TRANSAT A.T INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2021

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Ticker symbol
TSX: TRZ

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2021, compared with the quarter ended July 31, 2020, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2020 and the accompanying notes and the 2020 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2020 Annual Report. The risks and uncertainties set out in the MD&A of the 2020 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 8, 2021. 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 quarter ended July 31, 2021 and the Annual Information Form for the year ended October 31, 2020.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation, including those regarding its results, its financial position, the impacts of the coronavirus ["COVID-19"] pandemic, its outlook for the future and planned measures, including in particular the gradual resumption of certain flights and actions to improve its cash flow. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "would," the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements.

As at July 31, 2021, there exists material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. The Financial position, liquidity and capital resources section of the MD&A and note 2 to the interim condensed consolidated financial statements contain more detail on this issue.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen fully, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. Starting July 30, 2021, the Corporation partially resumed its operations and gradually rolled out a reduced summer program. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2020 Annual Report.

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

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

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.

- The outlook whereby, subject to going concern uncertainty as discussed in the Basis of Preparation and Going Concern Uncertainty section in this MD&A and note 2 to the interim condensed consolidated financial statements, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.

In making these statements, the Corporation has assumed, among other things, that travel and border restrictions imposed by government authorities will be relaxed to allow for a resumption of operations of the type and scale expected, that the standards and measures imposed by government and airport authorities to ensure the health and safety of personnel and travellers will be consistent with those announced or currently anticipated, that travellers will continue to travel despite the new health measures and other constraints imposed as a result of the pandemic, that credit facilities and other terms of credit extended by its business partners 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. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Adjusted operating income (loss)	Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss) and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus the amount for lease liabilities and the liability related to warrants, net of deferred financing cost related to the $312.0 million non-revolving and unsecured credit facility. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future
Total net debt	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31		Nine-month periods ended July 31	
	2021 $	2020 $	2021 $	2020 $
Operating loss	**(98,368)**	(132,013)	**(282,896)**	(186,630)
Special items	**85**	(1,109)	**7,256**	570
Depreciation and amortization	**47,355**	53,181	**120,117**	154,620
Adjusted operating loss	**(50,928)**	(79,941)	**(155,523)**	(31,440)
Loss before income tax expense	**(137,920)**	(45,850)	**(267,650)**	(247,666)
Special items	**85**	(1,109)	**7,256**	570
Change in fair value of fuel-related derivatives and other derivatives	**(2,062)**	(67,682)	**(10,691)**	32,169
Revaluation of liability related to warrants	**9,435**	—	**10,192**	—
Loss (gain) on asset disposals	**(913)**	170	**(19,810)**	170
Foreign exchange (gain) loss	**15,939**	(28,496)	**(46,704)**	7,447
Asset impairment	**—**	2,384	**—**	2,384
Adjusted pre-tax loss	**(115,436)**	(140,583)	**(327,407)**	(204,926)
Net loss attributable to shareholders	**(138,125)**	(45,115)	**(268,220)**	(258,468)
Special items	**85**	(1,109)	**7,256**	570
Change in fair value of fuel-related derivatives and other derivatives	**(2,062)**	(67,682)	**(10,691)**	32,169
Revaluation of liability related to warrants	**9,435**	—	**10,192**	—
Loss (gain) on asset disposals	**(913)**	170	**(19,810)**	170
Foreign exchange (gain) loss	**15,939**	(28,496)	**(46,704)**	7,447
Asset impairment	**—**	2,384	**—**	2,384
Tax impact	**—**	—	**—**	16,785
Adjusted net loss	**(115,641)**	(139,848)	**(327,977)**	(198,943)
Adjusted net loss	**(115,641)**	(139,848)	**(327,977)**	(198,943)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,747**	37,747	**37,747**	37,747
Adjusted net loss per share	**(3.06)**	(3.70)	**(8.69)**	(5.27)

(in thousands of dollars)	As at July 31, 2021 $	As at October 31, 2020 $
Long-term debt	**421,563**	49,980
Liability related to warrants	**51,683**	—
Deferred financing costs	**(21,985)**	—
Lease liabilities	**976,973**	853,906
Total debt	**1,428,234**	903,886
Total debt	**1,428,234**	903,886
Cash and cash equivalents	**(429,377)**	(426,433)
Total net debt	**998,857**	477,453

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of Canadian dollars, except per share amounts)	2021 $	2020 $	Difference $	Difference %	2021 $	2020 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**12,548**	9,546	3,002	31.4	**62,037**	1,273,643	(1,211,606)	(95.1)
Operating loss	**(98,368)**	(132,013)	33,645	25.5	**(282,896)**	(186,630)	(96,266)	(51.6)
Net loss attributable to shareholders	**(138,125)**	(45,115)	(93,010)	(206.2)	**(268,220)**	(258,468)	(9,752)	(3.8)
Basic loss per share	**(3.66)**	(1.20)	(2.46)	(205.0)	**(7.11)**	(6.85)	(0.26)	(3.8)
Diluted loss per share	**(3.66)**	(1.20)	(2.46)	(205.0)	**(7.11)**	(6.85)	(0.26)	(3.8)
Adjusted operating loss[1]	**(50,928)**	(79,941)	29,013	36.3	**(155,523)**	(31,440)	(124,083)	(394.7)
Adjusted net loss[1]	**(115,641)**	(139,848)	24,207	17.3	**(327,977)**	(198,943)	(129,034)	(64.9)
Adjusted net loss per share[1]	**(3.06)**	(3.70)	0.64	17.3	**(8.69)**	(5.27)	(3.42)	(64.9)
Consolidated Statements of Cash Flows								
Operating activities	**(283,257)**	(145,389)	(137,868)	(94.8)	**(490,187)**	77,412	(567,599)	(733.2)
Investing activities	**13,095**	(1,771)	14,866	839.4	**6,107**	(68,039)	74,146	109.0
Financing activities	**353,029**	(9,960)	362,989	3,644.5	**487,998**	187	487,811	260,861.5
Effect of exchange rate changes on cash and cash equivalents	**369**	(128)	497	388.3	**(974)**	2,027	(3,001)	(148.1)
Net change in cash and cash equivalents	**83,236**	(157,248)	240,484	152.9	**2,944**	11,587	(8,643)	(74.6)

	As at July 31, 2021 $	As at October 31, 2020 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**429,377**	426,433	2,944	0.7
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**156,619**	308,647	(152,028)	(49.3)
	585,996	735,080	(149,084)	(20.3)
Total assets	**1,928,504**	2,016,071	(87,567)	(4.3)
Debt (current and non-current)	**421,563**	49,980	371,583	743.5
Total debt [1]	**1,428,234**	903,886	524,348	58.0
Total net debt [1]	**998,857**	477,453	521,404	109.2

[1] See Non-IFRS Financial Measures section

HIGHLIGHTS OF 2021

TERMINATION OF THE DEFINITIVE ARRANGEMENT AGREEMENT WITH AIR CANADA

On April 2, 2021, the Corporation announced that the contemplated arrangement with Air Canada under the terms of the revised arrangement agreement between Transat and Air Canada dated October 9, 2020 [the "arrangement agreement"] had been terminated by mutual consent of Transat and Air Canada. The parties reached this agreement after having been advised by the European Commission that it would not approve the transaction. A copy of the termination agreement has been filed on SEDAR at www.sedar.com.

In connection with the termination of the arrangement agreement, Air Canada paid a $12.5 million termination payment to the Corporation and agreed to waive its entitlement to a $10.0 million termination fee in the event of an acquisition of Transat by a third party in the twelve months following termination of the arrangement agreement.

END OF DISCUSSIONS FOR THE ACQUISITION OF THE CORPORATION

On June 21, 2021, the Corporation announced that the ongoing discussions with Pierre Karl Péladeau concerning the potential acquisition of all of the shares of the Corporation through his company Gestion MTRHP inc. ["MTRHP"] had ended. On April 7, 2021, Mr. Péladeau delivered to the Corporation a non-binding proposal contemplating a transaction pursuant to which MTRHP would acquire all of the shares of Transat for a consideration of $5.00 per share, payable in cash.

FUNDING OF $700.0 MILLION FROM THE GOVERNMENT OF CANADA

As described in the Financing section, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the Large Employer Emergency Financing Facility ["LEEFF"]. In addition to the new funding, the amounts already drawn on the existing facilities remain in place and are extended for a period of two years from the implementation of the new financing. The ratios applicable to the existing facilities will be suspended for a period of 18 months. The undrawn credit under the short-term subordinated facility is cancelled. In total, the available financing therefore represents a maximum of $820.0 million, of which $585.1 million was drawn as at July 31, 2021.

CHANGES IN LEADERSHIP

On May 26, 2021, the Corporation announced the implementation of the succession plan for Jean-Marc Eustache, who retired. Annick Guérard was appointed President and Chief Executive Officer effective May 27, 2021. Ms. Guérard served as Chief Operating Officer since November 2017.

Mr. Eustache also stepped down from his role on the Board of Directors. Raymond Bachand, Lead Director, took over as Chair of the Board and Ms. Guérard joined the Board of Directors. These changes were effective May 27, 2021.

On May 31, 2021, Daniel Godbout, Senior Vice-President and Advisor to the President, asserted his retirement rights. Mr. Godbout will not be replaced in his functions.

On June 23, 2021, the Corporation also announced the departure of Denis Pétrin, Vice-President, Finance and Administration, and Chief Financial Officer, who left his functions on July 9 and was temporarily replaced by Jacques Simoneau, member of the Board of Directors of Transat, who will serve in an interim role until the recruitment process for Mr. Pétrin's successor is completed.

Following the announcement of the discontinuation of the hotel activity, the employment contract of Jordi Solé, President of the hotel division, was terminated on August 31, 2021.

On November 9, 2018, the Corporation had announced the departure of Jean-François Lemay, President of Air Transat, when the Corporation would find him a successor. Given the circumstances related to the proposed transaction with Air Canada, then to the COVID-19 pandemic, Mr. Lemay and the Corporation had agreed to postpone the planned departure. Mr. Lemay's departure was subsequently postponed until July 31, 2022, in order to identify and put in place his successor and ensure a smooth transition.

In addition, two new members have joined the Corporation's management committee: Michèle Barre, Vice-President, Network, Revenue Management and Pricing, and Joseph Adamo, Chief Sales and Marketing Officer.

DISCONTINUATION OF THE HOTEL DIVISION

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. During the nine-month period ended July 31, 2021, the hotel division's operations generated a net loss of $5.8 million.

IMPACT OF THE COVID-19 PANDEMIC

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen fully, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. Starting July 30, 2021, the Corporation partially resumed its operations and gradually rolled out a reduced summer program. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

Preserving cash is a priority for the Corporation; with respect to the COVID-19 pandemic, the Corporation has taken the actions discussed in the Overview section of the MD&A included in our 2020 Annual Report. Other opportunities are being evaluated to achieve this objective and the following additional actions in response to the COVID-19 pandemic were taken during the nine-month period ended July 31, 2021:

- The Corporation completed its efforts to obtain long-term financing. As described in the Financing section, the available financing therefore represents a maximum of $820.0 million, of which $585.1 million was drawn as at July 31, 2021. Of the drawn down amount, a total of $265.1 million was used to repay travellers who were scheduled to leave after February 1, 2020, for which a travel credit had been issued due to COVID-19 and who had requested to be reimbursed.

- During the quarter ended January 31, 2021, two Airbus A330s and one Boeing 737-800 were returned to lessors early.

- The Corporation continuously adjusts its flight program as the situation evolves. Since the resumption of its airline operations on July 30, 2021, Transat offers once again a reduced program of international flights departing from Montréal and Toronto that it intends to enhance gradually.

- The Corporation is negotiating with its suppliers, including aircraft lessors to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.

- The Corporation is continuing to make use of the Canada Emergency Wage Subsidy ["CEWS"] for its Canadian workforce, which enables it to finance part of the salaries of its staff still at work and, until August 28, 2021, to offer employees on temporary layoff to receive a portion of their salary equivalent to the amount of the grant received, with no work required.

- As at July 31, 2021, cash and cash equivalents totalled $429.4 million.

OVERVIEW

CORE BUSINESS

Founded in Montreal 35 years ago, Transat has grown to become a holiday travel reference worldwide, particularly as an air carrier under the Air Transat brand. Voted World's Best Leisure Airline by passengers at the Skytrax World Airline Awards, it flies to international and Canadian destinations, striving to serve its customers with enthusiasm and friendliness at every stage of their trip or stay, and emphasizing safety throughout.

Transat has been Travelife-certified since 2018, renewing its fleet with the greenest aircraft in their category as part of a commitment to a healthier environment, knowing that this is essential to the integrity of its operations and the magnificent destinations it serves.

STRATEGIC PLAN

The Corporation has developed its plan for future years, setting the following objectives:

- During 2021, stabilize the business by streamlining operations and laying the foundations for a recovery that will ensure the Corporation's long-term viability after the pandemic;
- During the 2022-2026 period, make the Corporation profitable again and complete its transformation to achieve a level of profitability that exceeds pre-pandemic levels, as well as grow in new markets;
- After 2026: leverage those achievements to propel Transat toward a new growth phase.

To that end, Transat will implement or continue certain changes:

- Refocus airline operations and redefine the network by ensuring a greater presence in Eastern Canada and Montréal and forging alliances to strengthen the network;
- Reduce costs and increase flexibility, particularly by renegotiating some commitments (fleet, real estate, etc.), by refocusing on airline businesses (discontinuation of the hotel division) and a significant simplifying of the organization;
- Optimize financing structure over the long term;
- Increase efficiency by streamlining the fleet and bringing its average age down, around two types of Airbus aircraft, improving aircraft usage, reducing seasonal fluctuations and enhancing revenue management practices.

And continue to rely on and leverage its strengths:

- A leisure travel brand popular with travellers, at a time when vacations and visiting family and friends will be the driving factors for the rebound in air travel;
- A strong commitment to the environment since many years;
- Engaged teams with a history of strong sense of belonging to the Corporation;
- Long-term roots in Québec.

CONSOLIDATED OPERATIONS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2021 $	2020 $	Difference $	Difference %	2021 $	2020 $	Difference $	Difference %
Revenues	**12,548**	9,546	3,002	31.4	**62,037**	1,273,643	(1,211,606)	(95.1)
Operating expenses								
Costs of providing tourism services	**6,593**	3,338	3,255	97.5	**21,380**	435,475	(414,095)	(95.1)
Aircraft fuel	**183**	28,256	(28,073)	(99.4)	**9,454**	224,377	(214,923)	(95.8)
Salaries and employee benefits	**25,775**	22,798	2,977	13.1	**74,965**	204,447	(129,482)	(63.3)
Sales and distribution costs	**2,427**	2,538	(111)	(4.4)	**4,883**	95,731	(90,848)	(94.9)
Aircraft maintenance	**11,204**	11,709	(505)	(4.3)	**40,888**	95,893	(55,005)	(57.4)
Airport and navigation fees	**171**	2,214	(2,043)	(92.3)	**5,987**	71,290	(65,303)	(91.6)
Aircraft rent	**—**	202	(202)	(100.0)	**—**	24,436	(24,436)	(100.0)
Other airline costs	**2,244**	3,376	(1,132)	(33.5)	**14,412**	95,472	(81,060)	(84.9)
Other	**14,378**	14,262	116	0.8	**41,809**	57,422	(15,613)	(27.2)
Share of net loss of a joint venture	**501**	794	(293)	(36.9)	**3,782**	540	3,242	600.4
Depreciation and amortization	**47,355**	53,181	(5,826)	(11.0)	**120,117**	154,620	(34,503)	(22.3)
Special items	**85**	(1,109)	1,194	107.7	**7,256**	570	6,686	1,173.0
	110,916	141,559	(30,643)	(21.6)	**344,933**	1,460,273	(1,115,340)	(76.4)
Operating loss	**(98,368)**	(132,013)	33,645	25.5	**(282,896)**	(186,630)	(96,266)	(51.6)
Financing costs	**18,069**	11,772	6,297	53.5	**55,239**	33,104	22,135	66.9
Financing income	**(916)**	(1,927)	1,011	52.5	**(3,472)**	(11,854)	8,382	70.7
Change in fair value of fuel-related derivatives and other derivatives	**(2,062)**	(67,682)	65,620	97.0	**(10,691)**	32,169	(42,860)	(133.2)
Revaluation of liability related to warrants	**9,435**	—	9,435	100.0	**10,192**	—	10,192	100.0
Loss (gain) on asset disposals	**(913)**	170	(1,083)	(637.1)	**(19,810)**	170	(19,980)	(11,752.9)
Foreign exchange (gain) loss	**15,939**	(28,496)	44,435	155.9	**(46,704)**	7,447	(54,151)	(727.2)
Loss before income tax expense	**(137,920)**	(45,850)	(92,070)	(200.8)	**(267,650)**	(247,666)	(19,984)	(8.1)
Income taxes (recovery)								
Current	**139**	47	92	195.7	**374**	(5,880)	6,254	106.4
Deferred	**—**	(176)	176	100.0	**75**	16,609	(16,534)	(99.5)
	139	(129)	268	207.8	**449**	10,729	(10,280)	(95.8)
Net loss for the period	**(138,059)**	(45,721)	(92,338)	(202.0)	**(268,099)**	(258,395)	(9,704)	(3.8)

Net income (loss) attributable to:								
Shareholders	**(138,125)**	(45,115)	(93,010)	(206.2)	**(268,220)**	(258,468)	(9,752)	(3.8)
Non-controlling interests	**66**	(606)	672	110.9	**121**	73	48	65.8
	(138,059)	(45,721)	(92,338)	(202.0)	**(268,099)**	(258,395)	(9,704)	(3.8)

REVENUES

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

Compared with 2020, revenues were up $3.0 million (31.4%) for the quarter ended July 31, 2021 and down by $1,211.6 million (95.1%) for the nine-month period ended July 31. Since mid-March of 2020, restrictions on international travel and government-imposed quarantine measures have made travel sales very difficult. Due to the global COVID-19 pandemic, the Corporation suspended its airline operations on January 29, 2021 for the second time since March 2020, until their partial resumption on July 30, 2021. For the first half of winter 2021, demand was very weak and the Corporation's capacity represented a fraction of the 2020 level. These factors caused the fall in revenues. For the quarter, revenues were mainly generated by the activities of our incoming tour operator in sun destinations.

OPERATING EXPENSES

Total operating expenses were down $30.6 million (21.6%) for the quarter and $1,115.3 million (76.4%) for the nine-month period, compared with 2020. These decreases were attributable to the suspension of airline operations for the second and third quarters of 2021 and a significant reduction in capacity deployed in the first half of winter due to demand remaining well below prior year level because of the COVID-19 pandemic. In 2020, airline operations were suspended from April 1 to July 22.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. Compared with 2020, these costs were up $3.3 million (97.5%) for the quarter and down $414.1 million (95.1%) for the nine-month period. The increase for the quarter was driven by the higher volume of activities of our incoming tour operator in sun destinations. For the nine-month period, the decrease resulted primarily from a sharp decline in the number of packages sold compared with 2020 due to the COVID-19 pandemic.

AIRCRAFT FUEL

Aircraft fuel expense was down $28.1 million (99.4%) for the quarter and $214.9 million (95.8%) for the nine-month period. These decreases were attributable to the suspension of airline operations for the second and third quarters of 2021 and a significant reduction in capacity deployed in the first half of winter due to demand remaining well below prior year level because of the COVID-19 pandemic. For the third quarter of 2020, the aircraft fuel expense was mainly related to the unfavourable settlement of fuel-related derivative contracts.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $3.0 million (13.1%) for the quarter and down $129.5 million (63.3%) for the nine-month period, compared with 2020. The increase for the quarter is due to a lower CEWS amount received for active employees. For the nine-month period, the decrease resulted mainly from significant temporary layoffs. During the quarter and nine-month period ended July 31, 2021, the Corporation made use of the CEWS for its Canadian workforce; amounts of $7.2 million and $27.0 million, respectively were recognized related to the active employees, compared with $11.4 million for the corresponding quarter and nine-month period of 2020. Lastly, amounts of $26.6 million and $74.3 million, respectively, were recorded during the quarter and nine-month period for inactive employees, which corresponds to the salaries paid to them.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were down $0.1 million (4.4%) for the quarter and $90.8 million (94.9%) for the nine-month period, compared with 2020. For the nine-month period, the decrease resulted mainly from the fall in revenues.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. Compared with 2020, these costs were down $0.5 million (4.3%) for the quarter and $55.0 million (57.4%) for the nine-month period. These decreases were mainly attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations for the second and third quarters of 2021. Moreover, during the nine-month ended July 31, 2021, in connection with future repairs that will not take place, the Corporation wrote off maintenance deposits with lessors and reversed provisions for return conditions, resulting in a net unfavourable effect of $9.1 million. Aircraft maintenance costs also take into account changes in assumptions.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were down $2.0 million (92.3%) for the quarter and $65.3 million (91.6%) for the nine-month period, compared with 2020. These decreases were attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations for the second and third quarters of 2021.

AIRCRAFT RENT

Aircraft rent was down $0.2 million (100.0%) for the quarter and $24.4 million (100.0%) for the nine-month period. As part of its cost reduction program and in connection with the significant reduction in capacity deployed due to the COVID-19 pandemic, the Corporation did not enter into leases for a seasonal fleet in winter 2021.

OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were down $1.1 million (33.5%) for the quarter and $81.1 million (84.9%) for the nine-month period, compared with 2020. These decreases were attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations for the second and third quarters of 2021.

OTHER

Other expenses were up $0.1 million (0.8%) for the quarter and down $15.6 million (27.2%) for the nine-month period, compared with 2020. For the nine-month period, the decrease resulted from the cost reduction measures implemented by the Corporation in connection with the COVID-19 pandemic.

SHARE OF NET INCOME (LOSS) OF A JOINT VENTURE

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net loss for the third quarter totalled $0.5 million, compared with $0.8 million for the corresponding quarter of 2020. For the nine-month period, our share of net loss totalled $3.8 million, compared with $0.5 million for 2020. Operations at our hotel joint venture were substantially scaled down due to the COVID-19 pandemic, and the volume of business was gradually increased during the third quarter of 2021. Moreover, certain assets were impaired during 2021.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was down $5.8 million (11.0%) for the third quarter and $34.5 million (22.3%) for the nine-month period, compared with 2020. The decreases were due primarily to the decline in the carrying amount of right-of-use assets related to the fleet. During the last quarter of 2020, the carrying amount of right-of-use assets related to the fleet declined following the recognition of impairment charges in respect of 10 leased aircraft, namely five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, as well as the early return of three Boeing 737-800s and one Airbus A330. The lower depreciation and amortization expense was partially offset by the commissioning of four Airbus A321neoLRs in 2021 and the accelerated amortization of certain right-of-use assets related to the fleet.

During the quarter ended July 31, 2020, the Corporation recognized a $2.4 million impairment loss in respect of trademarks. This impairment resulted from a decrease in revenues and expected profitability from the trademarks due to the COVID-19 pandemic.

SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. During the quarter ended July 31, 2021, $1.8 million in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada, compared with $2.0 million in professional fees and $3.1 million in reversals of compensation expenses during the quarter ended July 31, 2020. During the nine-month period ended July 31, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, $6.1 million in professional fees as well as $6.2 million in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada, compared with $4.9 million in professional fees and $4.4 million in reversals of compensation expenses for the nine-month period ended July 31, 2020. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of impairment expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

For the quarter and the nine-month period ended July 31, 2021, special items included $1.9 million and $19.9 million, respectively, for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers.

OPERATING RESULTS

Given the above, we recorded an operating loss of $98.4 million for the third quarter, compared with $132.0 million in 2020. For the nine-month period, we reported an operating loss of $282.9 million, compared with $186.6 million in 2020. For the quarter, the improvement in operating results was due to the unfavourable settlement of fuel-related derivative contracts in the third quarter of 2020. For the nine-month period, the deterioration in operating results was attributable to the suspension of airline operations for the second and third quarters of 2021 and a significant reduction in capacity deployed in the first half of winter due to demand remaining well below prior year level because of the COVID-19 pandemic. Despite the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs; as a result, the fall in revenues was more pronounced than the decrease in operating expenses.

For the quarter, the Corporation reported an adjusted operating loss of $50.9 million, compared with $79.9 million in 2020. For the nine-month period, the Corporation reported an adjusted operating loss of $155.5 million, compared with $31.4 million in 2020.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs were up $6.3 million (53.5%) for the third quarter and $22.1 million (66.9%) for the nine-month period, compared with 2020. For the quarter, the increase was primarily related to the interest on the credit facilities arranged with the government of Canada through the LEEFF. For the nine-month period, the increase resulted mainly from interest expenses, standby and arrangement fees related to the $70.0 million subordinated credit facility, interest on the credit facilities arranged with the government of Canada through the LEEFF as well as interest on lease liabilities related to aircraft following the commissioning of four Airbus A321neoLRs in 2021.

FINANCING INCOME

Financing income was down $1.0 million (52.5%) during the third quarter and $8.4 million (70.7%) for the nine-month period, compared with 2020, as a result of decreases in average balances of cash and cash equivalents and interest rates compared with 2020.

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

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange as well as the change in fair value of the pre-payment option on the unsecured credit facility. Since April 30, 2021, all the fuel-related derivatives and foreign exchange derivatives held by the Corporation have matured and the Corporation no longer holds any fuel-related derivatives and foreign exchange derivatives. Accordingly, for the quarter ended July 31, 2021, the $2.1 million increase in the fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value of the pre-payment option. The $67.7 million increase in the third quarter of 2020 was related to a recovery in the price of a barrel of oil following the collapse in fuel prices in the second quarter of 2020 resulting from the COVID-19 pandemic. For the nine-month period, the fair value of fuel-related derivatives and other derivatives was up $10.7 million, compared with a $32.2 million decrease in fair value in 2020. The increase in the fair value of fuel-related derivatives and other derivatives was attributable to the maturing of fuel-related derivatives.

REVALUATION OF THE LIABILITY RELATED TO WARRANTS

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the quarter ended July 31, 2021, the fair value of warrants increased by $9.4 million, driven by the increase in the closing price of the share as at July 31, 2021 compared with the previous quarter. During the nine-month period ended July 31, 2021, the fair value of warrants increased by $10.2 million, driven by the increase in the closing price of the share from $4.80 to $5.80 between the date of initial recognition of warrants, that is April 29, 2021, and July 31, 2021.

GAIN ON ASSET DISPOSALS

The gain on asset disposals relates to asset disposals and lease terminations. During the quarter ended July 31, 2021, the Corporation partially terminated a real estate lease, giving rise to a gain on lease termination of $0.9 million. For the nine-month period ended July 31, 2021, the $19.8 million gain was primarily attributable to the termination of aircraft leases for two Airbus A330s and one Boeing 737-800. The gain on termination of aircraft leases resulted from the reversal of lease liabilities of $13.2 million, the provision for return conditions of $3.9 million and other assets of $0.1 million. The carrying amount of right-of-use assets for these aircraft leases were fully impaired during the year ended October 31, 2020. Moreover, during the nine-month ended July 31, 2021, the Corporation recognized a gain on lease termination of $2.6 million related to the partial termination of real estate leases.

FOREIGN EXCHANGE LOSS (GAIN)

During the quarter, the Corporation recognized a $15.9 million foreign exchange loss, compared with a foreign exchange gain of $28.5 million in 2020. For the nine-month period, we recognized a foreign exchange gain of $46.7 million, compared with a foreign exchange loss of $7.4 million in 2020. For the quarter, the foreign exchange loss resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar. For the nine-month period, the foreign exchange gain resulted mainly from the favourable exchange effect on lease liabilities related to aircraft, following the strengthening of the dollar against the U.S. dollar.

INCOME TAXES

Income tax expense for the third quarter totalled $0.1 million, compared with an income tax recovery of $0.1 million for the corresponding quarter of last year. For the nine-month period, income tax expense amounted to $0.4 million, compared with $10.7 million in 2020. Excluding the gain on asset disposals and the share of net income (loss) of a joint venture, the effective tax rate was 0.1% for the quarter and 0.2% for the nine-month period, compared with 0.3% and 4.3%, respectively, for the corresponding periods of 2020.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the high level of uncertainty related to demand for the remaining part of fiscal 2020 and at least for fiscal 2021. Accordingly, during the nine-month period ended July 31, 2021, no deferred tax assets were recognized. For the quarter and the nine-month period, the change in tax rates resulted primarily from the non-recognition of deferred tax assets in fiscal 2021.

NET LOSS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $138.1 million for the quarter ended July 31, 2021, compared with $45.7 million in 2020. For the nine-month period ended July 31, 2021, we reported a net loss of $268.1 million, compared with $258.4 million in 2020.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For the third quarter of fiscal 2021, net loss attributable to shareholders amounted to $138.1 million or $3.66 per share (basic and diluted) compared with $45.1 million or $1.20 per share (basic and diluted) for the corresponding quarter of last year. For the nine-month period, net loss attributable to shareholders amounted to $268.2 million or $7.11 per share (basic and diluted) compared with $258.5 million or $6.85 per share (basic and diluted) for the corresponding nine-month period of last year. For the third quarter and first nine-months of fiscal 2021, the weighted average number of outstanding shares used to compute earnings per share was 37,747,000 (basic and diluted), compared with 37,747,000 (basic and diluted) for the corresponding period of 2020.

For the quarter and nine-month period ended July 31, 2021, adjusted net loss was $115.6 million ($3.06 per share) and $328.0 million ($8.69 per share), respectively, compared with adjusted net losses of $139.8 million ($3.70 per share) and $198.9 million ($5.27 per share), respectively, for the corresponding periods of 2020.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues decreased compared with the corresponding quarters, with the exception of the first part of summer (Q3). During winter (Q1 and Q2) and the second part of summer (Q4), the fall in revenues was attributable to the suspension of our airline operations from April 1 to July 22, 2020 and for the second and third quarters of 2021, combined with the sharp decline in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic. For the first part of summer (Q3), the slight increase in revenues was driven by the higher volume of activities of our incoming tour operator in sun destinations.

The increase in operating loss during winter (Q1 and Q2) and the second part of summer (Q4) was mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 and for the second and third quarters of 2021 to a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. For the 2020 summer season (Q3 and Q4), the decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts. 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)	**Q4-2019** **$**	**Q1-2020** **$**	**Q2-2020** **$**	**Q3-2020** **$**	**Q4-2020** **$**	**Q1-2021** **$**	**Q2-2021** **$**	**Q3-2021** **$**
Revenues	693,235	692,799	571,298	9,546	28,426	41,920	7,569	12,548
Operating income (loss)	37,072	(25,066)	(29,551)	(132,013)	(239,332)	(98,048)	(86,480)	(98,368)
Net income (loss)	22,820	(32,962)	(179,712)	(45,721)	(238,370)	(60,503)	(69,537)	(138,059)
Net income (loss) attributable to shareholders	23,049	(33,805)	(179,548)	(45,115)	(238,077)	(60,534)	(69,561)	(138,125)
Basic earnings (loss) per share	0.61	(0.90)	(4.76)	(1.20)	(6.31)	(1.60)	(1.84)	(3.66)
Diluted earnings (loss) per share	0.62	(0.90)	(4.76)	(1.20)	(6.31)	(1.60)	(1.84)	(3.66)
Adjusted operating income (loss)(1)	97,537	27,393	21,108	(79,941)	(90,735)	(53,632)	(50,963)	(50,928)
Adjusted net income (loss)(1)	30,065	(20,303)	(38,792)	(139,848)	(156,392)	(109,049)	(103,287)	(115,641)
Adjusted net income (loss) per share(1)	0.80	(0.54)	(1.03)	(3.70)	(4.14)	(2.89)	(2.74)	(3.06)

[1] See non-IFRS financial measures

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from July 31, 2021. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due is to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $268.1 million for the nine-month period ended July 31, 2021. However, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada enabling it to borrow additional cash resources up to a maximum of $700.0 million through the Large Employer Emergency Financing Facility ["LEEFF"]. To supplement the new financing, the amounts already drawn on existing facilities remain in place and are extended for a period of two years, until April 29, 2023. The ratios applicable to existing facilities are suspended for a period of 18 months, until October 31, 2022. The undrawn credit under the subordinated facility is cancelled. Therefore, available credit amounts to a maximum of $820.0 million.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada enabling it to borrow additional cash resources up to a maximum of $700.0 million through the LEEFF, bringing total available financing to a maximum of $820.0 million. Management is also continuing to monitor possible government assistance programs. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

Given the suspension of airline operations and the uncertainty with respect to a resurgence in demand, 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.

There can be no assurance that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

The situation indicates material uncertainty casting significant doubt on the Corporation's ability to continue as a going concern and, thereby, realize its assets and repay its debt in its normal course of business.

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at July 31, 2021 do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

CONSOLIDATED FINANCIAL POSITION

As at July 31, 2021, cash and cash equivalents totalled $429.4 million compared with $426.4 million as at October 31, 2020. Cash and cash equivalents in trust or otherwise reserved amounted to $156.6 million as at the end of the third quarter of 2021, compared with $308.6 million as at October 31, 2020. The Corporation's statement of financial position reflected $150.9 million in working capital, for a ratio of 1.27, compared with $163.2 million in negative working capital and a ratio of 0.84 as at October 31, 2020. The improvement in our working capital resulted from the travel credits refunded during the period and financed partly by the drawdowns on the unsecured credit facility to refund travellers and drawdowns on credit facilities.

Total assets decreased by $87.6 million (4.3%) from $2,016.1 million as at October 31, 2020 to $1,928.5 million as at July 31, 2021. This decrease is explained in the financial position table provided below. Equity decreased by $257.5 million, from $66.3 million as at October 31, 2020 to negative equity of $191.2 million as at July 31, 2021. This decrease resulted primarily from the $268.2 million net loss attributable to shareholders, partially offset by a $9.4 million change in fair value of non-controlling interest liabilities.

(in thousands of dollars)	As at April 30, 2021 $	As at October 31, 2020 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**429,377**	426,433	2,944	See Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**156,619**	308,647	(152,028)	Travel credits refunded during the period
Trade and other receivables	**105,378**	95,334	10,044	Increase in amounts receivable from credit card processors, partially offset by cash security deposits receivable from lessors
Income taxes receivable	**15,702**	17,477	(1,775)	Collection of income taxes recoverable
Inventories	**12,079**	10,024	2,055	Increase in inventory of consumable parts
Prepaid expenses	**18,153**	47,164	(29,011)	Impairment of prepaid expenses and decrease in prepaid amounts due to the passage of time
Deposits	**121,467**	153,375	(31,908)	Decrease due to write-offs of non-recoverable deposits related to future repairs that will not take place and strengthening of the dollar against the U.S. dollar
Property, plant and equipment	**1,018,261**	916,382	101,879	Four new aircraft leases, partially offset by depreciation and changes to real estate leases
Intangible assets	**18,794**	25,509	(6,715)	Amortization for the period
Derivative financial instruments	**—**	964	(964)	Maturing of foreign exchange derivatives
Investment	**10,458**	14,509	(4,051)	Share of net loss of a joint venture
Other assets	**22,216**	253	21,963	Deferred financing costs related to the $312.0 million non-revolving credit facility
Liabilities				
Trade and other payables	**107,960**	232,243	(124,283)	Decrease due to repayments made during the period and suspension of airline operations
Income taxes payable	**1,330**	203	1,127	Collection of income taxes recoverable
Customer deposits and deferred revenues	**262,770**	608,890	(346,120)	Refund of travel credits, partially offset by bookings
Derivative financial instruments	**—**	10,055	(10,055)	Maturing of fuel-related and foreign exchange derivatives
Long-term debt and lease liabilities	**1,398,536**	903,886	494,650	Drawdowns on the credit facilities and four new aircraft leases, partially offset by the strengthening of the dollar against the U.S. dollar, changes to leases, principal repayments and the return of three aircraft
Provision for return conditions	**130,034**	143,598	(13,564)	Future repairs that will not take place, expiry of leases for two aircraft, early return of three aircraft and the strengthening of the dollar against the U.S. dollar, partially offset by the passage of time and the higher number of leased aircraft
Liability related to warrants	**51,683**	—	51,683	Issuance of warrants and increase in their fair value during the period
Deferred government grant	**139,902**	—	139,902	Drawdowns on the credit facility related to travel credits
Other liabilities	**26,879**	50,215	(23,336)	Settlement of pension agreements
Deferred tax liabilities	**632**	674	(42)	No significant difference
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Deficit	**(422,945)**	(164,138)	(258,807)	Net loss
Unrealized gain (loss) on cash flow hedges	**—**	(522)	522	No significant difference
Cumulative exchange differences	**(5,237)**	(5,993)	756	Foreign exchange gain on translation of financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2021	**2020**	**Difference**	**2021**	**2020**	**Difference**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Cash flows related to operating activities	**(283,257)**	(145,389)	(137,868)	**(490,187)**	77,412	(567,599)
Cash flows related to investing activities	**13,095**	(1,771)	14,866	**6,107**	(68,039)	74,146
Cash flows related to financing activities	**353,029**	(9,960)	362,989	**487,998**	187	487,811
Effect of exchange rate changes on cash	**369**	(128)	497	**(974)**	2,027	(3,001)
Net change in cash and cash equivalents	**83,236**	(157,248)	240,484	**2,944**	11,587	(8,643)

OPERATING ACTIVITIES

Operating activities used cash flows of $283.3 million during the third quarter, compared with $145.4 million in 2020. The $137.9 million increase resulted from a $160.0 million reduction in the net change in non-cash working capital balances related to operations combined with a $25.7 million decrease in the net change in other assets and liabilities related to operations. The increase was partially offset by a $34.4 million decrease in net loss before operating items not involving an outlay (receipt) of cash and a $13.4 million increase in the net change in the provision for return conditions.

Cash flows used in operating activities amounted to $490.2 million for the nine-month period compared with cash inflows of $77.4 million in 2020. The decrease mainly resulted from the $438.6 million decline in the net change in non-cash working capital balances related to operations, combined with a $117.7 million increase in net loss before operating items not involving an outlay (receipt) of cash and an $18.0 million decrease in the net change in the provision for return conditions.

The deterioration in cash flows related to operating activities resulted mainly from the suspension of airline operations for the second and third quarters of 2021, combined with a significant reduction in capacity deployed in the first half of winter, due to demand remaining well below prior year level because of the COVID-19 pandemic, and the travel credits refunded during the third quarter and payments made to suppliers.

INVESTING ACTIVITIES

Cash flows generated by investing activities amounted to $13.1 million for the third quarter compared with cash outflows of $1.8 million in 2020, representing an increase of $14.9 million. This increase stemmed primarily from the $28.4 million decrease in the cash and cash equivalents reserved balance, partially offset by the $15.0 million consideration paid to acquire the 30% interest held by the minority shareholder in TraficTours Canada inc. ("TraficTours") on May 31, 2021, in which the Corporation already held 70% of shares.

For the nine-month period, cash flows generated by investing activities amounted to $6.1 million, compared with cash outflows of $68.0 million in 2020, representing an increase of $74.1 million. This increase was mainly related to the decrease in additions to property, plant and equipment and other intangible assets and to the other factors discussed in the previous paragraph. For the nine-month period ended July 31, 2021, additions to property, plant and equipment and intangible assets amounted to $4.0 million, consisting primarily in leasehold improvements to aircraft, compared with $62.0 million for the corresponding period of 2020. The decreases in additions to property, plant and equipment and intangible assets resulted primarily from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic. During the nine-month period ended July 31, 2020, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $16.6 million.

FINANCING ACTIVITIES

For the third quarter, cash flows generated by financing activities amounted to $353.0 million compared with cash outflows of $10.0 million in 2020, representing an increase of $363.0 million. During the quarter ended July 31, 2021, the Corporation drew down $365.1 million under credit facilities related to the LEEFF. During the quarter ended July 31, 2021, the Corporation made repayments on its lease liabilities amounting to $12.1 million compared with $10.0 million in 2020.

For the nine-month period, financing activities generated cash flows of $488.0 million, compared with $0.2 million in 2020. During the nine-month period ended July 31, 2021, the Corporation drew down a total amount of $535.0 million from its credit facilities. In March 2020, the Corporation drew down $50.0 million under its revolving credit facility. In addition, during the nine-month period ended July 31, 2021, the Corporation made repayments on its lease liabilities amounting to $43.7 million compared with $48.9 million in 2020. The $5.2 million decrease in repayments is attributable to deferred payments, as well as early returns and matured leases since July 31, 2020. Since March 2020, the Corporation has been renegotiating with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments. Since July 31, 2020, the Corporation early returned to lessors three Airbus A330s and four Boeing 737-800s. Furthermore, the aircraft leases for two Airbus A330s matured during the quarter ended January 31, 2021.

FINANCING

FUNDING OF $700.0 MILLION FROM THE GOVERNMENT OF CANADA

On April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the LEEFF. The new fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEF, which Transat would use only on an as-needed basis, are as follows:

- An amount of $390 million, which can be drawn down up to October 29, 2022, representing the liquidity needed to support Transat until its business has recovered to a level where it can generate cash once again, broken down as follows:
    - An amount of $78.0 million in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of Canadian, Mexican, Caribbean and European subsidiaries of the Corporation, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. This credit facility becomes immediately payable in the event of a change in control. As at July 31, 2021, $40.0 million was drawn down under the credit facility, which has a carrying amount of $39.7 million;
    - An amount of $312.0 million in the form of a non-revolving and unsecured credit facility maturing on April 29, 2026, bearing interest at a rate of 5.0% in the first year, increasing to 8.0% in the second year, and by 2.0% per annum thereafter, with the possibility of capitalization of interest in the first two years. This credit facility becomes immediately payable in the event of a change in control. As at July 31, 2021, $160.0 million was drawn down under the credit facility, which has a carrying amount of $138.0 million.
    - In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share (representing the volume-weighted average trading price for the five trading days preceding the issuance of the warrants) over a 10-year period, representing 18.75% of the total commitment available under the above non-revolving and unsecured credit facility. The warrants are to vest in proportion to the drawings that will be made, and 50% would be forfeited if the loan were to be repaid in full in the first year.
- An amount of $310.0 million in the form of an unsecured credit facility, which can be drawn down up to December 31, 2021, for the sole purpose of making refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at the rate of 1.22%. In the event of a change of control, these credit facilities could become immediately payable in the absence of a waiver by the lenders to enforce them or in the event of a change of control without the consent of the lenders. As at July 31, 2021, $265.1 million was drawn down under this credit facility. As at July 31, 2021, the carrying amount of these drawdowns amounted to $123.4 million, and an amount of $139.9 million was also recognized as deferred government grant related to these drawdowns. As at September 3, 2021, an amount of $298.5 million had been drawn down from this credit facility.

In connection with the arrangement of these credit facilities, Transat has made certain commitments, including:

- Making refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom travel credits have been issued due to COVID-19. The Corporation started making refunds in early May 2021. As per the agreement, to be eligible, customers had to indicate their desire for a refund before August 26, 2021;
- Complying with restrictions on dividends, stock repurchases and executive compensation;
- Maintaining active employment at its level of April 28, 2021.

The number of shares issuable upon exercise of the warrants may not exceed 25% of the current number of issued and outstanding shares, nor may it result in the holder owning 19.9% or more of the outstanding shares upon exercise of the warrants. In the event of exercise of warrants that surpasses these thresholds, the excess will be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price. Finally, in the event that the credit facility is repaid in full by its maturity, Transat will have the right to redeem all of the warrants for a consideration equal to their fair market value. The warrants will not be transferable prior to the expiry of the period giving rise to the exercise of such redemption right. In addition, the holder of the warrants will benefit from registration rights to facilitate the sale of the underlying shares and the warrants themselves (once the transfer restriction has been lifted).

Under the limitations set out in the preceding paragraph, if the 13,000,000 warrants are exercised:

- a maximum of 9,436,772 warrants could be exercised through the issuance of shares;
- 3,563,228 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

RENEWAL OF EXISTING CREDIT FACILITIES

In addition to the new funding of $700 million from the Government of Canada, the amounts already drawn on the existing facilities will remain in place.

Accordingly, on April 29, 2021,the Corporation amended its $50.0 million revolving credit facility agreement for operating purposes. The amended agreement, which expires on April 29, 2023, may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at July 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

On April 29, 2021, the Corporation amended its subordinated credit facility for operating purposes, reducing the amount from $250.0 million to $70 million The amended agreement expires on April 29, 2023 and becomes immediately payable in the event of a change in control. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to interest. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at July 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

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 cash flows, some of which are reported as liabilities in the interim condensed consolidated financial statements and others are disclosed in the notes to the consolidated financial statements.

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
- Leases related to undelivered aircraft for which commitments have been made with a term of less than 12 months and/or for low value assets
- Purchase obligations

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $544.5 million as at July 31, 2021 ($872.2 million as at October 31, 2020) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at July 31, 2021 $**	**As at October 31, 2020 $**
Guarantees		
Irrevocable letters of credit	**12,223**	23,813
Collateral security contracts	**428**	468
Leases		
Lease obligations	**531,864**	847,872
	544,515	872,153

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

As at June 29, 2021, the Corporation amended its annually renewable revolving credit facility agreement for issuing letters of credit, reducing the amount from $75.0 million to $74.0 million. Under this agreement, the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit. As at July 31, 2021, $32.9 million had been drawn down under the facility [$60.3 million as at October 31, 2020], $30.7 million [$56.3 million as at October 31, 2020] of which was to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executives defined benefit pension agreements will be drawn down. As at July 31, 2021, the decrease reflects the payment of amounts previously guaranteed by the letter of credit for certain executives who retired during the quarter.

On May 28, 2021, the lender terminated the guarantee facility that allowed the Corporation to issue letters of credit to certain of its service providers, for a maximum term of three years and for a total amount of $13.0 million, without pledging cash for the total amount of letters of credit issued. As at July 31, 2021, an amount of $11.2 million was drawn down under this credit facility maturing on February 28, 2022.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.4 million ($4.1 million), which has been fully drawn down.

As at July 31, 2021, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $327.6 million compared with October 31, 2020. This decrease resulted primarily from the addition of four Airbus A321neoLRs to our fleet in 2021, combined with the strengthening of the dollar against the U.S. dollar.

Subject to going concern uncertainty discussed in the Basis of Preparation and Going Concern Uncertainty section in this MD&A and note 2 to the interim condensed consolidated financial statements, 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.

DEBT LEVELS

The Corporation reported $421.6 million in long-term debt on the consolidated statement of financial position.

The Corporation's total debt stood at $1,428.2 million as at July 31, 2021, up $524.3 million from October 31, 2020. This increase was mainly due to $535.0 million in drawdowns on credit facilities during the nine-month period ended July 31, 2021, combined with the addition of four Airbus A321neoLRs to our fleet in 2021. The increase was partially offset by the strengthening of the dollar against the U.S. dollar, the early return to lessors of two Airbus A330s and a Boeing 737-800 during the nine-month period, and the payment of lease liabilities.

Total net debt increased $521.4 million from $477.5 million as at October 31, 2020 to $998.9 million as at July 31, 2021. The increase in total net debt resulted primarily from an increase in total debt.

OUTSTANDING SHARES

As at July 31, 2021, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at September 3, 2021, there were 37,747,090 total voting shares outstanding.

STOCK OPTIONS

As at September 3, 2021, there were a total of 958,262 stock options outstanding, 958,262 of which were exercisable.

WARRANTS

As at July 31, 2021 and as at September 3, 2021, a total of 13,000,000 warrants was issued. As at July 31, 2021 and as at September 3, 2021, a total of 6,666,667 warrants had vested following drawdowns on the credit facility and no warrants had been exercised.

OTHER

FLEET

As at July 31, 2021, Air Transat's fleet consisted of fifteen Airbus A330s (332, 345 or 375 seats), ten Airbus A321neoLRs (199 seats), seven Airbus A321ceos (199 seats) and one Boeing 737-800 (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, two Airbus A330s and one Boeing 737-800 were returned to lessors early during the nine-month period ended July 31, 2021. In addition, two leased aircraft, consisting of one Airbus A330 and one Boeing 737-800 will no longer be used until they are returned to the lessors; the carrying amount of these leased aircraft was fully written down during the quarter ended October 31, 2020.

The Corporation took delivery of four Airbus A321neoLRs during the nine-month period ended July 31, 2021, which is central to the transformation of its fleet.

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the items mentioned in note 24 to the consolidated financial statements for the year ended October 31, 2020 and the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits specifically involving directors and officers, not the Corporation. In addition, the Corporation holds professional liability and general civil liability insurance for all lawsuits related to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

During the nine-month period ended July 31, 2021 and the year ended October 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant disbursements and costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have an unfavourable effect on cash. Nevertheless, during the quarter ended July 31, 2021, the Corporation began the process of reimbursing travel credits to customers who submitted a request.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2020. There have been no significant changes to the Corporation's accounting policies since that date.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

IMPACT OF COVID-19 PANDEMIC ON SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Due to the magnitude and global scale of the COVID-19 pandemic, the estimates used and judgments made by management in preparing the Corporation's financial statements may change in the short term and the effect of such changes may be material, which could result in, among other things, impairment of certain assets and/or an increase in certain liabilities. In addition, these risks could have a significant adverse impact on the Corporation's operating results and financial position in the coming months.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

As at July 31, 2021, the Corporation determined that the declines in revenues and demand due to the COVID-19 pandemic and the resulting significant capacity reductions are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on fair value less costs to sell, using the closing price of $5.80 per share as at July 31, 2021. The other assumptions used in impairment testing as at October 31, 2020 remained unchanged. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

As at April 29, 2021, after reaching a financing agreement with CEEFC, the Corporation announced that it could make refunds to eligible travellers upon request. Following this announcement, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers consisting of commission costs, costs related to the global distribution system and credit card fees. These costs are capitalized upon payment and expensed when the related revenue is recognized. Contract balances related to the amounts that will be refunded to travellers are not recoverable by the Corporation. Accordingly, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. This impairment test gave rise to the recognition of an impairment charge of $19.9 million in special items. Given that various assumptions are used in determining impairment charges, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Impairment testing of the fleet of aircraft that will not be used between now and the expiry of their lease was performed independently of the test performed on the Corporation's CGUs. This testing did not give rise to the recognition of any impairment charges. Given that various assumptions are used in determining the recoverable amounts of non-financial assets, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Since October 31, 2020, no new evidence of impairment has arisen to indicate the need to perform impairment testing of the land held in Mexico, the investment in a joint venture, and trademarks.

PROVISION FOR RETURN CONDITIONS

The estimates used to determine the provision for return conditions are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, expected timing of repairs, 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 return conditions, the calculation involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

LIABILITY RELATED TO WARRANTS

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $41.5 million, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the $312.0 million non-revolving and unsecured credit facility.

The liability related to warrants is remeasured at the end of each period at fair value through profit or loss. It is classified in Level 3 of the fair value hierarchy. At each reporting date, the fair value of the liability related to warrants is determined using the Black-Scholes model, which uses significant inputs that are not based on observable market data, hence the classification in Level 3.

GOVERNMENT GRANTS

When there is reasonable assurance that grant-related conditions will be met and grants will be received, the Corporation recognizes income-related government grants as deduction from the related expenses.

The difference between the fair value of drawdowns under the $310.0 million unsecured credit facility related to travel credits and their nominal value was recognized as Deferred government grant at the time of the drawdown. The proceeds from the deferred government grant are recognized on the consolidated statement of income (loss) as a reduction of the corresponding financing costs using the effective interest method until April 29, 2028.

CONTROLS AND PROCEDURES

In accordance with the National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Interim Chief Financial Officer who, among other things, deem adequate as at July 31, 2021 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Interim Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2021 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Impact of the coronavirus on outlook - The current situation shows encouraging signs such as the level of bookings observed and the increase in the vaccination rate. However, it remains impossible for the moment to predict the impact of the COVID-19 pandemic on future bookings, the partial resumption of flight operations and financial results.

The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation continues to monitor the situation daily to adjust these measures as it evolves. Please see the Risks and Uncertainties section of the Corporation's MD&A for the year ended October 31, 2020 for a more detailed discussion of the main risks and uncertainties facing the Corporation.

Consequently, for now the Corporation is not providing an outlook for summer 2021 or winter 2022.

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

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	Notes	As at July 31, 2021 $	As at October 31, 2020 $
ASSETS			
Cash and cash equivalents		**429,377**	426,433
Cash and cash equivalents in trust or otherwise reserved	5	**125,891**	252,379
Trade and other receivables	6	**105,378**	95,334
Income taxes receivable		**602**	2,377
Inventories		**12,079**	10,024
Prepaid expenses		**18,153**	47,164
Derivative financial instruments		**—**	964
Current portion of deposits	7	**11,096**	16,471
Current assets		**702,576**	851,146
Cash and cash equivalents reserved	5	**30,728**	56,268
Deposits	7	**110,371**	136,904
Income taxes receivable		**15,100**	15,100
Property, plant and equipment	8	**1,018,261**	916,382
Intangible assets		**18,794**	25,509
Investment	9	**10,458**	14,509
Other assets	10	**22,216**	253
Non-current assets		**1,225,928**	1,164,925
		1,928,504	2,016,071
LIABILITIES			
Trade and other payables		**107,960**	232,243
Income taxes payable		**1,330**	203
Customer deposits and deferred revenues		**262,770**	608,890
Derivative financial instruments		**—**	10,055
Current portion of lease liabilities	11	**176,956**	147,980
Current portion of provision for return conditions	13	**2,678**	14,963
Current liabilities		**551,694**	1,014,334
Long-term debt and lease liabilities	11	**1,221,580**	755,906
Liability related to warrants	12	**51,683**	—
Deferred government grant	11	**139,902**	—
Provision for return conditions	13	**127,356**	128,635
Other liabilities	14	**26,879**	50,215
Deferred tax liabilities		**632**	674
Non-current liabilities		**1,568,032**	935,430
NEGATIVE EQUITY			
Share capital	15	**221,012**	221,012
Share-based payment reserve		**15,948**	15,948
Deficit		**(422,945)**	(164,138)
Unrealized gain (loss) on cash flow hedges		**—**	(522)
Cumulative exchange differences		**(5,237)**	(5,993)
		(191,222)	66,307
		1,928,504	2,016,071

See accompanying notes to interim condensed consolidated financial statements

NOTICE
The Corporation's independent auditors have not performed a review of the accompanying interim condensed consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended July 31 2021 $	Quarters ended July 31 2020 $	Nine-month periods ended July 31 2021 $	Nine-month periods ended July 31 2020 $
Revenues	16	**12,548**	9,546	**62,037**	1,273,643
Operating expenses					
Costs of providing tourism services		**6,593**	3,338	**21,380**	435,475
Aircraft fuel		**183**	28,256	**9,454**	224,377
Salaries and employee benefits	16	**25,775**	22,798	**74,965**	204,447
Sales and distribution costs		**2,427**	2,538	**4,883**	95,731
Aircraft maintenance		**11,204**	11,709	**40,888**	95,893
Airport and navigation fees		**171**	2,214	**5,987**	71,290
Aircraft rent	11	**—**	202	**—**	24,436
Other airline costs		**2,244**	3,376	**14,412**	95,472
Other		**14,378**	14,262	**41,809**	57,422
Share of net loss of a joint venture		**501**	794	**3,782**	540
Depreciation and amortization		**47,355**	53,181	**120,117**	154,620
Special items	17	**85**	(1,109)	**7,256**	570
		110,916	141,559	**344,933**	1,460,273
Operating loss		**(98,368)**	(132,013)	**(282,896)**	(186,630)
Financing costs	11	**18,069**	11,772	**55,239**	33,104
Financing income		**(916)**	(1,927)	**(3,472)**	(11,854)
Change in fair value of fuel-related derivatives and other derivatives		**(2,062)**	(67,682)	**(10,691)**	32,169
Revaluation of liability related to warrants	12	**9,435**	—	**10,192**	—
Loss (gain) on asset disposals	18	**(913)**	170	**(19,810)**	170
Foreign exchange (gain) loss		**15,939**	(28,496)	**(46,704)**	7,447
Loss before income tax expense		**(137,920)**	(45,850)	**(267,650)**	(247,666)
Income taxes (recovery)					
Current		**139**	47	**374**	(5,880)
Deferred		**—**	(176)	**75**	16,609
		139	(129)	**449**	10,729
Net loss for the period		**(138,059)**	(45,721)	**(268,099)**	(258,395)
Net income (loss) attributable to:					
Shareholders		**(138,125)**	(45,115)	**(268,220)**	(258,468)
Non-controlling interests		**66**	(606)	**121**	73
		(138,059)	(45,721)	**(268,099)**	(258,395)
Loss per share	15				
Basic		**(3.66)**	(1.20)	**(7.11)**	(6.85)
Diluted		**(3.66)**	(1.20)	**(7.11)**	(6.85)

See accompanying notes to interim condensed consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	Quarters ended July 31 2021 $	Quarters ended July 31 2020 $	Nine-month periods ended July 31 2021 $	Nine-month periods ended July 31 2020 $
Net loss for the period	**(138,059)**	(45,721)	**(268,099)**	(258,395)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	**—**	235	**—**	(1,284)
Reclassification to net income (loss)	**—**	(3)	**447**	12,925
Deferred taxes	**—**	—	**75**	(3,024)
	—	232	**522**	8,617
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	**3,149**	(2,070)	**756**	2,675
Total other comprehensive income	**3,149**	(1,838)	**1,278**	11,292
Comprehensive income (loss) for the period	**(134,910)**	(47,559)	**(266,821)**	(247,103)
Comprehensive income (loss) attributable to:				
Shareholders	**(135,521)**	(45,263)	**(264,187)**	(247,991)
Non-controlling interests	**611**	(2,296)	**(2,634)**	888
	(134,910)	(47,559)	**(266,821)**	(247,103)

See accompanying notes to interim condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Retained earnings (deficit) $	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, 2019	221,012	15,948	336,993	(9,176)	(7,326)	557,451	—	557,451
Net income (loss) for the period	—	—	(258,468)	—	—	(258,468)	73	(258,395)
Other comprehensive income	—	—	—	8,617	1,860	10,477	815	11,292
Comprehensive income (loss) for the period	—	—	(258,468)	8,617	1,860	(247,991)	888	(247,103)
Dividends	—	—	—	—	—	—	(849)	(849)
Fair value changes of non-controlling interest liabilities	—	—	67	—	—	67	(67)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	843	843
Reclassification of non-controlling interest exchange difference	—	—	—	—	815	815	(815)	—
	—	—	67	—	815	882	(888)	(6)
Balance as at July 31, 2020	221,012	15,948	78,592	(559)	(4,651)	310,342	—	310,342
Net loss for the period	—	—	(238,077)	—	—	(238,077)	(293)	(238,370)
Other comprehensive income (loss)	—	—	(4,664)	37	(1,190)	(5,817)	(152)	(5,969)
Comprehensive income (loss) for the period	—	—	(242,741)	37	(1,190)	(243,894)	(445)	(244,339)
Fair value changes of non-controlling interest liabilities	—	—	11	—	—	11	(11)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	304	304
Reclassification of non-controlling interest exchange difference	—	—	—	—	(152)	(152)	152	—
	—	—	11	—	(152)	(141)	445	304
Balance as at October 31, 2020	221,012	15,948	(164,138)	(522)	(5,993)	66,307	—	66,307
Net income (loss) for the period	—	—	(268,220)	—	—	(268,220)	121	(268,099)
Other comprehensive income (loss)	—	—	—	522	3,511	4,033	(2,755)	1,278
Comprehensive income (loss) for the period	—	—	(268,220)	522	3,511	(264,187)	(2,634)	(266,821)
Fair value changes of non-controlling interest liabilities	—	—	9,413	—	—	9,413	(9,413)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	9,292	9,292
Reclassification of non-controlling interest exchange difference	—	—	—	—	(2,755)	(2,755)	2,755	—
	—	—	9,413	—	(2,755)	6,658	2,634	9,292
Balance as at July 31, 2021	**221,012**	**15,948**	**(422,945)**	**—**	**(5,237)**	**(191,222)**	**—**	**(191,222)**

See accompanying notes to interim condensed consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	Quarters ended July 31 2021 $	Quarters ended July 31 2020 $	Nine-month periods ended July 31 2021 $	Nine-month periods ended July 31 2020 $
OPERATING ACTIVITIES				
Net loss for the period	**(138,059)**	(45,721)	**(268,099)**	(258,395)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	**47,355**	53,181	**120,117**	154,620
Change in fair value of fuel-related derivatives and other derivatives	**(2,062)**	(67,682)	**(10,691)**	32,169
Revaluation of liability related to warrants	**9,435**	—	**10,192**	—
Loss (gain) on asset disposals	**(913)**	170	**(19,810)**	170
Foreign exchange (gain) loss	**15,939**	(28,496)	**(46,704)**	7,447
Share of net loss of a joint venture	**501**	794	**3,782**	540
Capitalized interests on long term debt and lease liabilities	**12,540**	—	**26,926**	—
Special items	**1,928**	—	**19,873**	—
Deferred taxes	**—**	(176)	**75**	16,609
Employee benefits	**516**	754	**2,053**	2,261
	(52,820)	(87,176)	**(162,286)**	(44,579)
Net change in non-cash working capital balances related to operations	**(214,035)**	(54,044)	**(315,697)**	122,878
Net change in provision for return conditions	**8,639**	(4,796)	**(4,736)**	13,297
Net change in other assets and liabilities related to operations	**(25,041)**	627	**(7,468)**	(14,184)
Cash flows related to operating activities	**(283,257)**	(145,389)	**(490,187)**	77,412
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	**(277)**	(1,771)	**(4,034)**	(61,952)
Decrease (increase) in cash and cash equivalents reserved	**28,372**	—	**25,540**	(5,044)
Proceeds from sale of assets	**—**	—	**422**	—
Consideration paid for the buyback of a non-controlling interest	**(15,000)**	—	**(15,000)**	—
Capital contribution to a joint venture	**—**	—	**(821)**	(1,043)
Cash flows related to investing activities	**13,095**	(1,771)	**6,107**	(68,039)
FINANCING ACTIVITIES				
Proceeds from borrowings	**365,122**	6	**534,973**	49,979
Transaction costs	**—**	—	**(3,242)**	—
Repayment of lease liabilities	**(12,093)**	(9,966)	**(43,733)**	(48,943)
Dividends paid by a subsidiary to a non-controlling shareholder	**—**	—	**—**	(849)
Cash flows related to financing activities	**353,029**	(9,960)	**487,998**	187
Effect of exchange rate changes on cash and cash equivalents	**369**	(128)	**(974)**	2,027
Net change in cash and cash equivalents	**83,236**	(157,248)	**2,944**	11,587
Cash and cash equivalents, beginning of period	**346,141**	733,679	**426,433**	564,844
Cash and cash equivalents, end of period	**429,377**	576,431	**429,377**	576,431
Supplementary information (as reported in operating activities)				
Net income taxes paid (recovered)	**(1,209)**	(86)	**(2,506)**	986
Interest paid	**2,836**	241	**14,758**	561

See accompanying notes to interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. Its Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange and traded under a single ticker, namely "TRZ."

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel. The core of its business consists of a Canadian leisure airline, offering international and Canadian destinations, and is vertically integrated with its other services of holiday packages, distribution through a dynamic travel agency network and value-added services at travel destinations.

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2021 were approved by the Corporation's Board of Directors on September 8, 2021.

The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year.

Note 2 UNCERTAINTY RELATED TO GOING CONCERN

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from July 31, 2021. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due is to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $268,099 for the nine-month period ended July 31, 2021. However, as discussed in note 11, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada enabling it to borrow additional cash resources up to a maximum of $700,000 through the Large Employer Emergency Financing Facility ["LEEFF"]. To supplement the new financing, the amounts already drawn on existing facilities remain in place and are extended for a period of two years, until April 29, 2023. The ratios applicable to existing facilities are suspended for a period of 18 months, until October 31, 2022. The undrawn credit under the subordinated facility is cancelled. Therefore, available credit amounts to a maximum of $820,000.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen fully, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. Starting July 30, 2021, the Corporation partially resumed its operations and gradually rolled out a reduced summer program. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada enabling it to borrow additional cash resources up to a maximum of $700,000 through the LEEFF, bringing total available financing to a maximum of $820,000. Management is also continuing to monitor possible government assistance programs. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

Given the suspension of airline operations and the uncertainty with respect to a resurgence in demand, 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.

There can be no assurance that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

The situation indicates material uncertainty casting significant doubt on the Corporation's ability to continue as a going concern and, thereby, realize its assets and repay its debt in its normal course of business.

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at July 31, 2021 do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

Note 3 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These interim condensed 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 interim condensed consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*.

These interim condensed 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.

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2020.

These interim condensed consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and financial assets/liabilities at fair value through other comprehensive income (loss) and measured at fair value.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

IMPACT OF COVID-19 PANDEMIC ON SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Due to the magnitude and global scale of the COVID-19 pandemic, the estimates used and judgments made by management in preparing the Corporation's financial statements may change in the short term and the effect of such changes may be material, which could result in, among other things, impairment of certain assets and/or an increase in certain liabilities. In addition, these risks could have a significant adverse impact on the Corporation's operating results and financial position in the coming months.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

As at July 31, 2021, the Corporation determined that the declines in revenues and demand due to the COVID-19 pandemic and the resulting significant capacity reductions are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on fair value less costs to sell, using the closing price of $5.80 per share as at July 31, 2021. The other assumptions used in impairment testing as at October 31, 2020 remained unchanged. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

As at April 29, 2021, after reaching a financing agreement with the Canada Enterprise Emergency Funding Corporation (CEEFC) *[note 11],* the Corporation announced that it could make refunds to eligible travellers upon request. Following this announcement, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers consisting of commission costs, costs related to the global distribution system and credit card fees. These costs are capitalized upon payment and expensed when the related revenue is recognized. Contract balances related to the amounts that will be refunded to travellers are not recoverable by the Corporation. Accordingly, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. This impairment test gave rise to the recognition of an impairment charge of $19,873 in special items *[note 17]*. Given that various assumptions are used in determining impairment charges, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Impairment testing of the fleet of aircraft that will not be used between now and the expiry of their lease was performed independently of the test performed on the Corporation's CGUs. This testing did not give rise to the recognition of any impairment charges. Given that various assumptions are used in determining the recoverable amounts of non-financial assets, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Since October 31, 2020, no new evidence of impairment has arisen to indicate the need to perform impairment testing of the land held in Mexico, the investment in a joint venture, and trademarks.

PROVISION FOR RETURN CONDITIONS

The estimates used to determine the provision for return conditions are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, expected timing of repairs, 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 return conditions, the calculation involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

LIABILITY RELATED TO WARRANTS

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $41,491, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the $312,000 non-revolving and unsecured credit facility.

The liability related to warrants is remeasured at the end of each period at fair value through profit or loss. It is classified in Level 3 of the fair value hierarchy. At each reporting date, the fair value of the liability related to warrants is determined using the Black-Scholes model, which uses significant inputs that are not based on observable market data, hence the classification in Level 3.

GOVERNMENT GRANTS

When there is reasonable assurance that grant-related conditions will be met and grants will be received, the Corporation recognizes income-related government grants as deduction from the related expenses.

The difference between the fair value of drawdowns under the $310,000 unsecured credit facility related to travel credits and their nominal value was recognized as Deferred government grant at the time of the drawdown. The proceeds from the deferred government grant are recognized on the consolidated statement of income (loss) as a reduction of the corresponding financing costs using the effective interest method until April 29, 2028.

Note 4 BUYBACK OF A NON-CONTROLLING INTEREST

On May 31, 2021, the Corporation, which held 70% of the shares of TraficTours, Canada inc. ["TraficTours"] acquired the 30% interest held by the minority shareholder following a mutual agreement between the two parties. TraficTours is an incoming tour operator that offers excursions and other services to travellers vacationing in Mexico, the Dominican Republic and Jamaica. The purchase price amounted to $24,500, which is lower than the amount of $34,900 recorded in the Corporation's interim condensed consolidated financial statements as at April 30, 2021, $15,000 of which was paid on May 31, 2021; the balance of $9,500 is payable on October 31 2022.

Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2021, cash and cash equivalents in trust or otherwise reserved included $119,476 [$242,622 as at October 31, 2020] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $37,143, $30,728 of which was recorded as non-current assets [$66,025 as at October 31, 2020, $56,268 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 TRADE AND OTHER RECEIVABLES

	As at July 31, 2021 $	As at October 31, 2020 $
Trade receivables	**2,724**	5,565
Government receivables	**28,910**	26,017
Cash receivable from lessors	**2,906**	18,970
Credit card processors receivables	**61,293**	19,177
Other receivables	**9,545**	25,605
	105,378	95,334

As at July 31, 2021, government receivables included an amount of $10,516 related to the Canada Emergency Wage Subsidy ["CEWS"] program *[note 16]* [$16,061 as at October 31, 2020].

Note 7 DEPOSITS

	As at July 31, 2021 $	As at October 31, 2020 $
Maintenance deposits with lessors	**78,685**	103,638
Deposits on leased aircraft and engines	**35,709**	40,470
Deposits with suppliers	**7,073**	9,267
	121,467	153,375
Less current portion	**11,096**	16,471
	110,371	136,904

Note 8 PROPERTY, PLANT AND EQUIPMENT

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2020	**162,773**	**136,183**	**58,649**	**82,966**	**1,457,559**	**148,971**	**2,047,101**
Additions	**2,891**	**414**	**442**	**—**	**230,406**	**278**	**234,431**
Disposals	**—**	**—**	**(174)**	**—**	**—**	**(16,016)**	**(16,190)**
Write-offs	**(35,029)**	**(1,292)**	**(273)**	**(619)**	**(226,631)**	**(9,918)**	**(273,762)**
Exchange difference	**—**	**—**	**(100)**	**(3,242)**	**—**	**(314)**	**(3,656)**
Balance as at July 31, 2021	**130,635**	**135,305**	**58,544**	**79,105**	**1,461,334**	**123,001**	**1,987,924**
Accumulated depreciation							
Balance as at October 31, 2020	**102,260**	**71,272**	**39,844**	**29,591**	**806,496**	**81,256**	**1,130,719**
Depreciation	**8,259**	**6,813**	**3,939**	**1,077**	**87,738**	**5,283**	**113,109**
Disposals	**—**	**—**	**(60)**	**—**	**—**	**—**	**(60)**
Write-offs	**(35,029)**	**(1,292)**	**(273)**	**(619)**	**(226,631)**	**(9,918)**	**(273,762)**
Exchange difference	**—**	**—**	**(75)**	**(45)**	**—**	**(223)**	**(343)**
Balance as at July 31, 2021	**75,490**	**76,793**	**43,375**	**30,004**	**667,603**	**76,398**	**969,663**
Net book value as at July 31, 2021	**55,145**	**58,512**	**15,169**	**49,101**	**793,731**	**46,603**	**1,018,261**

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2019	328,737	125,102	60,037	115,558	1,344,885	130,017	2,104,336
Additions	6,839	25,852	5,089	1,294	269,227	24,648	332,949
Disposals	(47,628)	(14,600)	(369)	—	(109,891)	(1,049)	(173,537)
Write-offs	(121,053)	—	(6,038)	(1,885)	(138)	(4,822)	(133,936)
Depreciation	(4,122)	(171)	—	(32,826)	(46,524)	—	(83,643)
Exchange difference	—	—	(70)	825	—	177	932
Balance as at October 31, 2020	162,773	136,183	58,649	82,966	1,457,559	148,971	2,047,101
Accumulated depreciation							
Balance as at October 31, 2019	250,001	74,717	40,388	29,167	741,597	77,021	1,212,891
Depreciation	18,372	11,152	5,642	2,392	145,810	9,262	192,630
Disposals	(45,060)	(14,597)	(209)	—	(80,773)	(130)	(140,769)
Write-offs	(121,053)	—	(6,038)	(1,885)	(138)	(4,822)	(133,936)
Exchange difference	—	—	61	(83)	—	(75)	(97)
Balance as at October 31, 2020	102,260	71,272	39,844	29,591	806,496	81,256	1,130,719
Net book value as at October 31, 2020	60,513	64,911	18,805	53,375	651,063	67,715	916,382

During the nine-month period ended July 31, 2021, the Corporation renegotiated the lease on its head office, resulting in a $15,337 reduction in real estate right-of-use assets. Also, the Corporation early returned to lessors three leased aircraft, namely two Airbus A330s and one Boeing 737-800, while two Airbus A330 leases expired. These returns resulted in write-offs of property, plant and equipment and accumulated amortization in the amount of $248,831.

Note 9 INVESTMENT

The change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2020	**14,509**
Capital contribution	**821**
Share of net loss	**(3,782)**
Translation adjustment	**(1,090)**
Balance as at July 31, 2021	**10,458**

The investment was translated at the USD/CAD closing rate of 1.2467 as at July 31, 2021 [1.3336 as at October 31, 2020].

Note 10 OTHER ASSETS

	As at July 31, 2021 $	As at October 31, 2020 $
Deferred financing costs	**21,985**	—
Sundry	**231**	253
	22,216	253

Note 11 LONG-TERM DEBT AND LEASE LIABILITIES

FUNDING OF 700,000 FROM THE GOVERNMENT OF CANADA

On April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700,000 in additional liquidity through the LEEFF. The new fully repayable credit facilities made available by the CEEFC under the LEEFF, which Transat would use only on an as-needed basis, are as follows:

- An amount of $390,000, which can be drawn down up to October 29, 2022, broken down as follows:
    - An amount of $78,000 in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of Canadian, Mexican, Caribbean and European subsidiaries of the Corporation, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. This credit facility becomes immediately payable in the event of a change in control. As at July 31, 2021, $40,000 was drawn down under the credit facility, which has a carrying amount of $39,718;
    - An amount of $312,000 in the form of a non-revolving and unsecured credit facility maturing on April 29, 2026, bearing interest at a rate of 5.0% in the first year, increasing to 8.0% in the second year, and by 2.0% per annum thereafter, with the possibility of capitalization of interest in the first two years. This credit facility becomes immediately payable in the event of a change in control. As at July 31, 2021, $160,000 was drawn down under the credit facility, which has a carrying amount of $138,030. The credit facility included a pre-payment option, which is an embedded derivative, whose fair value is recorded as a reduction of the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated as at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of income (loss) under Change in fair value of fuel-related derivatives and other derivatives. As at July 31, 2021, the fair value of the pre-payment option of 2,062 $ was determined using a trinomial tree approach based on the Hull-White model.

    - In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants *[note 12]*.

- An amount of $310,000 in the form of an unsecured credit facility, which can be drawn down up to December 31, 2021, for the sole purpose of making refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at the rate of 1.22%. In the event of a change of control, these credit facilities could become immediately payable in the absence of a waiver by the lenders to enforce them or in the event of a change of control without the consent of the lenders. As at July 31, 2021, $265,122 was drawn down under this credit facility. As at July 31, 2021, the carrying amount of these drawdowns amounted to $123,447, and an amount of $139,902 was also recognized as deferred government grant related to these drawdowns. During the third quarter of 2021, an amount of $1,275 was recognized as proceeds from government grants as a reduction of financing costs.

In connection with the arrangement of these credit facilities, Transat has made certain commitments, including:

- Making refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom travel credits have been issued due to COVID-19. The Corporation started making refunds in early May 2021. As per the agreement, to be eligible, customers had to indicate their desire for a refund before August 26, 2021;
- Complying with restrictions on dividends, stock repurchases and executive compensation;
- Maintaining active employment at its level of April 28, 2021.

RENEWAL OF EXISTING CREDIT FACILITIES

In addition to the new funding of $700,000 from the Government of Canada, the amounts already drawn on the existing facilities will remain in place.

Accordingly, on April 29, 2021,the Corporation amended its $50,000 revolving credit facility agreement for operating purposes. The amended agreement, which expires on April 29, 2023, may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at July 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

On April 29, 2021, the Corporation amended its subordinated credit facility for operating purposes, reducing the amount from $250,000 to $70,000 The amended agreement expires on April 29, 2023 and becomes immediately payable in the event of a change in control. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to interest. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at July 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

As at June 29, 2021, the Corporation amended its annually renewable revolving credit facility agreement for issuing letters of credit, reducing the amount from $75,000 to $74,000. Under this agreement, the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit. As at July 31, 2021, $32,928 had been drawn down under the facility, $30,728 of which was to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executives defined benefit pension agreements will be drawn down.

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at July 31, 2021 and October 31, 2020. The current portion of lease liabilities includes deferred rent payments related to aircraft leases and real estate leases of $79,186 and $3,833, respectively:

	Final maturity	Weighted average effective interest rate %	As at July 31, 2021 $	As at October 31, 2020 $
Long-term debt				
Unsecured debt - LEEFF	2026	13.86	**138,030**	—
Unsecured credit facility - Travel credits	2028	13.38	**123,447**	—
Subordinated credit facility	2023	9.95	**70,489**	—
Revolving credit facility	2023	4.92	**49,879**	49,980
Secured debt - LEEFF	2023	5.30	**39,718**	—
Long-term debt		11.20	**421,563**	49,980
Lease liabilities				
Fleet	2021-2033	5.47	**921,810**	772,925
Real estate and other	2021-2037	5.35	**55,163**	80,981
Lease liabilities		5.46	**976,973**	853,906
Total long-term debt and lease liabilities		7.19	**1,398,536**	903,886
Current portion of lease liabilities			**(176,956)**	(147,980)
Long-term debt and lease liabilities			**1,221,580**	755,906

Interest expense for the periods ended July 31, 2021 and 2020 is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2021 $	2020 $	**2021** $	2020 $
Interest on lease liabilities	**11,117**	10,379	**33,531**	29,289
Accretion on provision for return conditions	**347**	613	**684**	1,839
Interest on long-term debt	**6,466**	446	**8,272**	714
Other interest	**139**	334	**12,752**	1,262
Financing costs	**18,069**	11,772	**55,239**	33,104

Other interest for the nine-month period ended July 31, 2021 resulted mainly from interest expense and standby and arrangement fees related to the $70,000 subordinated credit facility.

Rent expense for the periods ended July 31, 2021 and 2020 is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2021 $	2020 $	**2021** $	2020 $
Variable lease payments	**—**	—	**—**	4,810
Short-term leases	**—**	202	**—**	19,626
Aircraft rent	**—**	202	**—**	24,436
Variable lease payments	**—**	—	**—**	1,870
Short-term leases	**412**	475	**1,307**	3,062
Low value leases	**190**	131	**419**	441
	602	808	**1,726**	29,809

CASH FLOWS RELATED TO LEASE LIABILITIES

The following table details cash flows related to repayment of lease liabilities for the nine-month period ended July 31, 2021:

	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2020			**853,906**
Repayments	(43,733)	—	**(43,733)**
New lease liabilities (new contracts and amendments)	—	230,597	**230,597**
Interest portion of deferred rent payments	—	23,498	**23,498**
Offset of rent payments and lease terminations	—	(39,652)	**(39,652)**
Exchange difference	—	(47,643)	**(47,643)**
Balance as at July 31, 2021	**(43,733)**	**166,800**	**976,973**

MATURITIES OF LEASE LIABILITIES

Repayment of principal and interest on lease liabilities as at July 31, 2021 is detailed as follows. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of $1.2467 as at July 31, 2021:

Year ended October 31	2021 $	2022 $	2023 $	2024 $	2025 $	2026 and up $	Total $
Fleet	107,516	137,726	136,586	117,863	111,121	537,749	**1,148,561**
Real estate and other	6,517	9,302	3,844	3,235	5,590	46,242	**74,731**
Lease liabilities	**114,033**	**147,028**	**140,430**	**121,098**	**116,711**	**583,991**	**1,223,292**

Note 8 provides the information required for right-of-use assets and depreciation. Note 19 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 12 LIABILITY RELATED TO WARRANTS

In the context of the financing arrangement related to the $312,000 non-revolving and unsecured credit facility *[note 11],* on April 29, 2021, the Corporation issued to the Government of Canada a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share exercisable over a 10-year period, representing 18.75% of the total commitment available under the above non-revolving and unsecured credit facility. The warrants are to vest in proportion to the drawings that will be made, and 50% of vested warrants would be forfeited if the loan were to be repaid in full in the first year.

The number of shares issuable upon exercise of the warrants may not exceed 25% of the current number of issued and outstanding shares, nor may it result in the holder owning 19.9% or more of the outstanding shares upon exercise of the warrants. In the event of exercise of warrants that surpasses these thresholds, the excess will be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price. Finally, in the event that the credit facility is repaid in full by its maturity, Transat will have the right to redeem all of the warrants for a consideration equal to their fair market value. The warrants will not be transferable prior to the expiry of the period giving rise to the exercise of such redemption right. In addition, the holder of the warrants will benefit from registration rights to facilitate the sale of the underlying shares and the warrants themselves (once the transfer restriction has been lifted).

Under the limitations set out in the preceding paragraph, if the 13,000,000 warrants are exercised:

- a maximum of 9,436,772 warrants could be exercised through the issuance shares;
- 3,563,228 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,436,772 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,436,772 warrants on a net share basis, that is, by issuing shares based on the difference between Transat’s share market price and the exercise price of warrants.

As at July 31, 2021 a total of 6,666,667 warrants had vested following drawdowns on the credit facility and no warrants had been exercised.

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation’s liabilities. As at the issuance date, using the Black-Scholes model, the fair value of the 13,000,000 warrants issued was estimated at $41,491 and recorded as a liability. In its model, the Corporation used a risk-free interest rate of 1.66%, expected volatility of 55.8% and a contractual term of 10 years. The initial fair value of the warrants is also recorded under other assets as a deferred financing cost related to the $312,000 non-revolving and unsecured credit facility. Upon drawdown of the $312,000 non-revolving and unsecured credit facility, the deferred financing costs recorded as an asset are applied against the initial carrying amount of the liabilities recorded, pro rata to the amounts drawn. The resulting discount will be included in the calculation of the effective rate of each drawdown in conjunction with the expected cash flows to repay such drawdowns .

The liability related to warrants is remeasured at the end of each period at fair value through profit or loss. It is classified in Level 3 of the fair value hierarchy.

At each reporting date, the fair value of the liability related to warrants is determined using the Black-Scholes model, which uses significant inputs that are not based on observable market data, hence the classification in Level 3.

The change in the liability related to warrants for the nine-month period ended July 31 is detailed as follows:

	As at July 31, 2021 $
Opening balance	**—**
Issuance	**41,491**
Revaluation of liability related to warrants	**10,192**
Closing balance	**51,683**

To remeasure the liability related to warrants classified in Level 3, the Corporation used the Black-Scholes model. The main non-observable input used in the model is expected volatility, which was estimated at 55.9% as at July 31, 2021. A 5.0% increase in the expected volatility used in the pricing model would result in a $2,522 increase in the liability related to the warrants as at July 31, 2021.

Note 13 PROVISION FOR RETURN CONDITIONS

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under pre-determined maintenance conditions. The change in the provision for return conditions for the nine-month period ended July 31 is detailed as follows:

	As at July 31, 2021 $	As at October 31, 2020 $
Opening balance	**143,598**	155,120
Additional provisions	**19,597**	35,791
Change in estimate	**(8,419)**	1,638
Utilization of provision	**(2,667)**	—
Unused amounts reversed	**(22,759)**	(51,405)
Accretion	**684**	2,454
Closing balance	**130,034**	143,598
Current provisions	**2,678**	14,963
Non-current provisions	**127,356**	128,635
Closing balance	**130,034**	143,598

Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at July 31, 2021, the unused amounts recovered included $13,099 related to future repairs to aircraft that will not be made, $5,760 related to the leases that matured during the nine-month period and $3,900 related to reversals of provisions for return conditions for aircraft whose leases had been terminated.

Note 14 OTHER LIABILITIES

	As at July 31, 2021 $	As at October 31, 2020 $
Employee benefits	**26,623**	49,862
Other liabilities	**256**	353
	26,879	50,215

Note 15 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"], entitle their holders to one vote per share at any meeting of the shareholders, subject to an automatic decrease of the votes attached to such shares in the event that (i) any single non-Canadian, either individually or in affiliation with any other person, holds more than 25% of the votes cast, (ii) any single non-Canadian authorized to provide air service in any jurisdiction (in the aggregate) holds more than 25% of the votes cast, or (iii) the votes that would be cast by the holders of Class A Shares exceed 49%. If any of the above-mentioned applicable limitations are exceeded, the votes that should be attributed to holders of Class A Shares will be attributed as follows:

- first, if applicable, there will be a decrease of the votes of any single non-Canadian (including a single non-Canadian authorized to provide air service) carrying, in the aggregate, more than 25% of the votes, so that any such non-Canadian holder never carries more than 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at any meeting;
- next, if applicable, and after giving effect to the proration mentioned above, there will be a further proportionate decrease of the votes of all non-Canadian holders of Class A Shares authorized to provide an air service, so that any such non-Canadian holders never carry, in the aggregate, more than 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast, regardless of class, at any meeting;
- last, if applicable, and after giving effect to the two prorations mentioned above, there will be a proportionate decrease of the votes of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares never carry, in the aggregate, more than 49% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast, regardless of class, at any meeting.

Each issued and outstanding Class A Share will be converted into one Class B Voting Share, automatically and without any further act of the Corporation or the holder, if (i) the Class A Share is or becomes owned or controlled by a Canadian within the meaning of the CTA, or (ii) the CTA's provisions relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

CLASS B VOTING SHARES

An unlimited number of participating Class B Voting Shares ["Class B Shares"], which may only be owned and controlled by Canadians within the meaning of the CTA, and entitling such Canadians to one vote per Class B Share at any meeting of the shareholders of the Corporation. Each issued and outstanding Class B Share will be converted into one Class A Share, automatically and without any further act of the Corporation or the holder, if the Class B Share is or becomes owned or controlled by a person other than a Canadian within the meaning of 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

During the nine-month period ended July 31, 2021 and the year ended October 31, 2020, no changes were made to the Class A and Class B shares.

As at July 31, 2021, the number of Class A Shares and Class B Shares stood at 2,240,323 and 35,506,767, respectively [3,785,312 and 33,961,778, respectively, as at October 31, 2020], for a total number of shares of 37,747,090 with a carrying amount of $221,012.

STOCK OPTION PLAN

	Number of options	Weighted average price ($)
Balance as at October 31, 2020	1,738,570	10.13
Cancelled	(128,953)	10.96
Expired	(651,355)	13.07
Balance as at July 31, 2021	**958,262**	**8.01**
Options exercisable as at July 31, 2021	**958,262**	**8.01**

WARRANTS

No warrants were exercised during the nine-month period ended July 31, 2021. Accordingly, the Corporation issued no shares related to the exercise of warrants *[note 12]*.

LOSS PER SHARE

Basic and diluted loss per share were calculated as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2021	2020	2021	2020
(in thousands of dollars, except per share data)	$	$	$	$
NUMERATOR				
Net income (loss) attributable to shareholders used in computing basic earnings (loss) per share	**(138,125)**	(45,115)	**(268,220)**	(258,468)
Revaluation of liability related to warrants	**—**	—	**—**	—
Net income (loss) attributable to shareholders used in computing diluted earnings (loss) per share	**(138,125)**	(45,115)	**(268,220)**	(258,468)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**37,747**	37,747	**37,747**	37,747
Effect of dilutive securities				
Stock options	**—**	—	**—**	—
Warrants	**—**	—	**—**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,747	**37,747**	37,747
Loss per share				
Basic	**(3.66)**	(1.20)	**(7.11)**	(6.85)
Diluted	**(3.66)**	(1.20)	**(7.11)**	(6.85)

Given the losses recorded for the quarter and nine-month period ended July 31, 2021, all 958,262 outstanding stock options [1,746,570 for the quarter and nine-month period ended July 31, 2020] were excluded from the calculation due to their anti-dilutive effect. In addition, the revaluation of the liability related to warrants of $9,435 and $10,192, respectively, for the quarter and nine-month period ended July 31, 2021, and the 13,000,000 warrants issued [nil for the quarter and nine-month period ended July 31, 2020] were excluded from the calculation due to their anti-dilutive effect.

Note 16 ADDITIONAL DISCLOSURE ON REVENUE AND EXPENSES

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation operates mainly in the Americas, and serves two main markets that also represent its two main product lines: the transatlantic market and the Americas market, which includes the sun destinations program. Revenue from contracts with customers is broken down as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Customers				
Transatlantic	**487**	5,343	**6,775**	147,780
Americas	**11,269**	1,638	**48,697**	1,090,678
Other	**792**	2,565	**6,565**	35,185
Total revenues	**12,548**	9,546	**62,037**	1,273,643

GOVERNMENT GRANTS

During the quarter and nine-month period ended July 31, 2021, the Corporation recognized deductions of $33,766 and $101,282, respectively, from Salaries and employee benefits related to the CEWS program, including $7,184 and $26,975, respectively, for active employees. During the quarter and nine-month period ended July 31, 2020, the Corporation recognized deductions of $54,000 and $66,200 respectively, from Salaries and employee benefits related to the CEWS program, including $11,400 and $23,600, respectively, for active employees.

Note 17 SPECIAL ITEMS

	Quarters ended July 31		Nine-month periods ended July 31	
	2021 $	2020 $	2021 $	2020 $
Special items related to the transaction with Air Canada				
Termination payment	**—**	—	**(12,500)**	—
Professional fees	**—**	1,970	**6,106**	4,939
Compensation (reversal of compensation) expense	**(1,843)**	(3,079)	**(6,223)**	(4,369)
	(1,843)	(1,109)	**(12,617)**	570
Other special items				
Impairment of contract costs	**1,928**	—	**19,873**	—
	1,928	—	**19,873**	—
	85	(1,109)	**7,256**	570

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also changed the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of impairment expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

Other special items include a $19,873 impairment of contract balances related to commissions, costs related to the worldwide distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds to travellers *[note 3]*.

Note 18 LOSS (GAIN) ON ASSET DISPOSALS

The gain on asset disposals relates to asset disposals and lease terminations. During the nine-month period ended July 31, 2021, the Corporation recognized, among others, a gain on lease termination of $2,552 related to the partial termination of real estate leases. Also, due to the significant reduction in capacity related to the COVID-19 pandemic, the Corporation early returned three leased aircraft to the lessors: two Airbus A330s and one Boeing 737-800. The gain on asset disposals of $19,810 recognized during the nine-month period ended July 31, 2021 is mainly attributable to these lease terminations, which led to the recognition of a $17,042 gain, since the total carrying amount of assets related to these leased aircraft was written off during the year ended October 31, 2020.

Note 19 COMMITMENTS AND CONTINGENCIES

LEASES AND OTHER COMMITMENTS

As at July 31, 2021, the Corporation was party to agreements to lease seven Airbus A321neos for delivery up to 2023. The Corporation also had leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, in particular related to information technology service contracts entered into in the normal course of business. The following table presents the minimum payments due under leases for aircraft to be delivered over the next few years and leases with a term of less than 12 months and/or for low value assets, as well as the purchase obligations:

Year ended October 31	2021	2022	2023	2024	2025	2026 and up	Total
	$	$	$	$	$	$	$
Leases (aircraft)	—	18,364	42,759	44,322	44,322	382,097	**531,864**
Purchase obligations	2,287	6,933	3,681	2,108	4,850	100	**19,959**
	2,287	**25,297**	**46,440**	**46,430**	**49,172**	**382,197**	**551,823**

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the items mentioned in note 24 to the consolidated financial statements for the year ended October 31, 2020 and the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits specifically involving directors and officers, not the Corporation. In addition, the Corporation holds professional liability and general civil liability insurance for all lawsuits related to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

During the nine-month period ended July 31, 2021 and the year ended October 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant disbursements and costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have an unfavourable effect on cash. Nevertheless, during the quarter ended July 31, 2021, the Corporation began the process of reimbursing travel credits to customers who submitted a request.

Note 20 GUARANTEES

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

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

Notes 7, 9, 14, 23 and 24 to the consolidated financial statements for the year ended October 31, 2020 provide information about some of these agreements. The following constitutes additional disclosure.

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. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance coverage in such circumstances.

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2021, the total amount of these guarantees unsecured by deposits totalled $428. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2021, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

On May 28, 2021, the lender terminated the guarantee facility that allowed the Corporation to issue letters of credit to certain of its service providers, for a maximum term of three years and for a total amount of $13,000, without pledging cash for the total amount of the letters of credit issued. As at July 31, 2021, an amount of $11,238 was drawn down under this credit facility maturing on February 28, 2022.

Note 21 SEGMENT DISCLOSURES

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

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