year provided the performance criteria determined on each grant are met. Provided the performance criteria set on grant 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 former stock option plan, the Corporation may grant up to a maximum of 246,547 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. Under the plan, cancelled options will be available for grant in future. Options granted in the past are exercisable over a ten-year period; a maximum of one third of options is exercisable in the second year after the grant date, a maximum of two thirds of options in the third year subsequent to the grant, with all options exercisable at the outset of the fourth year.

The following tables summarize all outstanding options:

	2013		2012	
	Number of options	Weighted average price $	Number of options	Weighted average price $
Beginning of year	2,199,810	13.99	1,744,477	16.88
Granted	766,620	6.01	734,373	7.48
Exercised	(1,316)	3.80	—	—
Cancelled	(272,570)	9.47	(279,040)	14.88
End of year	2,692,544	12.18	2,199,810	13.99
Options exercisable, end of year	928,192	18.35	881,736	18.96

	Outstanding options			Options exercisable	
Range of exercise price $	Number of options outstanding as at October 31, 2013	Weighted average remaining life	Weighted average price $	Number of options exercisable as at October 31, 2013	Weighted average price $
6.01–7.48	1,292,927	8.7	6.71	31,932	7.48
10.52–12.25	738,985	6.1	11.79	405,996	11.42
15.68–19.24	199,251	6.2	18.72	28,883	15.68
21.36–24.78	358,963	3.3	21.93	358,963	21.93
37.25	102,418	3.5	37.25	102,418	37.25
	2,692,544	6.9	12.18	928,192	18.35

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2013, the Corporation granted 766,620 stock options [734,373 in 2012] to certain key executives and employees. The average fair value of each option granted was 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:

	2013	2012
Risk-free interest rate	1.61%	1.37%
Expected life	6 years	6 years
Expected volatility	54.8%	52.5%
Dividend yield	—	—
Weighted average fair value at date of grant	$2.59	$3.39

During the year ended October 31, 2013, the Corporation recorded a compensation expense of $2,055 [$2,273 in 2012] for its stock option plan.

STOCK PURCHASE PLAN

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2013, the Corporation was authorized to issue up to 213,674 Class B 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 Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 171,503 Class B Shares [273,948 Class B Shares in 2012] for a total of $965 [$1,274 in 2012] 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 Class B Shares, the aggregate purchase price of which is equal to an amount ranging from 20% to 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest gradually to the eligible officer, subject to the eligible officer's retaining, during the first six months of 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' accounts as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2013, the Corporation accounted for a compensation expense of $115 [$111 in 2012] 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 Class B 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, 2013, the Corporation accounted for a compensation expense of $284 [$358 in 2012] for its permanent stock ownership incentive plan.

DEFERRED SHARE UNIT PLAN

Deferred share units ["DSUs"] are awarded in connection with the senior executive deferred share unit plan and the independent director deferred share unit plan. Under these plans, each eligible senior executive or 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 price of the Class B Shares for the five trading days prior to the award of the DSUs. The DSUs are repurchased by the Corporation when a senior executive or 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 price of the Class B Shares for the five trading days prior to the repurchase of the DSUs.

As at October 31, 2013, the number of DSUs awarded amounted to 132,566 [103,533 as at October 31, 2012]. During the year ended October 31, 2013, the Corporation recognized a compensation expense of $1,220 [$80 reversal of compensation expense in 2012 following a decline in its share prices] 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 price of the Class B Shares 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 price of the Class B Shares for the five trading days prior to the repurchase of the RSUs.

As at October 31, 2013, the number of RSUs awarded amounted to 744,212 [566,918 as at October 31, 2012]. For the year ended October 31, 2013, following the revaluation of its financial performance covenants, the Corporation recognized a compensation expense of $3,003 for its restricted share unit plan [no compensation expense in 2012].

EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were computed as follows:

[In thousands, except per share amounts]	2013 $	2012 $
NUMERATOR		
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	57,955	(16,669)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	38,390	38,142
Effect of dilutive securities		
Stock options	82	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	38,472	38,142
Earnings (loss) per share		
Basic	1.51	(0.44)
Diluted	1.51	(0.44)

For the purposes of calculating diluted earnings per share for the year ended October 31, 2013, 2,010,909 outstanding stock options were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

In light of the net loss recognized for the year ended October 31, 2012, 2,199,810 outstanding stock options were excluded from the diluted loss per share calculation due to their antidilutive effect.

Note 21 ADDITIONAL DISCLOSURE ON EXPENSES

SALARIES AND EMPLOYEE BENEFITS

	2013 $	2012 $
Salaries and other employee benefits	363,861	370,619
Long-term employee benefits *[note 25]*	2,561	2,088
Share-based payment expense	2,055	2,273
	368,477	374,980

DEPRECIATION AND AMORTIZATION

	2013 $	2012 $
Property, plant and equipment	27,733	30,820
Intangible assets subject to amortization	10,344	9,575
Other assets	1,231	650
Deferred lease inducements	(240)	(252)
	39,068	40,793

Note 22 RESTRUCTURING CHARGE

During the year ended October 31, 2013, the Corporation developed a restructuring plan mainly aimed at reducing direct costs and operating expenses, and improving its margins. Accordingly, the Corporation reviewed its processes and reduced the number of personnel. Under this plan, the Corporation recognized a restructuring charge totalling $5,740. The charge consists of termination benefits payable in cash of which an amount of $1,328 was unpaid as at October 31, 2013 and included under Accounts payable and accrued liabilities.

Note 23 INCOME TAXES

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

Consolidated statements of income (loss)	2013 $	2012 $
Current		
Current income taxes	18,004	(4,073)
Adjustment to taxes payable for prior years	508	(228)
	18,512	(4,301)
Deferred		
Relating to temporary differences	998	887
Income tax expense (recovery)	19,510	(3,414)

Income taxes on items in other comprehensive income (loss) are as follows:

Consolidated statements of comprehensive income (loss)	2013 $	2012 $
Deferred		
Change in fair value of derivatives designated as cash flow hedges	958	(969)
Change in defined benefits plans – Actuarial gain (loss) on the obligation	806	(435)
Income tax expense (recovery) on comprehensive income (loss)	1,764	(1,404)

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

	2013		2012	
	%	$	%	$
Income taxes at the statutory rate	26.9	21,711	27.2	(4,602)
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	(2.5)	(1,993)	24.2	(4,108)
Non deductible (non taxable) items	3.0	2,372	(36.0)	6,102
Recognition of previously unrecorded tax benefits	(0.9)	(733)	8.6	(1,457)
Unrecognized tax benefits	0.7	590	(4.2)	704
Adjustments for prior years	(2.0)	(1,676)	0.2	(26)
Effect of tax rate changes	(1.0)	(775)	0.8	(142)
Effect of differences in tax rates on temporary items	—	—	1.4	(244)
Other	—	14	(2.1)	359
	24.2	19,510	20.1	(3,414)

The applicable statutory income tax rates were 26.9% and 27.2%, respectively, for the years ended October 31, 2013 and 2012. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate. The change in statutory tax rates is caused by the decrease in the federal corporate 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 of the deferred tax assets and liabilities were as follows:

	Consolidated statements of financial position		Consolidated statements of income (loss)	
	As at October 31, 2013 $	As at October 31, 2012 $	2013 $	2012 $
Deferred tax losses	12,511	15,837	(3,326)	80
Excess of tax value over net carrying value of:				
Property, plant and equipment and software	(8,390)	(7,688)	(702)	(245)
Intangible assets, excluding software	(3,008)	(3,441)	433	1,187
Derivative financial instruments	(633)	189	136	(184)
Other financial assets and other assets	(1,243)	(3,479)	2,236	(652)
Provisions	1,543	904	(5)	(1,077)
Employee benefits	8,283	8,673	416	366
Other financial liabilities and other liabilities	1,889	2,075	(186)	(362)
Net deferred tax assets	10,952	13,070	(998)	(887)

The changes in net deferred tax assets are as follows:

	2013 $	2012 $
Balance, beginning of year	13,070	12,449
Recognized in the consolidated statements of income (loss)	(998)	(887)
Recognized under other comprehensive income (loss) in consolidated statements of comprehensive income (loss)	(1,764)	1,404
Disposal of business	—	326
Other	644	(222)
	10,952	13,070

The deferred tax assets are detailed below:

	2013 $	2012 $
Deferred tax assets	22,048	24,338
Deferred tax liabilities	(11,096)	(11,268)
Net deferred tax assets	10,952	13,070

As at October 31, 2013, non-capital losses carried forward and other tax deductions for which a writedown was recorded, available to reduce future taxable income of certain subsidiaries in Mexico totalled MXP 79,667 [$5,918] [MXP 54,412 [$4,326] as at October 31, 2012]. These losses and deductions expire in 2020 and thereafter.

As at October 31, 2012, the sum of non-capital losses carried forward and other tax deductions of certain subsidiaries in Canada for which a write-down had not been recognized amounted to $1,012.

The Corporation did not recognize any deferred tax liability on retained earnings of its foreign subsidiaries and its associate company 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. Taxable temporary differences for which no income tax liability has been recognized amount to approximately $3,622.

Note 24 RELATED PARTY TRANSACTIONS AND BALANCES

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

	Country of incorporation	Interest (%) 2013	2012
Air Transat A.T. Inc.	Canada	100	100
Vacances Tours Mont-Royal	Canada	100	100
Transat Tours Canada Inc.	Canada	100	100
Transat Distribution Canada inc.	Canada	100	100
Jonview Canada Inc.	Canada	80.1	80.1
Travel Superstore inc.	Canada	64.6	64.6
The Airline Seat Company Ltd.	United Kingdom	100	100
Look Voyages S.A.	France	99.7	99.7
Vacances Transat S.A.S	France	100	100
Eurocharter S.A.S.	France	100	100
L'Européenne de Tourisme S.A.	France	100	100
Tourgreece Tourist Enterprises S.A.	Greece	100	100
Air Consultant Europe B.V.	Netherlands	100	100
Caribbean Investments B.V.	Netherlands	35	35
Caribbean Transportation Inc.	Barbados	70	70
CTI Logistics Inc.	Barbados	70	70
Sun Excursion Inc.	Barbados	70	70
Sun Excursion Caribbean Inc.	Barbados	70	70
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	70	70
Trafictours de Mexico S.A. de C.V.	Mexico	70	70
Promotura Turistica Regiona S.A. de C.V.	Mexico	100	100

The Corporation enters into transactions in the normal course of business with its associate. These transactions are carried out at arm's length. Significant transactions are as follows:

	2013 $	2012 $
Cost of providing tourism services	13,616	10,322

Outstanding balances with our associate are as follows:

	2013 $	2012 $
Trade and other payables	208	120

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 are as follows:

	2013 $	2012 $
Salaries and other employee benefits	6,643	3,693
Long-term employee benefits	883	715
Share-based payment expense	985	1,320

Note 25 EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees. Employees in some foreign subsidiaries benefit from certain post-employment benefits.

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. The post-employment benefits that employees in some foreign subsidiaries are entitled to comprise an allowance paid upon retirement. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $38,434 letter of credit to the trustee [*see note 8*]. 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 and in the other post-employment benefit obligation:

	Retirement benefits		Other benefits		Total	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Present value of obligations, beginning of year	30,350	26,582	1,611	1,725	31,961	28,307
Current service cost	1,066	869	133	—	1,199	869
Cost of plan amendments	131	—	—	—	131	—
Financial costs	1,163	1,219	68	—	1,231	1,219
Benefits paid	(751)	(725)	—	—	(751)	(725)
Experience gains	(429)	(138)	—	—	(429)	(138)
Actuarial loss (gain) on obligation	(2,557)	2,543	—	—	(2,557)	2,543
Effect of exchange rate changes	—	—	155	(114)	155	(114)
Present value of obligations, end of year	28,973	30,350	1,967	1,611	30,940	31,961

The following table provides the components of retirement benefits costs for the years ended October 31:

	Retirement benefits		Other benefits		Total	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Current service cost	1,066	869	133	—	1,199	869
Cost of plan amendments	131	—	—	—	131	—
Interest cost	1,163	1,219	68	—	1,231	1,219
Total cost of retirement benefits	2,360	2,088	201	—	2,561	2,088

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

	2013 %	2012 %
Retirement benefit obligation		
Discount rate	4.50	3.75
Rate of increase in eligible earnings	2.75	2.25
Retirement benefit cost		
Discount rate	3.75	4.50
Rate of increase in eligible earnings	2.25	3.00

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

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

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

	2013 $	2012 $
Plan assets at fair value	—	—
Accrued benefit obligation	28,973	30,350
Retirement benefit deficit	28,973	30,350

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, 2011	(5,522)
Actuarial losses	(2,405)
Income taxes	435
October 31, 2012	(7,492)
Actuarial gains	2,986
Income taxes	(806)
October 31, 2013	(5,312)

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 are recognized at cost, amounted to $8,186 for the year ended October 31, 2013 [$6,433 for the year ended October 31, 2012].

Note 26 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:

	2013 $	2012 $
Under one year	229,853	106,467
One to five years	412,115	280,772
Over five years	103,340	143,668
	745,308	530,907

The lease expense totalled $104,441 for the year ended October 31, 2013 [$113,355 for the year ended October 31, 2012].

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:

	2013 $	2012 $
Under one year	65,893	126,147
One to five years	19,608	27,555
Over five years	—	—
	85,501	153,702

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.

OTHER

From time to time, the Corporation is subject to audits related to tax risks, particularly the deductibility of losses incurred in recent fiscal years arising from investments in ABCP. Certain of these matters could entail significant costs that will remain uncertain until one of 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 final risk of loss while for other claims, such as tax risks related to the deductibility of losses from investments in ABCP, which could result in future cash outflows of approximately $15,000, no provisions are made when the Corporation intends to challenge and defend itself against and in respect of which it has sufficient arguments for anticipating a favourable final outcome.

Note 27 GUARANTEES

The Corporation has entered into agreements in the normal course of business 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 8, 18, 19, 25 and 26 to the 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 has guaranteed 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 licenses 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, 2013, these guarantees totalled $1,137. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2013, no amounts have been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2013, $16,182 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €11,206 [$15,886] [€12,747 [$16,511] in 2012]. As at October 31, 2013, letters of guarantee had been issued totalling €3,833 [$5,434] [€3,450 [$4,456] in 2012].

Note 28 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the statements of income (loss) include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and Europe. Sales between geographic areas are accounted for at prices that take into account market conditions and other considerations.

	Americas $	Europe $	Total $
2013			
Revenues from third parties	2,893,353	754,805	3,648,158
Operating expenses	2,829,192	747,128	3,576,320
	64,161	7,677	71,838
2012			
Revenues from third parties	2,850,874	863,345	3,714,219
Operating expenses	2,822,595	874,669	3,697,264
	28,279	(11,324)	16,955

	Revenues (1)		Property, plant and equipment, goodwill and other intangible assets	
	2013 $	2012 $	October 31, 2013 $	October 31, 2012 $
Canada	2,839,701	2,790,181	187,103	174,262
France	657,626	648,780	42,059	33,166
United Kingdom	80,851	201,960	33,073	32,984
Other	69,980	73,298	14,846	14,028
	3,648,158	3,714,219	277,081	254,440

(1) Revenues are allocated based on the subsidiary's country of domicile.

[in thousands of dollars, except per share amounts]

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

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

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March 13, 2014,
10:00 a.m.
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