



2019 Annual Information Form



Transat A.T. Inc.

Annual Information Form
For the year ended October 31, 2019
December 11, 2019

Our Destinations Nos destinations

2019



South & United States Sud et États-Unis

		Victoria	Vancouver	Kelowna	Calgary	Edmonton	Winnipeg	Windsor, Ont.	London, Ont.	Hamilton	Toronto	Ottawa	Montréal / Montréal	Quebec City / Québec	Halifax	Moncton
COLOMBIA / COLOMBIE	Cartagena / Carthagène										•		•			
	San Andrés													•		
COSTA RICA	Liberia										•		•			
	San José										•		•			
CUBA	Cayo Coco		o							•	•	•	•	•	•	
	Cayo Largo										•		•			
	Cayo Santa Maria / Santa Clara		o								•	•	•	•	•	
	Havana / La Havane													•		
	Holguin		o	o	o						•		•	•	•	
	Santiago de Cuba										•					
	Varadero		o	o	o	•				•	•	•	•	•	•	•
DOMINICAN REPUBLIC / RÉPUBLIQUE DOMINICAINE	La Romana										•	•	•			
	Puerto Plata		o	o	o					•	•	•	•	•	•	
	Punta Cana		o	o	o	•	•	•	•	•	•	•	•	•	•	•
	Samana										•	•	•	•		
	Santo Domingo										•		•			
EL SALVADOR / SALVADOR	San Salvador												•			
GUADELOUPE	Pointe-à-Pitre												•			
HAITI / HAÏTI	Port-au-Prince												•			
HONDURAS	Roatan										•		•			
JAMAICA / JAMAÏQUE	Montego Bay		o								•		•		•	
MARTINIQUE	Fort-de-France												•			
	Acapulco												•			
MEXICO / MEXIQUE	Cancun-Riviera Maya	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	Cozumel												•			
	Huatulco		•			•							•			
	Puerto Vallarta	•	•	•	•	•	•				•		•	•		
PANAMA	Playa Blanca											•	•			
PUERTO RICO / PORTO RICO	San Juan												•			
ST. MAARTEN - ST. MARTIN / ST. MAARTEN - SAINT-MARTIN	Philipsburg												•			
	Fort Lauderdale										•		•	•	•	
UNITED STATES / ÉTATS-UNIS	Orlando										•		•	•	•	•
	Tampa										•		•			

• Direct flights / Vols directs o Connecting flights / Vols de correspondance

Our Destinations Nos destinations

2019



Europe

		Toronto	Montreal / Montréal	Quebec City / Québec	Calgary	Vancouver
BELGIUM / BELGIQUE	Brussels / Bruxelles	o	•	o	o	o
CROATIA / CROATIE	Zagreb	•	o	o	o	o
CZECH REPUBLIC / RÉPUBLIQUE TCHÈQUE	Prague	o	•	o	o	o
ENGLAND / ANGLETERRE	London / Londres	•o	•o	o	•o	•o
	Manchester	•	o	o	o	•o
FRANCE	Bordeaux	o	•	o	o	o
	Lyon	o	•	o	o	o
	Marseille	o	•	o	o	o
	Nantes	o	•	o	o	o
	Paris	•o	•o	•o	o	•o
	Toulouse	o	•	o	o	o
GREECE / GRÈCE	Athens / Athènes	•o	•o	o	o	o
IRELAND / IRLANDE	Dublin	•o	o	o	o	o
ITALY / ITALIE	Lamezia	•	o	o	o	o
	Rome	•o	•o	o	o	o
	Venice / Venise	•o	•	o	o	o
NETHERLANDS / PAYS-BAS	Amsterdam	•	o	o	•o	•o
	Faro	•	o	o	o	o
PORTUGAL	Lisbon / Lisbonne	•o	•o	o	o	o
	Porto	•o	•o	o	o	o
SCOTLAND / ÉCOSSE	Glasgow	•	o	o	o	o
	Barcelona / Barcelone	•o	•o	o	o	o
SPAIN / ESPAGNE	Madrid	o	•	o	o	o
	Malaga	o	•	o	o	o
SWITZERLAND / SUISSE	Basel-Mulhouse / Bâle-Mulhouse	o	•	o	o	o

Canada

		Toronto	Montreal / Montréal	Quebec City / Québec	Calgary	Edmonton	Vancouver
ALBERTA	Calgary	•	•	o	o	•	•
	Edmonton	•	o	o	•	o	o
BRITISH COLUMBIA / COLOMBIE-BRITANNIQUE	Vancouver	•	•	o	•	o	o
ONTARIO	Toronto	•	•	o	•	•	•
QUEBEC / QUÉBEC	Montreal / Montréal	•	•	•	•	o	•
	Quebec City / Québec	o	•	•	o	o	o

• Direct flights / Vols directs o Connecting flights / Vols de correspondance

Our Destinations Nos destinations 2020



South & United States Sud et États-Unis

		Victoria	Vancouver	Calgary	Edmonton	Winnipeg	London, Ont.	Hamilton	Toronto	Ottawa	Montréal / Montréal	Quebec City / Québec	Halifax	Moncton
COLOMBIA / COLOMBIE	Cartagena / Carthagène								•		•			
	San Andrés										•			
COSTA RICA	Liberia								•		•			
	San José								•		•			
CUBA	Cayo Coco							•	•	•	•	•	•	
	Cayo Largo								•		•			
	Cayo Santa María / Santa Clara		◦						•	•	•	•	•	
	Havana / La Havane										•			
	Holguín		◦						•		•	•	•	
DOMINICAN REPUBLIC / RÉPUBLIQUE DOMINICAINE	Santiago de Cuba		◦						•					
	Varadero					•		•	•	•	•	•	•	•
	La Romana								•		•	•		
	Puerto Plata		◦						•	•	•	•	•	•
	Punta Cana		•◦			•	•	•	•	•	•	•	•	•
EL SALVADOR / SALVADOR	Samana								•		•	•		
	Santo Domingo								•		•			
EL SALVADOR / SALVADOR	San Salvador										•			
GUADELOUPE	Pointe-à-Pitre										•			
HAITI / HAÏTI	Port-au-Prince										•			
HONDURAS	Roatan								•		•			
JAMAICA / JAMAÏQUE	Montego Bay		◦						•		•		•	
MARTINIQUE	Fort-de-France										•			
	Acapulco										•			
	Cancun - Riviera Maya		•	•	•	•	•	•	•	•	•	•	•	•
	Cozumel								•		•			
MEXICO / MEXIQUE	Huatulco					•			•					
	Puerto Vallarta		•	•	•	•	•		•		•	•		
	Playa Blanca								•		•			
PUERTO RICO / PORTO RICO	San Juan								•		•			
ST. MAARTEN • ST. MARTIN / ST. MAARTEN • SAINT-MARTIN	Philipsburg								•		•			
	Fort Lauderdale		•						•		•	•	•	
UNITED STATES / ÉTATS-UNIS	Orlando								•		•	•	•	•
	New Orleans / La Nouvelle-Orléans										•			
	San Diego										•			

• Direct flights / Vols directs ◦ Connecting flights / Vols de correspondance

Our Destinations Nos destinations

2020



Europe

		Toronto	Montreal / Montréal	Quebec City / Québec	Calgary	Vancouver
BELGIUM / BELGIQUE	Brussels / Bruxelles	○	●	○	○	○
CROATIA / CROATIE	Zagreb	●	○	○	○	○
CZECH REPUBLIC / RÉPUBLIQUE TCHÈQUE	Prague	○	●	○	○	○
DENMARK / DANEMARK	Copenhagen / Copenhague	○	●	○	○	○
ENGLAND / ANGLETERRE	London / Londres	●○	●○	○	○	●○
	Manchester	●	○	○	○	●○
	Bordeaux	○	●	○	○	○
	Lyon	○	●	○	○	○
	Marseille	○	●	○	○	○
FRANCE	Nantes	○	●	○	○	○
	Nice	○	●	○	○	○
	Paris	●○	●○	●○	○	●○
	Toulouse	○	●	○	○	○
GREECE / GRÈCE	Athens / Athènes	●○	●○	○	○	○
IRELAND / IRLANDE	Dublin	●○	○	○	○	○
	Lamezia	●	○	○	○	○
ITALY / ITALIE	Rome	●○	●○	○	○	○
	Venice / Venise	●○	●	○	○	○
NETHERLANDS / PAYS-BAS	Amsterdam	●	○	○	○	●○
	Faro	●	○	○	○	○
PORTUGAL	Lisbon / Lisbonne	●○	●○	○	○	○
	Porto	●○	●○	○	○	○
SCOTLAND / ÉCOSSE	Glasgow	●	○	○	○	○
	Barcelona / Barcelone	●○	●○	○	○	○
SPAIN / ESPAGNE	Madrid	○	●	○	○	○
	Malaga	○	●	○	○	○
SWITZERLAND / SUISSE	Basel-Mulhouse / Bâle-Mulhouse	○	●	○	○	○

Canada

		Toronto	Montreal / Montréal	Quebec City / Québec	Calgary	Edmonton	Vancouver
ALBERTA	Calgary	●	●	○	○	○	○
	Edmonton	○	○	○	○	○	○
BRITISH COLUMBIA / COLOMBIE-BRITANNIQUE	Vancouver	○	○	○	○	○	○
ONTARIO	Toronto	○	○	○	○	○	○
QUEBEC / QUÉBEC	Montreal / Montréal	○	○	○	○	○	○
	Quebec City / Québec	○	○	○	○	○	○

● Direct flights / Vols directs ○ Connecting flights / Vols de correspondance

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In this Annual Information Form (“**AIF**”), the terms “we”, “our”, “us”, “Transat” and the “Corporation” refer to Transat A.T. Inc. together with one or more of its subsidiaries, or to Transat A.T. Inc. alone, as the context may require. All dollar amounts referred to in this AIF are expressed in Canadian dollars, except where otherwise indicated. The information contained in this AIF is reported as at October 31, 2019, being our financial year-end, unless otherwise indicated. The following is a list of Transat’s registered and unregistered trademarks and designs that are referred to and used as such in this AIF: our star design, luggage tag, Air Transat and “Welcome” mosaic design featured on some of its aircraft, American Affair, Canadian Affair, Club Voyages, Marlin Travel/Voyages Marlin, Trafictours, Transat, Transat Holidays USA, Turissimo, Voyages en Liberté, Transat Travel/Voyages Transat and TravelPlus. Any other trademarks, designs or corporate, trade or domain names used in this AIF are the property of their owners.

1. CORPORATE STRUCTURE

1.1 NAME AND INCORPORATION

Transat A.T. Inc. (hereafter "Transat") was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "*Canada Business Corporations Act*") by Certificate of Incorporation dated February 13, 1987. Since its incorporation, Transat has amended its Articles by way of Certificates of Amendment to make the following material changes:

- (i) Change its name to "Transat A.T. Inc.";
- (ii) Establish the number of directors at a minimum of nine (9) and a maximum of fifteen (15) and allow the Board of Directors to appoint directors during a given year;
- (iii) Provide for the creation of an unlimited number of Preferred Shares issuable in series, leading to the creation of 2,400,000 Series 1 Preferred Shares, of 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares;
- (iv) Subdivide each common share on the basis of three common shares for each issued and outstanding common share;
- (v) Impose additional restrictions on the issuance and transfer of our voting shares in order for us to retain our status as a "Canadian" corporation under the *Canada Transportation Act*, S.C. 1996, c. 10 (the "*Canada Transportation Act*");
- (vi) Create an unlimited number of Class A Variable Voting Shares (the "Variable Voting Shares") and an unlimited number of Class B Voting Shares (the "Voting Shares"); convert each issued and outstanding common share which is not owned and controlled by a Canadian under the *Canada Transportation Act* into one Variable Voting Share; convert each issued and outstanding common share owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Voting Share; cancel each issued and outstanding common share so converted; cancel the unissued common shares of Transat and substitute thereto, with the required adaptations, the Variable Voting Shares and the Voting Shares for the purpose of exercising all rights of subscription, purchase or conversion relating to the common shares so cancelled; and supersede prior restrictions on the issuance and transfer of our voting shares stated in (v) above; and
- (vii) amend its Articles by filing articles of arrangement in order to adjust the current restrictions on the issuance and transfer of shares of public airline companies for Transat to retain the status of "Canadian" corporation, following royal assent received on May 23, 2018 of the *Transportation Modernization Act*, S.C. 2018, c. 10 (the "*Transportation Modernization Act*"), which amended the definition of "Canadian" provided in the *Canada Transportation Act* in order to raise the threshold of voting interests in an air carrier that may be owned and controlled by non-Canadians while retaining its status of "Canadian" corporation, while also establishing specific limits related to such interests.

Since November 16, 2015, the Variable Voting Shares and the Voting Shares trade on the TSX under a single ticker designated "TRZ", bearing CUSIP number 89351T401, which shares are designated for purposes of trading on the TSX and reporting in brokerage accounts under the single designation "Voting and Variable Voting Shares" of Transat.

On June 27, 2019, Transat entered into a definitive arrangement agreement with Air Canada providing for the acquisition by Air Canada of all of the issued and outstanding shares of Transat, which agreement was amended on August 11, 2019, by the conclusion of an amending agreement. Pursuant to

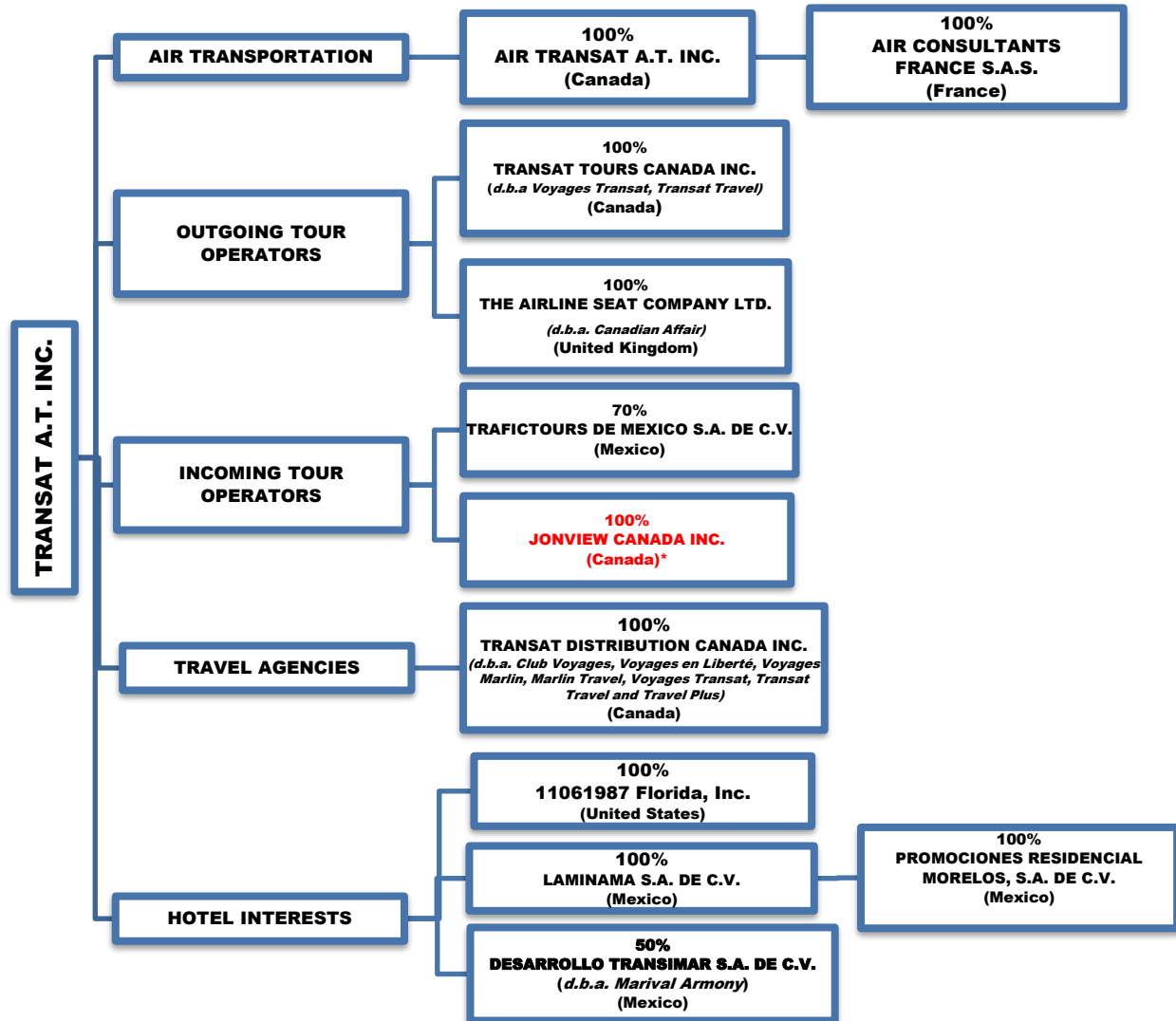
the binding arrangement agreement, which was unanimously approved by Transat's Board of Directors, and obtained a significant majority approval from Transat's security holders, Air Canada will acquire all of the outstanding shares of Transat. The transaction remains subject to the approval of regulatory authorities and other closing conditions set forth in the arrangement agreement. Additional information concerning the terms of the arrangement agreement and the background of the transaction was provided in the management proxy circular with respect to an arrangement involving Transat and Air Canada dated July 19, 2019 (the "Arrangement Circular").

Copies of the arrangement agreement dated June 27, 2019, the Arrangement Circular, and the amending agreement dated August 11, 2019, are available on SEDAR at www.sedar.com.

Transat's head office is located at Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Québec, Canada H2X 4C2.

1.2 INTER-CORPORATE RELATIONSHIPS

The following chart sets out our corporate structure. We have omitted certain subsidiaries, each of which represents not more than 10% of our consolidated assets and not more than 10% of our consolidated operating revenues, and all of which, in the aggregate, represent not more than 20% of our consolidated assets and not more than 20% of our consolidated operating revenues.



* This entity was sold on November 30, 2017.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 THE HOLIDAY TRAVEL INDUSTRY

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

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

2.2 CORE BUSINESS, VISION AND STRATEGY

2.2.1 Core Business

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

2.2.2 Vision

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our range of operations and mission to include the hotel business.

2.2.3 Strategy

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

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

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

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

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

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

- Obtain the regulatory authorizations necessary to complete the transaction with Air Canada while maintaining its capacity to operate independently;
- Improve financial performance;
- Optimize flight programs in order to maximize revenues and profitability, including by increasing the network's density, the use of the fleet and connectivity;
- Pursue the transformation of revenue management practices and increase revenue per unit;
- Pursue the cost control and cost reduction initiatives;
- Continue to increase the portion of our direct distribution;
- Continue to improve our clients' satisfaction and maintain good brand perception; and
- Maintain the satisfaction and commitment of our teams and encourage retention.

2.3 REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2019

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

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

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

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

Frequencies have been increased, particularly for Europe and domestic flights. Transat has concluded the Arrangement Agreement with Air Canada after having determined that it was the best alliance to increase route density.

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

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

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

Our fleet received its two first A321neo LR, and the organization prepared to adapt itself to the rules regarding flight crew fatigue and the rules of the passenger bill of rights. However, in the context of the transaction with Air Canada, emphasis was mainly put on short-term plans rather than long-term plans.

- **Reduce and control costs.**

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

- **Optimize distribution, namely by increasing our involvement in direct distribution channels.**

The portion of the direct distribution progressed, notably for vacation packages. The objectives set were not entirely met, in part because of a change in the destination mix.

- **Increase customer satisfaction, measured by our Net Promoter Score.**

The Net Promoter Score increased significantly. Client satisfaction is rising.

- **Expand our digital footprint with customers and digitize and automate business processes.**

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

- **Unite our teams and maintain their commitment.**

In the context of the transaction with Air Canada, focus has been maintained on retention and commitment. Our commitment rates, measured using the Officevibe tool, remained constant.

2.4 KEY PERFORMANCE DRIVERS

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

ADJUSTED OPERATING INCOME (LOSS)	CAPACITY	REVENUE GROWTH
Obtain an adjusted operating income margin higher than 3% of revenues.	Increase our capacity in all regions in Canada and in Europe in our traditional markets and establish our first all-inclusive hotel banner in the Caribbean and Mexico.	Grow revenues at the pace of the market, i.e. around 3% per year in our traditional markets, and operate 5,000 rooms within six (6) years of restarting the hotel business project, either owned or managed.

2.5 ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

CASH	CREDIT FACILITIES
Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled \$564.8 million as at October 31, 2019. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels and support the implementation of our hotel division.	A revolving credit facility agreement totalling \$50 million, among others, is also available for operating purposes.

Our non-financial resources include:

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

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

2.6 SIGNIFICANT FINANCING TRANSACTIONS

The Corporation has a \$50.0 million revolving credit facility for a four-year term ending in March 2022, with a one-year extension clause on each anniversary date and an accordion clause allowing it to increase credit up to \$100.0 million, both subject to lenders' approval. On May 11, 2018, the Corporation, together with the lenders, amended certain terms and conditions, which were further amended on October 30, 2018, to better reflect the Corporation's financial profile and primary focus. As at October 31, 2019, all the ratios and financial conditions were met and the credit facility was undrawn. For more information regarding the credit facility, please refer to the section "Financing" of the Corporation's Management's Discussion and Analysis for the year ended October 31, 2019.

The Corporation has an annually renewable revolving credit facility for issuing letters of credit for \$75 million, the terms of which provided that the Corporation shall be required to pledge cash totalling 100% of the amount of the letters of credit issued. As at October 31, 2019, an amount of \$55.9 million had been used, including \$51.2 million to secure obligations relating to the executive officer defined-benefit pension agreements.

The Corporation issued letters of credit for its British operations, secured by deposits of up to £2.7 million (\$4.7 million) as at October 31, 2019.

The Corporation has a \$50 million guarantee facility with Export Development Canada expiring on February 29, 2020, and renewable every two (2) years. Under this agreement, the Corporation may issue collateral security contracts with a maximum five (5) year term. As at October 31, 2019, \$24.4 million had been drawn down under these credit facilities as a result of the issuance of letters of credit to certain Transat suppliers.

The Corporation has various agreements relating to the processing of credit card transactions that are valid until 2020 and 2023, renewable for additional successive one-year terms upon consent of both parties. Credit card transactions processed pursuant to these agreements are subject to the requirement of maintaining certain levels of unrestricted cash at each quarter end, as well as financial ratios similar to those set out in its bank credit agreements. As at October 31, 2019, the Corporation was in compliance with all the financial ratios and conditions provided under these agreements.

3. Three-Year History

You will find information concerning the business and other key events that have occurred in the three most recent financial years under the heading "Development of the Business" and "Description of our Business". For more information, we refer you to the section "Core Business, Vision and Strategy" above and to the sections "Business Acquisition" and "Disposal of a Subsidiary" of the Management's Discussion and Analysis of our 2019 Annual Report available for consultation on SEDAR (www.sedar.com).

4. DESCRIPTION OF OUR BUSINESS

The data contained in this section are estimates of our capacity and competitive positioning and are based on our knowledge of the relevant industry segments. Being a vertically integrated business, we have determined that Transat conducts its activities in a single industry segment, namely the holiday travel segment, and operates in one geographic area, now that our tour operators in France and Greece have been sold. We recorded \$2,937.1 million in revenues for fiscal 2019, compared to \$2,849.0 million for fiscal 2018.

4.1 TOUR OPERATORS

Transat acts as an outgoing tour operator through its subsidiary Transat Tours Canada Inc. and its brands Transat and Air Transat, as well as through its European subsidiaries, Air Consultants France S.A.S. and The Airline Seat Company Limited.

Trafictours de Mexico S.A. de C.V., Turissimo Caribe Excursiones Dominican Republic, C. por A. and Caribbean Transportation Inc. operate as incoming tour operators in Mexico, Barbados, the Dominican Republic and Jamaica. On November 30, 2017, Transat closed the sale of its Canadian incoming tour operator Jonview Canada. For more information on this transaction, see "Hotel Activities" below.

Each of these tour operators operates in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by our vertical integration strategy.

4.1.1 Products of Transat Tours Canada Inc.

Transat Tours Canada Inc. ("Transat Tours"), which is the core business of our Canadian operations, operates under two brand names, Transat and Air Transat. It integrates Air Transat's commercial activities and commercializes and sells its travel products to vacation destinations located in North America, Central America, South America and Europe. We offer two main types of products to complement Transat Tours' revenues, namely, travel packages departing from Canada and seats in all of the markets served by Air Transat. Moreover, Transat Tours also offers seats from and to various Canadian cities. All of these products are essentially available through travel agency networks and online.

Transat Tours primarily markets sun destinations according to a package formula. With all-inclusive packages to 34 destinations in Florida, Mexico, the Caribbean, as well as Central and South America, Transat Tours offered in 2019 the widest array of sunshine vacations, along with almost 600 hotels, 31 of which are offered on an exclusive basis. It also offers à-la-carte hotels and an increased selection of home and apartment rentals, as well as a variety of excursions.

Transat Tours markets the Solo, Family, Distinction and Luxury collections, with each of them featuring a selection of hotels and advantages perfectly suited to every type of consumer. It also offers Duo packages, including a brand new one in Puerto Rico, that combine two regions on one trip.

In addition to its hotels, collections, packages, and à-la-carte vacations, Air Transat offered in 2019 direct flights to 34 sunshine destinations, including flights to Saint Martin island and San Juan, Puerto Rico, which resumed, from 15 Canadian cities. Air Transat notably offers 131 city pairs leaving from Montreal and Toronto.

For European destinations during the summer season, Transat Tours also offers short and longer stays (in hotels, studios, apartments, and bed-and-breakfast inns), car rentals and train tickets. In 2019, Transat increased frequency and capacity on many of its European flights. Air Transat thus remains the leisure airline with the most diversified offer on the market, offering direct flights to a total of 26 destinations in Europe. A number of weekly connecting flights between Vancouver and Montreal, Vancouver and Toronto, Vancouver and Calgary, Calgary and Montreal, Toronto and Montreal, Toronto and Edmonton as well as Quebec City and Montreal will allow for greater access to destinations. Transat has a winter program in Europe offering direct flights to Paris and London, to Malaga (Costa del Sol) in Spain, to Glasgow and Manchester in the United Kingdom, as well as to Lisbon, Faro and Porto in Portugal.

Transat offers the finest cruise itineraries to the Caribbean and to Europe. Since 2016, cruises have been offered exclusively in package form, comprising round-trip flights with Air Transat, transfers and the cruise—a new single-window formula. During the 2018–2019 fiscal year, Transat offered more than 70 itineraries, 35 ships and 16 boarding ports in the Caribbean, the Mediterranean and on some major European rivers.

Transat Tours markets tours in Cuba, Costa Rica and Panama. In Europe, Transat Tours offers a wide array of guided tours along with adapted-format vacations such as combined tours and independent travellers. Transat Tours is also the exclusive supplier of Trafalgar’s tours with French-speaking guides in Canada.

4.1.2 Products of The Airline Seat Company Limited

The Airline Seat Company Limited, which sells under the Canadian Affair brand, has been wholly owned by Transat since August 1, 2006. The UK-based entity also manages the activities of Air Transat in the UK and Ireland.

Canadian Affair is the UK’s largest single destination tour operator to Canada and its business is focused on Air Transat’s flight program and it offers tailor-made holidays in Canada, distributing directly to the consumer, and, more recently, through travel agencies in the UK. Canadian Affair is focusing its business on tour operating, selling holidays to Canada packaged with an Air Transat flight, either via a dedicated call centre, online via canadianaffair.com, or through its Web portal for flight attendants. Working closely with its suppliers and incoming tour operators, its product offering continues to develop to bring more packaged tours into its product range allowing customers to select their holiday to Canada wisely. Over the last three years, Canadian Affair has been named Best Canadian Tour Operator at the British Travel Awards.

For the Air Transat brand, there is a dedicated sales team to drive B2B commerce sales and a marketing team to drive B2C e-commerce sales, ensuring messages are relevant, timely and on point for the local market, whilst at all times working closely with Transat to ensure brand consistency. The airline’s websites airtransat.co.uk and airtransat.ie have been promoted with greater prominence in the UK and Ireland, as UK and Irish consumers are accustomed to checking airline websites, where they believe they will find the most competitive prices. Direct online sales in the UK account for circa 70% of total UK air only flight sales.

The Air Transat UK and Ireland, Spain, Portugal, Italy and Greece B2C call centre is also run and managed in the UK. The UK call centre was migrated to the Transat telephony system in September 2015, allowing calls to be answered by agents in either Montreal or London based upon the time of day.

The electronic retail sales have represented 75% of Transat’s sales revenue in the UK (Air Transat 50% and Canadian Affair 25%), while sales made via travel agencies represented the remaining 25%. Transat has developed strong partnerships within the tourism industry (group tour operators, independent agents, online travel agencies (OTAs) and chains) in the UK and its strategic plan is to maintain a healthy balance between B2C e-commerce sales and B2B commerce sales.

4.1.3 Air Consultants France S.A.S.

Air Consultants France S.A.S. (“ACF”) was created on March 4, 2016, to provide continuity of Air Transat’s commercial representation in France following the October 2016 sale of the Transat France subsidiary to TUI AG. In that regard, ACF sees to the commercial representation of Air Transat for flights departing from France, but also departing from Belgium, the Netherlands and Switzerland on the French, Belgian, Swiss, Dutch and German markets.

ACF is primarily made up of three teams: the commercial team, the customer service team and the marketing, electronic commerce and communications team. The commercial team is responsible for developing sales through the intermediary of travel agencies, OTAs (“Online Travel Agents”), tour operators and group travel specialists. The customer service team provides support to the travel agents and tour operators (tariff-setting, emissions) and also sees exclusively to the sale of Air Transat plane tickets. For its part, the marketing, electronic commerce and communications team is responsible for the implementation of the marketing strategy prescribed by the Canadian head office, the internal and external communications, the electronic trade and the management of Air Transat’s websites in France, the Netherlands, Belgium, Germany and Switzerland. This team manages the commercial and digital marketing budgets allocated by the Corporation. Moreover, for markets outside of France, ACF has, with the support of Aviareps, a general sales agent, and two individuals from its personnel are entirely devoted to Air Transat. These individuals see to the development of business sales, with one established in Amsterdam and the other in Brussels. They are under the operational responsibility of the president of ACF.

4.1.4 Products of Trafictours Canada Inc.

Transat owns 70% of the shares of Trafictours Canada Inc. (“Trafictours”), which is doing business as an incoming tour operator in Mexico, the Dominican Republic, Jamaica and Barbados. The Corporation and Gesmex Corporation are parties to a service agreement pursuant to which Gesmex Corporation provides management services to Trafictours and its subsidiaries. Thus, in conjunction with Gesmex Corporation, Transat is ensuring a better quality of service and provides more efficient operational and financial controls with respect to Trafictours. It should be noted that as a minority shareholder of Trafictours, Gesmex Corporation may require the Corporation to redeem the shares it holds, in the event that the said management agreement is not renewed after January 31, 2020, according to a predetermined formula. Please refer to note 9, under “Non-controlling interests”, in our Management’s Discussion and Analysis for the year ended October 31, 2019, which you can find on SEDAR (www.sedar.com).

4.1.5 Hotel Activities

Over the past few years, Transat has realigned its activities around three strategic sectors: aviation, distribution and the hotel industry. The creation of the hotel division and the purchase, at the end of 2018, of the first two lots in Puerto Morelos, Mexico, for the construction of an oceanfront hotel, are the result of our efforts to develop the hotel sector as one of the Corporation’s strategic divisions. In 2019, in connection with the Arrangement with Air Canada, the Corporation has agreed to limit its commitments and expenses related to the implementation of its hotel strategy during the period leading up to the closing of the transaction. Consequently, the Corporation focused on the several elements related to the pre-construction stages, more specifically on obtaining the construction and environmental permits and on advancing the architectural plans, so that the project could be restarted. Meanwhile, we established a management subsidiary in the United States, started to assemble the management team, and defined the brand and type of product for our future hotel resort.

4.1.5.1 Marival Armony (formerly Rancho Banderas)

On April 3, 2017, Transat purchased from a third party a 50% interest in Hotel Rancho Banderas, located in Punta de Mita in Mexico. Through a wholly owned subsidiary, Transat is a co-shareholder, along with a subsidiary of Gesmex Corporation, in Desarrollo Transimar, S.A. de C.V. (“Desarrollo Transimar”). Gesmex Corporation is also a shareholder of Trafictours Canada Inc. Following an expansion completed in 2018, the hotel currently consists of 264 rooms. In the context of this transaction, Transat and Gesmex, and their respective subsidiaries, have entered into a shareholder agreement providing for a call option in the event of a change of control, as defined in the agreement. Under the agreement, the parties have granted each other the right to purchase or sell, as the case may be, their entire interest

in Desarrollo Transimar. The parties have agreed that the exercise price of such right to purchase or sell the other party's interest in Desarrollo Transimar shall be equal to the fair market value of such interest.

4.2 TRAVEL AGENCIES AND DISTRIBUTION

In Canada, we distribute our products in part through our own network of wholly owned, franchised or affiliated retailers. We are the largest retail distributor of holiday travel products in Canada, with 394 outlets, of which 62 are wholly owned, 182 are franchised and 150 are affiliated and do business under the Club Voyages, Marlin Travel/Voyages Marlin, Voyages en Liberté, Transat Travel/Voyages Transat and TravelPlus banners or affiliation programs.

In June 2013, we launched a new travel agency concept under the Transat Travel banner. To date, 53 of our wholly owned agencies carry out their activities under this name.

We have also developed and implemented an external agent program that extends the scope of our wholly owned agencies under the Voyages Transat/Transat Travel banner.

We operate our travel agency networks in Canada as one business unit by taking advantage of a common administrative system for all our corporate-owned agencies across the country, and by combining our purchasing power.

4.3 AIR TRANSPORTATION

4.3.1 Transat's fleet strategy

Transat constantly stays abreast of the latest trends that will allow it to serve its two leisure markets (namely sun destinations with departures from Canada and the transatlantic program with departures from Canada and Europe) by offering the best prices and best aircraft available. To that end, Air Transat, Transat's airline company, relies on a mixed fleet of wide- and narrow-body aircraft. In fiscal 2017 and 2018, Air Transat entered into a twelve (12) year agreement with AerCap for the leasing of fifteen (15) Airbus A321neo LRs and two (2) Airbus A321neos scheduled to be delivered between 2019 and 2022. The Airbus 321neo LR is the latest long-range version (LR) of Airbus A321neo (New Engine Option) in the single-aisle jetliner segment. The gradual introduction of the Airbus A321neo LR aircraft will allow Air Transat to continue gradually removing all Airbus A310s from its current fleet. To this day, two (2) Airbus A321neo LRs are in operation. Air Transat expects to progressively receive four (4) other A321neo LRs during the first part of 2020, meaning that the delivery will be 4 to 5 months behind the initial schedule, which schedule is still subject to potential changes.

As at October 31, 2019, Air Transat's core fleet is composed of thirty-seven (37) aircraft, including twenty-six (26) long-haul wide-body aircraft, and eleven (11) narrow-body aircraft:

TYPE OF AIRCRAFT	NUMBER				COMMENTS
	WINTER 2018	SUMMER 2018	WINTER 2019	SUMMER 2019	
LONG-HAUL					
A330	17	20	20	20	Addition of three aircraft in the winter of 2018, the total number for this type of aircraft increasing from 17 to 20. As part of its flexible fleet strategy, Air Transat leased 4 A330-200s to Thomas Cook Airlines Limited (1) and 1A330-200 to Czech Airlines in the winter of 2019. In the winter of 2018, Air Transat operated 1 A330-200 on behalf of Travel Service Polska pursuant to a lease with pilots.
A310	7	7	6	6	A310s are progressively removed from the fleet. One A310 has been removed from the fleet since fiscal 2018.
A321 neoLR	-	-	-	2	The first two A321neo LR were delivered in May and June 2019.
TOTAL CORE FLEET	24	27	26	28	
MEDIUM-HAUL					
A321 ceo	-	2	2	4	Addition of two aircraft in the winter of 2019, the total number for this type of aircraft increasing from 2 to 4.
B737-800	7	5	5	5	Two of these aircraft were returned to their lessor during the winter of 2018 and, since then, Transat's fleet of B737-800s remained stable. This can be explained by the announced transition towards a fleet composed entirely of Airbus aircraft.
TOTAL CORE FLEET	7	7	9	9	
Lease A320-321ceo	1	1	10	-	These aircraft were leased from Thomas Cook Airlines Limited or Condor in accordance with the master agreement between Air Transat and Thomas Cook Group Airlines Limited (now null and void). Two A321-211s were leased from Condor with pilots pursuant to the same agreement during the winter of 2019.
Lease B737-700/800	16	-	12	1	These aircraft were leased pursuant to the long-term seasonal leasing agreements entered into with each of Transavia (6 in the winter of 2018 and 5 in the winter of 2019), ASL Airlines France (4 in the winter of 2018 and 3 in the winter of 2019) and Smartwings (6 in the winter of 2018 and 4 in the winter of 2019), 5 of which (3 in the winter of 2018 and 2 in the winter of 2019) were operated by Smartwings on behalf of Air Transat pursuant to a lease with pilots. One of the aircraft leased from ASL Airlines France was exceptionally extended during the summer of 2019.
TOTAL - SEASONAL FLEET	17	1	22	1	
TOTAL - FLEET IN OPERATION	24	8	29	10	

(1) Thomas Cook Group plc and its companies were liquidated, such that the group's UK airline company ceased its operations on September 23, 2019.

Air Transat owns its six (6) Airbus 310-300s, and all other aircraft are leased under operating leases entered into with aircraft lessors.

The replacement of the Airbus A310s by Airbus A321neo LR remains part of the Transat plan, announced in April 2013, to deploy a so-called "flexible fleet" that enables it to adjust the number of medium-haul and long-haul aircraft at its disposal according to seasonal tourism market needs. In short, Transat has greater need for narrow-body aircraft in winter, when Canadian leisure travellers favour sun destinations, and greater need for wide-body jets in summer, when the transatlantic program is busiest. The addition of A321neo LR aircraft will optimize the flexible fleet while continuing to cover Transat's network efficiently and economically. In addition to the A330s already deployed on our high-demand sun destinations, the A321neo LR, combined with the A321-211s and eventually the A321neos, will be able to fly to sun destinations such as Mexico, the Caribbean and Florida. However, the A321neo LR, combined with the A330s and A310s, can also be deployed for transatlantic connections, which will allow us to maximize the use of this aircraft for the entire year throughout Transat's destination network. Indeed, the A321neo LR can travel 4,000 nautical miles (7,400 km), the longest range of all single-aisle aircraft. The size of the A321neo LR, which can carry 199 passengers with an option to travel Club (12 seats) or Economy (187 seats), will give Transat greater flexibility in terms of the commercialization and frequency of flights, whereas the aircraft's low fuel consumption will keep the cost per seat low while reducing the air carrier's carbon footprint.

Air Transat will continue to deploy its long-haul aircraft mainly on the transatlantic program and high-demand sun destinations markets. In that regard, note that in the summer of 2017, Air Transat successfully negotiated advantageous conditions with three (3) of its aircraft lessors for the renewal of agreements to lease eleven (11) Airbus A330s, which will continue to be operated by Air Transat until dates staggered between 2021 and 2028, depending on the aircraft in question. These renewals will contribute to the achievement of cost-reduction goals.

In addition to relying on Air Transat's core fleet of aircraft, Transat has given itself the option of increasing its number of medium-haul aircraft in the wintertime. In the context of its strategy to deploy a flexible fleet, Transat has entered into stable but flexible agreements since 2014 with several European airlines companies (including Transavia France, the French air carrier specialized in the pleasure travel products of Air France/KLM Group, ASL Airlines France and the Czech company Smartwings (formerly Travel Service) for the seasonal leasing of Boeing 737s, in order to complete, during the winter, Air Transat's five B737-800 aircraft that are part of its core fleet. During the winter of 2019, which was the last season governed by these seasonal leasing agreements, Air Transat operated 17 B737s and 21 wide-body aircraft (Airbus A310s and A330s), three (3) of which were used as support aircraft. In comparison, Air Transat operated six (6) B737s, four (4) A321s, two (2) A321neo LR and 26 wide-body aircraft in the summer of 2019. The agreement with Smartwings also provided for the leasing of an Air Transat's A330-200 aircraft to Smartwings for the winter seasons of 2017, 2018 and 2019, since Air Transat needs less long-haul aircraft during that time of year. Moreover, Air Transat constantly searches for opportunities to sublease, with or without crews, some of its A330s to other airline carriers that might need them in the wintertime.

During the winter of 2019, Air Transat operated ten (10) A321-211s leased from Thomas Cook Group Airlines (hereinafter "Thomas Cook"), eight of which had been leased without crew while the remaining two were operated with pilots by Condor, Thomas Cook's German airline, on behalf of Air Transat. Conversely, during the same period, Thomas Cook operated four A330-200s leased from Air Transat without crew. All of these aircraft leases by both companies have occurred pursuant to a seven-year master agreement between Air Transat and Thomas Cook, which provides for the exchange of at least one (1) wide-body Airbus A330-200 and from four to fifteen Airbus A321s every winter starting in the winter of 2018. With the introduction of the A321neo LR in 2019 and 2020, the master agreement between Thomas Cook and Air Transat was supposed to support Air Transat's transition towards a fleet

entirely comprised of Airbus aircraft, by allowing for the replacement of the seasonal B737s by aircraft of the A320 family.

However, while Air Transat was preparing for its winter 2020 season, Thomas Cook Group plc and its affiliated companies have been liquidated, resulting in the UK airline company of the group ceasing its operations on September 23, 2019. This turn of events forced Air Transat to terminate its master agreement with Thomas Cook, effective immediately, and begin searching for alternative aircraft to replace the ten (10) A321-211s that Transat was initially supposed to obtain from Thomas Cook to meet its seasonal needs. As of November 6, 2019, Air Transat was able to secure eight (8) aircraft, including six aircraft leased from Air Lease Corporation, a leasing company based in California, and two aircraft to be leased from Smartlynx, an airline company based in Latvia. In addition to these, five B737-800 aircraft, which will be operated by Smartwings on behalf of Air Transat pursuant to a lease with pilots, will be added. With the exception of one aircraft which will be operated starting in February 2020, the delivery of the other aircraft is expected to occur in December 2019. Most of these aircraft will be operated until the end of the winter of 2020, except for three aircraft leased from Air Lease Corporation, which will remain in Air Transat's fleet after the winter of 2020 and until the end of the 2021 winter season.

A key element of Transat's now fully implemented "flexible fleet" strategy is the dual qualification of its pilots. At this time, several pilots are qualified to operate either A310/B737 or A330/B737 aircraft. This initiative deployed since 2014 with the introduction into its fleet of its first B737-800 aircraft, has become an integral part of its seasonal operations. Thus, dual-qualified pilots can switch from operating either A310s or A330s during the summer months, to operating B737s during the winter months, and then switch back to operating wide-body type jets the following summer. This operating method, which is unique to Air Transat, complies with regulatory requirements for training, while responding to commercial needs. It benefits Transat because it allows a significant reduction of the costs per seat/hour while creating permanent jobs and improving competitiveness. With the introduction of the A321neo LR in 2019 and Transat's decision to gradually abandon the B737s to shift to A321s for its seasonal needs, Air Transat focuses on two types of aircraft only: A330s and A321s. Its pilots will therefore gradually be trained for aircraft from the A320 family. Transat is staying the course in this regard, and approximately 250 pilots are currently trained on the A330 and A321. Ultimately, Air Transat will benefit from Airbus' cockpit commonality concept, allowing it to operate a mixed fleet ("mixed-fleet flying", or the possibility for one pilot to be qualified for different aircraft simultaneously). This will allow Air Transat to reduce its maintenance and training costs, among others, and to considerably simplify its operations.

As of October 31, 2019, it is expected that Air Transat's fleet for winter 2020, including its seasonal medium-haul aircraft, will be comprised of the following aircraft:

TYPE OF AIRCRAFT	NUMBER		COMMENTS
	WINTER 2020	SUMMER 2020	
LONG-HAUL			
A330	20	20	In the winter of 2020, Air Transat will operate 2 A330-200s on behalf of Air Canada pursuant to a lease with crew.
A310	3	2	The progressive removal of the A310s may vary based on the introduction of the A321neo LRs.
A321 neoLR	3	6	Thirteen aircraft expected to be delivered between 2020 and 2022.
TOTAL CORE FLEET	26	28	
MEDIUM-HAUL			
A321 ceo	4	4	
A321 neo	-	-	Two aircraft expected to be delivered in 2021.
B737-800	5	5	
TOTAL CORE FLEET	9	9	
Lease A321ceo	8	3	These aircraft are short-term leases* without crew, and they replace the aircraft that Air Transat is no longer able to obtain from Thomas Cook since the winding-up of the company in September 2019. *Three of these aircraft are leased for a period of 17 to 18 months, which explains why they are included in the summer 2019 column.
Lease B737-800	5	-	These aircraft are operated by Smartwings on behalf of Air Transat pursuant to a lease with pilots.
TOTAL SEASONAL FLEET	13	3	
TOTAL CORE FLEET	22	12	

All these initiatives are part of our efforts to optimize capacity by scheduling flights more efficiently and increasing additional income sources. These efforts are accompanied by a diversification of the flights offered and an increase in flight frequency, both for the transatlantic program and for the sun destinations.

In the 2019 fiscal year, our airline Air Transat offered flights out of its principal bases in Montreal, Toronto and Vancouver, as well as some flights out of smaller Canadian cities. Air Transat holds licences issued by the Canadian Transportation Agency to operate regular flights between Canada and the following countries: the European Union (representing its 28 member states), Switzerland, the United States, Cuba, Jamaica, the Bahamas, Mexico, Panama, Costa Rica, Barbados, Nicaragua, Colombia, Antigua and Barbuda, St. Lucia, El Salvador, the Netherlands Antilles, the French West Indies, the Dominican Republic, Israel and Haiti.

During the 2019 winter season, we served 32 sun destinations in 16 countries. Transat has effectively added the cities of Santiago de Cuba, Cuba, San Juan, Puerto Rico, and Saint-Martin to its portfolio of sun destinations, which it continues to expand by adding new routes.

In the summer, we shift most of our capacity to the transatlantic program, while maintaining some flights to sun destinations. In the summer of 2019, Air Transat served 25 European destinations in 12 countries. In addition to its offering of direct flights, Air Transat enhanced its connecting flight program to make even more destinations accessible from various Canadian cities. Transat also keeps offering so-called open-jaw options, which allow customers to land in one European city and take off from another. Going forward, Air Transat will continue expanding its transatlantic program by enhancing its flight program, notably through increasing the frequency of direct flights, adding connecting flights and inaugurating new city pairs, all with a view to offering travellers even more choices and flexibility.

We are continuing our efforts to optimize capacity through more efficient flight scheduling and increased ancillary revenues. We served approximately 5,300,000 passengers on Air Transat in fiscal 2019 compared to 5,000,000 passengers in fiscal 2018.

4.3.2 Maintenance, Inspections, Safety and Other Measures

Air Transat remains committed to continuous improvement of processes involving all aspects of its airline operations, the result of which is to offer quality service while optimizing resources with safety as the top priority. Over the last years, we have implemented a series of measures based on principles of safety and prevention that we completely support. These measures include, among others, a Safety Management System, which is a comprehensive program involving training, reporting of safety-related information from all areas of the Corporation as well as extensive auditing and data analysis. Air Transat's President and General Manager was appointed Chief Safety Officer ("CSO") responsible for the Air Transat Safety Management System, while the Senior Director, Safety, Quality and Security is responsible for the administration and day-to-day supervision of the Safety Management System on behalf of the CSO.

Air Transat was the first airline in the world to renew its IOSA certification (IATA Operational Safety Audit) under the new Enhanced IOSA methodology. Air Transat first obtained its initial certification under IATA's IOSA program on February 20, 2008. In 2011, IATA added new elements to the certification and introduced the Enhanced IOSA program, which involves ongoing internal assessment processes, to provide enhanced value and continuity of the audit process. At the request of IATA, Air Transat participated in the development of the new program, which became mandatory for IATA member companies in 2015. The IOSA certification obtained under the Enhanced IOSA methodology, which Air Transat obtained in 2013 and successfully renewed in 2015, 2017 and 2019, is the greatest recognition to date of the quality of our internal processes and is reflective of our commitment to ensure the safety of our operations.

In terms of cabin configuration, Air Transat's A330-200 aircraft have 345 seats, with the exception of eight (8) aircraft that were added to the fleet between 2016 and 2018, which have a 332-seat configuration. Three of Air Transat's four A330-300s were densified to 375 seats, while the fourth aircraft has 346 seats. These jets are deployed on the high-frequency city pairs that Air Transat operates between Montreal and Paris and between Toronto and Gatwick and resulted in the improvement of profit margins for these city pairs. As for the six (6) A310s still operated by Air Transat as at October 31, 2019, they are configured at 249 seats. All wide-body aircraft in Air Transat's fleet include 12 seats in Club class. As for the B737-800 aircraft that are part of Air Transat's core fleet, they have 189 seats. The A321-211 aircraft that were added to Air Transat's fleet during fiscal 2018 currently have 190 seats, all in Economy. The two A321neo LRs currently operated by Air Transat have 199 seats, including 12 seats in Club class. The configuration will be identical in aircraft of this type that will be added to the fleet in the future. On the customer experience front, all wide-body aircraft, as well as

A321neo LRs, are equipped with a new mood-lighting system across the cabin. Also, the A330s and A321neo LRs, as well as the A310s in Club class only, are equipped with an in-seat in-flight entertainment system.

We perform regular maintenance work and inspections on all aircraft of our fleet. Our aircraft maintenance procedures meet and, in some instances, exceed Transport Canada's requirements. We carry an inventory of spare parts for our Airbus A330s, A310s and A321s and our Boeing 737s. We also carry an inventory of spare parts for our A321neo LRs since two aircraft of this type have been added to the fleet, knowing that thirteen other A321neo LRs and two A321neos will be added to our fleet by 2022.

4.3.3 Fuel Supply

Fuel costs represent a major component of our airline's operating expenses. The increase and constant fluctuations in the cost of fuel are a major concern for Transat given our industry's small margin. Our policy in this regard provides for the conclusion of derivatives to cover a portion of our fuel requirements. As at October 31, 2019, derivative instruments for the purchase of fuel covered 43% of our estimated fuel requirements for fiscal 2020, compared to 43% for fiscal 2019 and 31% for fiscal 2018.

4.4 OUR EMPLOYEES

As at October 31, 2019, Transat and its subsidiaries had approximately 5,180 active employees and the average number of employees for fiscal 2019 was approximately 5,640.

For a detailed description of our share-based compensation plans and other long-term incentive plans, we refer you to our Management Proxy Circular relating to the annual meeting of shareholders that will be held on March 12, 2020 (or in the Management Proxy Circular dated April 30, 2019, if applicable), which is available for consultation on SEDAR (www.sedar.com). As our policy is to promote good relations with our employees, we have adopted a policy to prevent harassment in the workplace as well as a policy regarding the protection of personal information and the right to privacy.

Transat places great importance on skills upgrading and promoting a work environment based on respect. Over the years, we have implemented a variety of programs and tools to improve employee orientation and integration, training as well as all aspects of employee recognition. Diversity is a key value for Transat, with 46% of our senior executives being women. We promote hiring of candidates from minority groups and also encourage direct or indirect employment of local personnel for positions at destination.

Here at Transat, we believe that developing and improving our talent are key elements to an enriching employee experience that contributes to the organization's performance and customer experience. This is why we have implemented development solutions that reflect the reality of the areas of activity and types of population, and why we make sure to provide quality support, which allows our various in-house partners to identify their needs accurately and benefit from development and from adapted solutions contributing to their success. These flexible, efficient and innovative solutions are based on experiential learning techniques. Our diversified training portfolio covers technical, professional and business development as well as authentic leadership skills.

In 2019, 435 of our professionals and collaborators, 358 of our call centre agents and 170 of our managers and officers participated in one or more of our trainings.

To strengthen this culture focused on upgrading competencies and encourage personnel to excel, we have developed a structured method for evaluating employee potential, with input from a specialized firm.

As at October 31, 2019, the Corporation had 5,100 employees, approximately 60% of which were unionized and subject to six collective agreements that have all been renewed on October 31, 2019. Some of our employees belong to employee associations with which we have negotiated certain working conditions. The following chart sets out the associations to which our employees belong and the status of their collective agreements as at the date of this AIF. During fiscal 2018, the collective agreements with the maintenance employees and crew scheduling employees have been ratified. Negotiations are in progress for the renewal of the collective agreements for the flight dispatchers.

The Air Line Pilots Association's agreement will expire over the course of next year. Therefore, there is a possibility that the negotiations regarding the renewal of this collective agreement lead to stoppages, work slowdowns or increases in the cost of labour, which may have an adverse effect on our business and results of operations.

EMPLOYEES	TRANSAT'S SUBSIDIARY	ASSOCIATION	STATUS OF COLLECTIVE AGREEMENT
Flight crew members (pilots)	Air Transat	Air Line Pilots Association (ALPA)	Collective agreement in effect from May 1, 2015, to April 30, 2020
Flight attendants	Air Transat	Canadian Union of Public Employees (CUPE)	Collective agreement in effect from November 1, 2015, to October 31, 2021
Flight Dispatchers	Air Transat	Canadian Airline Dispatcher's Association (CALDA)	Collective agreement in effect from November 1, 2015 to October 31, 2022
Crew scheduling and passenger service	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW)	Collective agreement in effect from August 1, 2015, to July 31, 2021
Maintenance, stores and technical support	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW), Lodge 140	Collective agreement in effect from May 1, 2016, to April 30, 2022
Call centre	Air Transat	Teamsters, Local 1999	Collective agreement in effect from October 31, 2015, to April 27, 2021

The ability of the Corporation to successfully carry out its business plan depends on the experience of its key officers and employees, as well as on their knowledge of the tourism, travel and aviation industries. The loss of key employees could negatively affect our business and results of operations. Also, our recruitment program, our salary structure, our performance management programs, our succession plan and our training plan involve risks which may have adverse effects on our ability to attract and retain the qualified resources necessary to support the growth and success of the Corporation.

4.5 COMPETITION

We face competition on many fronts, doing business as either a tour operator, travel agency (traditional or online) or air carrier and, possibly, in the near future, in the hotel industry.

Competition is fierce in all areas of activity (Caribbean-Mexico and transatlantic) and results not only from traditional tour operators and air carriers specializing in leisure/holiday travel, but also from low-cost network airlines and carriers that have transformed their cost base and created new leisure/low-cost airline subsidiaries, from online travel agencies (OTAs) and from hotel operators who are selling directly to consumers. Other players, including sharing-economy sites and specialized mobile apps, are now present in the leisure travel industry. The two basic trends in tourism, strong growth of online direct sales and disintermediation of transactions, now place the customer at the centre of the purchasing process thereby allowing the customer to deal directly with suppliers (hotel operators, carriers, incoming tour operators), travel agents, OTAs and even social media. Competition is therefore present at all levels. In order to succeed, it is crucial to control costs and act like a producer in both the airline and hotel industries so as to maintain a presence in all of the different distribution channels.

4.5.1 Tour Operators

Tour operators specialized in outgoing services, purchase the various components of a trip and sell them to customers through various distribution channels, either as a travel package or separately. The large outgoing tour operators purchase blocks of seats or complete flights mainly from air carriers specializing in charter services and undertake to pay for all the seats so purchased whether they sell them or not, thereby obtaining a better price. Such tour operators also negotiate with hotels for the rental of blocks of rooms and make arrangements in order to offer travel packages at lower prices than if customers were to make their own reservations.

Certain tour operators round out the range of services offered to travel agencies with the FIT formula (Foreign Independent Tour), namely the sale of seats along with lodging and car rentals which clients can select individually. OTAs are particularly active in the FIT program segment, thus becoming both an additional distribution channel and competition for tour operators. The FIT program is growing at a rapid pace and the tour operators put greater emphasis on that market segment.

4.5.1.1 *Canada*

Canadian vacationers travel mainly to two regions, either sun destinations or Europe. Vacationers opting for sun destinations are primarily looking for the comfort of packages, whereas those travelling to transatlantic destinations are mostly looking for aircraft seats and, incidentally, car rental and hotel bed-night booking services. Canadian outgoing tour operators finalize agreements with suppliers six to eight months prior to the beginning of each season. The summer season runs from May 1 to October 31 and the products offered are prepared in the preceding fall. The winter season runs from November 1 to April 30 and the products offered are prepared in the preceding spring. As part of these preparations, tour operators undertake negotiations with air carriers, hotels, cruise ship operators, and car rental agencies. When such negotiations are completed, brochures and websites illustrating the various destinations and describing the various packages and services offered are either prepared and distributed to travel agencies before the beginning of each season (with sales presentations to travel agents in the main cities of the markets covered) or sold directly to consumers via direct online booking.

Operating its Transat and Air Transat brands, Transat Tours is a major Canadian tour operator, but competes with other tour operators for sun destinations. The Corporation and its three major competitors, Air Canada, WestJet and Sunwing have comparable market shares.

Geographical diversification involves departure points and destinations, the purpose being to offer products that best meet customers' expectations in each new market, preferably exclusively. We continue to devote major efforts to the expansion of our range of products, accounting for market trends, with the objective of offering a product line that differentiates us from the competition.

4.5.1.2 *United Kingdom*

The UK tourism services has been dominated for many years by competition based on price and the market is quite mature in its use of direct online booking. Customers will decide their holiday destination by focusing mainly on the price of their flight, regularly using flight comparison websites, regardless of the short-haul or medium-haul destination that interests them, since access to airline services from the United Kingdom is not a limiting factor. This is now also the case for long-haul destinations, which are served by an ever-growing number of carriers and price competitiveness has been increasing in the last few years.

Canadian Affair is a tour operator well established in the UK, and as the main tour operator to Canada, it also sells holidays, including flights, to Canada directly to consumers via its call centre and website canadianaffair.com, and, more recently, to the industry via its call centre and Web portal for flight attendants.

Our most important mainstream tour operator competitors all have a brochure and activities with a Canadian focus. They target the sale of packaged holidays and tours to Canada, and many have seat allocations on our flights.

4.5.2 Travel Agencies and Distribution

Travel agencies are an intermediary between the tour operator and the customer. Travel agents meet with, advise and sell products to the customer. In general, tour operators and other suppliers remunerate travel agencies by way of a commission. Travel agencies sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services such as cruises. Travel agencies operate independently, as part of large corporate groups, as franchisees or within associations or affiliations.

As a result of technological advances, online travel agencies now offer a large range of travel products by way of transactional websites. In both the Americas and Europe, online travel sales are principally made up of airline tickets, with air travel and hotel being included in only a limited proportion of packages.

According to industry sources, we estimate that there are approximately 5,000 travel agencies, both in Canada and in the UK. We believe that competition between travel agencies is principally based on price and the level of quality of the service. As is the case with tour operators, low profit margins cause travel agencies to seek higher volumes and larger market shares. One of our priorities with regard to integration is to extend our distribution network in our three principal geographic markets: Canadian, transatlantic and sun destinations.

Retail chains represent one third of all travel agents in Canada. The major chains are Transat Distribution Canada operating under the Transat Travel/Voyages Transat, Club Voyages, Liberty Travel/Voyages en Liberté, Marlin Travel/Voyages Marlin and TravelPlus banners or affiliated programs (which make up our network of travel agencies), Carlson Wagonlit Travel, CAA, Flight Centre, Maritime Travel, Uniglobe, Ensemble, Travel Savers, Vision Travel and Voyages en direct.

Retail chains, operating under a common banner, provide a range of services to their members, in the form of centralized negotiated commission levels with major tour operators, as well as training,

marketing and information services support. Consortiums of travel agents constitute the second third of Canadian travel agents. They offer centralized negotiated commissions with tour operators. Finally, the last third is made up of independent travel agents. Vertical integration between travel agent networks and tour operators has been taking place in Canada, as is the case in Europe.

Air Consultants France (ACF) is a travel agency that sells Air Transat's airline tickets in France while continuing to act as a distribution channel for other airlines.

4.5.3 Air Carriers

Competition between air carriers is based largely on price, as well as on flight schedules (convenience), choice of city pairs (availability of direct flights) and service (comfort, classes, family friendliness). Regarding holiday travel, the ability of operators to bundle land portions (car rental, guided tours, accommodations) along with the flight can also influence their decisions and buying patterns. Prices depend in part on the laws of supply and demand, thus if the capacity offered in the marketplace by all operators exceeds the demand, it will exert downward pressure on prices. Prices also vary significantly in accordance with seasonal variations in market conditions.

The air transportation industry is composed of four major segments: (i) network or full-service carriers which primarily operate scheduled flights at major hubs and rely mostly on the business travel segment and which, in certain cases, undertake aggressive leisure/holiday travel market share growth strategies through the establishment of low-cost subsidiaries; (ii) low-cost carriers operating short to medium-haul segments on a high-frequency, no frills basis and serving the price-sensitive business and holiday markets and most recently long-haul segments; (iii) leisure carriers, such as our own airline Air Transat, serving almost exclusively the holiday travel market through a combination of scheduled and charter air services (in the case of Air Transat, they are primarily scheduled flights, except for certain specific destinations served by charter flights); and (iv) regional airlines operating short-haul flights and providing feed traffic to network carriers at major hubs.

Network carriers market and distribute their services to the public through in-house reservations departments, global distribution systems and the Internet. Low-cost carriers sell the vast majority of their seats on the Internet. Leisure carriers charter most of their capacity to tour operators and wholesalers who, in turn, consolidate flight services into packages and sell to the public primarily via the travel agency distribution network. The tour operators negotiate bulk hotel room rates and make other arrangements to render the price of a vacation package sold to the customer more attractive than if the same consumer had attempted to make his own reservations.

Network carriers expand their destination offerings through marketing tools such as code sharing and the creation of airline joint ventures. They can sometimes be part of several of the large global carrier alliances and joint ventures which have been formed over the last decade. Leisure and low-cost carriers principally offer direct point-to-point flights.

Network carriers, low-cost carriers and leisure carriers increasingly compete in the holiday and the so-called "visiting friends and relatives" travel markets. This is particularly true following certain policy changes enabling air carriers specializing in charter services to operate scheduled flights between certain destinations, as is the case with Air Transat, which is licensed to offer scheduled services between Canada and the countries listed in Section 4.3.1, as illustrated on the second and third pages of this AIF. Another trend that should be noted is the emergence of flexible or seasonal fleet strategies among leisure travel air carriers that leverage the counter-seasonal realities of the North American and European travel markets.

Transat's competitors include namely WestJet, Swoop, Sunwing, Air France, KLM, IAG (British Airways, Iberia, Aer Lingus and LEVEL), Corsair, Brussels Airlines, TAP Portugal, Alitalia, Lufthansa, Air

Canada, SATA International Azores, Air Italy, Condor, AeroMexico, COPA, Interjet, Caribbean Airlines, Delta, American Airlines and United Continental.

4.6 INTELLECTUAL PROPERTY

We believe that our intellectual property is very important to our success. The following is a list of our principal registered and unregistered trademarks and designs that are used in association with travel-related services rendered by our business units: the star design, luggage tag, Air Transat and the mosaic design featured on some of its aircraft and travel agencies, Canadian Affair, Club Voyages, Trafictours, Transat, Transat Holidays USA, Turissimo, Liberty Travel/Voyages en Liberté, Marlin Travel/Voyages Marlin, Transat Travel/Voyages Transat and TravelPlus, as well as other trademarks, trade names, designs and domain names associated to the aforementioned trademarks.

Some of these trademarks, such as Air Transat, Transat, Transat Holidays USA, Club Voyages, Transat Travel/Voyages Transat, TravelPlus and Marlin Travel/Voyages Marlin, share the star design. The mosaic design will still be featured on some of Air Transat's aircraft until we complete our transition to a full Airbus fleet. The creation of a unique, strong and visible corporate identity across our main business units facilitates the recognition of our various companies and divisions for both our customers and employees. It also maximizes customer awareness on both the B2C and B2B markets, while fully leveraging the contribution of all of our business units and creating value.

We also take great care not to infringe on the intellectual property and trademarks belonging to others.

4.7 TRENDS

A certain number of trends have marked the leisure travel industry in Canada and throughout the world over the last few years. First, tourism has undergone a disintermediation, with producers acquiring an increasingly greater capacity to offer their products directly to consumers without going through a travel agency or tour operator, thus giving the advantage to producers (hotel businesses, airlines). On the other hand, air capacity has risen sharply, both for the sun destination and transatlantic destinations, exacerbating competition over prices.

These trends have prompted Transat to reinforce its digital strategy in order to place itself on an equal footing in the distribution market; improve its efficiency and its costs in order to offer competitively priced products; and initiate investments in the hotel industry to enhance its currently favourable position in tourism chain operations. However, as a result of the Arrangement Agreement, our hotel development has been suspended.

4.8 THE REGULATORY ENVIRONMENT IN WHICH WE OPERATE

As a vertically integrated company, we are involved on all levels of operation specific to holiday travel. Hence, we conduct business in a highly regulated environment at all levels, from tour operators and travel agencies to air carriers. All our companies and divisions hold all licences, certificates and permits necessary for their operations and are in compliance, in all material respects, with the requirements of applicable legislation. You will find below a description of the laws and regulations to which we are subject.

4.8.1 Tour Operators and Travel Agencies

4.8.1.1 *Canada*

In Québec, Ontario and British Columbia, where our operations are centred, tour operators and travel agencies (collectively referred to in this subsection as "Travel Agents") are governed by specific

legislation providing protection to the travel customer. The *Office de la protection du consommateur*, the *Travel Industry Council of Ontario* and *Consumer Protection BC* are the authorities designated in Québec, Ontario and British Columbia, respectively, to carry out the control and inspection mechanisms provided for in the legislation and to ensure compliance therewith. In all three provinces, Travel Agents must hold licences to carry on their business and must deposit into a trust account monies received from customers for travel services purchased. The law restricts the use of these funds. All three provinces have established compensation funds in favour of consumers to protect them against fraud and bankruptcies of Travel Agents and end suppliers, such as airlines or cruise lines.

Key aspects addressed by applicable legislation in all three provinces include compensation funds and advertised price for travel services.

Québec is the only province where the compensation fund is made up of customer contributions. On November 15, 2017, the Québec government adopted the *Act mainly to modernize rules relating to consumer credit and to regulation debt settlement service contracts, high-cost credit contracts and loyalty programs*. The Act amends, among other statutes, the *Travel Agents Act*. The Québec government also made, on July 3, 2018, the *Regulation to amend the Regulation respecting travel agents*. Under these new provisions, the compensation fund now covers, since August 1, 2018, a greater number of situations. Customers of Travel Agents now benefit from better financial protection in addition to speedier indemnification in case of a problem.

In addition, this amendment provides that when the value of the compensation fund is equal to or greater than \$125 million as of March 31 of each year, customers of Travel Agents are credited the amount of their contribution to the compensation fund, thus making the protection free. Collection of contributions will resume, according to the calculation prescribed in the regulation, if the surplus accumulated as of March 31 of each year decreases under the \$75 million threshold. Since January 1, 2019, Travel Agents are no longer required to collect the contribution to the compensation fund from their customers. Customers of Travel Agents may therefore benefit from the fund free of charge. As of March 31, 2019, the value of the compensation fund was \$141.7 million, which means that it is possible to maintain the contribution holiday in favour of Travel Agents' customers.

Customers can claim directly from the compensation fund if they do not receive the services for which they have paid in the event of a supplier default or because of a reason outside a customer's control. The total compensation per event may not exceed 60% of the surplus accumulated in the fund as of the previous March 31 or be less than \$30 million.

In Ontario, as opposed to Québec, tour operators and Travel Agents are responsible for financing travellers' financial protection through the Ontario Travel Industry Compensation Fund. In December of 2017, the Ontario government adopted the *Strengthening Protection for Ontario Consumers Act, 2017*. With this legislation, the Ontario government amended, *inter alia*, the *Travel Industry Act, 2002*, for the purpose of, among other things, modernizing it, strengthening consumer protection and lightening the regulatory burden imposed on travel agencies. No changes were made to the compensation fund, which remains administered and managed in accordance with the applicable regulation, namely the *Ontario Regulation 26/05* (the "Regulation"). In 2017, the Ministry of Government and Consumer Services (the "Ministry") consulted stakeholders about the development of the Regulation and the proposed regulatory changes. It is therefore not excluded that the rules governing the compensation fund be amended at such time.

Since April 1, 2017, the rate of contribution to the Ontario compensation fund is \$0.25 for everyone thousand dollars of travel services sold. As in Québec, taxpayers, in this case Travel Agents, may draw directly on the compensation fund with a view to be reimbursed for disbursements made to customers in the event of default of an end supplier. The maximum amount that may be reimbursed out of the compensation fund to a customer or Travel Agent for failure to provide travel services is \$5,000 for

each person whose travel services were paid for by the customer. The maximum amount that may be reimbursed for a failure to provide travel services with respect to all claims arising out of an event or a major event is capped at \$5.0 million.

In British Columbia, as in Ontario, the compensation fund is made up of Travel Agent and travel wholesaler contributions. The maximum amount that may be paid to a claimant in respect of a claim is \$5,000 for each person covered by the claim, subject to a \$2.0 million cap for all claims relating to a single event. It remains to be seen how this cap will work out with the contribution holiday, under the legislation applicable to licensees. This contribution holiday applies when the book value of the Travel Assurance Fund is at least \$2.0 million, and the licensee has paid the required contributions for successive semi-annual periods totalling three years.

4.8.1.1.1 Advertised Price for Travel Services

When it comes to advertising, Québec legislation promotes full disclosure to enable the customer to make informed decisions, namely to ensure that pricing information is not misleading and that the total price is provided at the actual time of purchase to avoid so-called “sticker-shock”. However, Travel Agents may exclude from the total cost of the services advertised the Québec sales tax, Canada’s goods and services tax and the dollar amount payable as a contribution to the compensation fund. The *Travel Agent Act* and its Regulation provide that a Travel Agent who wishes to unilaterally change the price of the travel services provided in a contract entered into with a client must insert a clause to that effect in the contract. The clause shall state that (i) the price may only be increased following the imposition of a fuel surcharge by the carrier or an increase in the exchange rate, insofar as the exchange rate applicable 45 days prior to the date on which the services are to be provided (the date of departure in most cases) has increased by more than 5% since the date on which the contract was entered into (the date of purchase in most cases); (ii) no price increase may occur within 30 days prior to the date on which the services are to be provided (once again, the date of departure in most cases); and (iii) if such price increase is equal to or greater than 7% of the price of the travel services, excluding the Québec sales tax or Canada’s goods and services tax, the customer may choose between a full and immediate refund or the provision of similar services.

Since January 1, 2017, Ontario’s legislation requires, just as the Québec legislation, that any advertising indicating a trip’s price must also include all fees and taxes. The *Travel Industry Act, 2002* requires any representation relating to the price of travel services to show in a clear, comprehensible and prominent manner the total amount consumers will be required to pay for the travel services, including all fees, levies, service charges, surcharges, taxes and other costs. All-inclusive prices reduce confusion and ensure that there are no surprises for consumers who purchase travel services in the province.

While Ontario’s legislation also allows for price increases, it only allows them if the contract between the Travel Agent and the customer permits them, if the customer has not paid the price of the travel services in full, and if the cumulative price increase is less than 7% of the total price of the travel services, excluding any increase resulting from an increase in retail sales tax or federal goods and services tax. Otherwise, the Travel Agent must offer the customer the choice between a full and immediate refund of the amount paid and comparable alternate travel services acceptable to the customer. Advertising rules in British Columbia applicable to Travel Agents are similar to Ontario but they are dealt with in general consumer protection laws.

Although air carriers are governed by federal legislation, the amendments brought to the *Consumer Protection Act* in Québec, which came into force on June 30, 2010, prevent air carriers from charging a higher price than what is advertised.

The *Air Transportation Regulations* (Canada) require that the price of air services represented in any advertisement be the total price, inclusive of all taxes, fees and surcharges. The advertisement must

also include a description of the air services offered and the customer must have access to the breakdown of the components of the price paid (taxes, fees and charges paid to a third party) and the fees for any optional services available. It should be noted that these provisions do not apply to air cargo services, sale of air services to businesses or the sale of package travel services where air services are sold with other features such as accommodations, tours, cruises or car rentals.

4.8.1.1.2 Laws Applicable to Franchising Activities

Ontario, Manitoba, Alberta, Prince Edward Island, New Brunswick and British Columbia have adopted laws governing the formalities for entering into franchise contracts. In the course of its activities, Transat enters into franchise contracts with franchisees doing business in these provinces under the Marlin Travel, Travel Plus and Goliger's brands.

As at the date of this AIF, our companies and divisions doing business as Travel Agents hold all licences necessary for their operations and are in compliance, in all material respects, with the requirements of applicable laws and regulations, including those related to franchises.

4.8.1.2 United Kingdom

The UK travel industry has three main regulatory bodies: ATOL, ABTA and IATA (defined hereinafter). ATOL is a government-backed protection scheme for flights and air holidays and is managed by the Civil Aviation Authority (CAA). Most firms who sell air travel in the UK such as Canadian Air are required by law to hold a licence called an ATOL. ATOL protects consumers from losing money or being stranded abroad if and when a tour operator goes out of business. All licensed firms are required to take part in a financial guarantee scheme managed by the CAA which protects customers should a firm fail. Following this measure, Canadian Air issued a letter of credit of £2.1 million to the CAA. The holders of an ATOL licence must deliver their certificate to every customer booking a trip covered by their ATOL licence. ATOL protection is included in the price of a holiday booked with an ATOL holder. Since 2016, Air Transat UK departing passengers, like those of other scheduled airlines, are no longer ATOL protected. However, Canadian Air customers who book a qualifying flight plus holiday arrangement will continue to be ATOL protected.

ABTA, the Association of British Travel Agents, is a trade association which represents UK travel agents and tour operators responsible for the sale of individual vacation travel packages (not covered by the ATOL protection). It is ABTA's role to ensure that customers benefit from consistently high standards of trading practice in the travel industry. ABTA members operate under a Code of Conduct and provide consumer advice on all aspects of holidays from financial security to complaint handling.

4.8.2 Air Carriers

4.8.2.1 International Regulatory Framework

Numerous commercial aspects of international air transport are regulated by international conventions, principally the *Convention on International Civil Aviation* signed in Chicago on December 7, 1944 (the "*Chicago Convention*"), by the domestic legislation of countries in which air transport is conducted, and by a network of bilateral and multilateral air transport agreements and treaties.

The *Chicago Convention* provides the basis for regulation of international air carrier operations. Scheduled air services are governed by the bilateral air transport agreements in effect between the countries of origin, destination and, in certain cases, transit of the flights in question. Certain principles pertaining to the operation of international charter flights were established between each of the signatory states (including Canada), namely that the intended transportation comply with, and

be duly approved pursuant to, the national regulations of the countries between which it is being conducted.

The *Chicago Convention* also established the International Civil Aviation Organization (the "ICAO"), a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of the ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. One of the treaties with considerable consequence for Transat is the landmark air transport agreement concluded between Canada and the European Union ("EU") in November 2008. It formally entered into force on December 16, 2009. The agreement sets the rules for air transport services between Canada and the 28 member states of the EU and will liberalize market access in this respect on a progressive, phased-in basis. During the first phase, Canadian airlines are able to operate from any point in Canada to any point in the 28 member-state EU zone without restrictions, with EU licensed air carriers enjoying reciprocal rights from any point in the EU (regardless of nationality) to any point in Canada. Subsequent liberalization phases will be contingent on the relaxation of Canadian airline ownership and control rules by foreign interest and will involve the easing of access to third-country markets.

As a result of the formal notice filed by the United Kingdom to withdraw as a member of the EU as of April 1, 2019, the above-mentioned air transport agreement no longer applies to air services between Canada and the United Kingdom since that date. Consequently, negotiations have been initiated with a view to concluding a new bilateral air transport agreement to provide the replacement legal framework for the flights in question. Such an agreement between the two countries has been concluded on November 30, 2018, in Ottawa. This agreement will come into force when the UK's exit from the EU will be legally achieved.

On November 5, 2003, the *Montreal Convention of 1999 on Compensation for Accident Victims* (the "*Montreal Convention*") came into effect. This multilateral agreement updates the rules on passengers, baggage and cargo liability applicable to international air transport and originally established by the *Warsaw Convention* in 1929 and amended over the years (together the "*Warsaw System*"). The *Montreal Convention* provides for the review of liability limits, thus ensuring that the amounts remain relevant with the passage of time. The first such review was duly undertaken by the ICAO during the course of 2009. In addition to establishing new principles of liability, the *Montreal Convention* modernizes many of the ticketing and air waybill requirements. The *Montreal Convention* has been ratified by Canada and applies to all flights between Canada and other ratifying states. For flights from Canada to non-ratifying or non-signatory states, the *Warsaw System* continues to govern.

As an airline operating flights from airports within the EU, Air Transat is subject to the provisions of EU Regulation 261/2004. This directive establishes a legal framework for the compensation and care of passengers by airlines in the event of overbooking/denied boarding, flight cancellations and long delays. While the Regulation stipulates payable compensation in the event of the first two cases, it only expressly provides for a duty of care by the airline in the context of a long flight delay (meals, snacks, hotel accommodations, as applicable). In November 2009, the European Court of Justice issued a ruling that extended financial compensation obligations to long delays as well. This jurisprudential trend has been maintained and EU national enforcement bodies henceforth consider passengers on flights delayed by more than three hours as being eligible for compensation per the rates set out for overbooking/cancellation except in certain narrowly defined cases of extraordinary circumstances. The EU has recently proposed amendments to revise Regulation 261 that would address these developments. However, the process is currently stalled at the EU Council level.

4.8.2.2 Canadian Legislation

In Canada, the *Aeronautics Act*, R.S.C. 1985, c.A-2, the *Canada Transportation Act* and the *Transportation Modernization Act*, S.C. 2018, c. 10 are the three principal legislative instruments that

regulate the operation of a commercial airline in Canada. Such operation is subject to the issuance of the required licences and operating certificate attesting that the air carrier complies with Canadian standards, as well as to the maintenance of the required liability insurance. In the case of charter flights, permits are required for each proposed flight or series of flights. Licences and charter permits are issued by the Canadian Transportation Agency (the "Agency"), and the operating certificate is issued by Transport Canada. This certificate attests that the air carrier is properly organized and equipped to conduct its business in compliance with the *Canadian Aviation Regulations*, SOR/1996-433. Such a certificate was issued to Air Transat on November 13, 1987 and was subsequently modified to reflect our changing operating conditions.

The great majority of Air Transat's flights are operated under scheduled air service licences (domestic and international). In fact, Air Transat is licensed by the Agency to offer scheduled airline services in Canada and to the United States, Cuba, the EU (representing its current 28 member states), Mexico, Jamaica, the Bahamas, Barbados, Turkey, Panama, Costa Rica, Nicaragua, El Salvador, Colombia, Antigua and Barbuda, St. Lucia, Netherlands Antilles, the Dominican Republic and Haiti. These operations are subject to the rules established under the bilateral air transport agreements entered into by Canada and these respective countries and supranational authorities.

On May 23, 2018, the Parliament of Canada adopted the *Transportation Modernization Act*. The main elements of this legislation that have directly affected the Corporation are the following: (i) the establishment of a framework for an airline passenger rights regime that would impose legal obligations on airlines with respect to tarmac delay management, denied boarding, flight delay/flight cancellation compensation and duty of care, as well as liability standards for the carriage of baggage not currently covered by existing international conventions, the whole as provided in the *Air Passenger Protection Regulations* which came into force on July 15, 2019; (ii) an increase of the maximum number of voting shares of a Canadian-licensed airline that can be beneficially owned by non-Canadians from 25% to 49%, subject to the stated restrictions; (iii) the establishment by the federal minister of transport of an approval and exemption from competition law process for airline joint ventures. On January 30, 2015, Bill C-51, *An Act to enact the Security of Canada Information Sharing Act and the Secure Air Travel Act, to amend the Criminal Code, the Canadian Security Intelligence Service Act and the Immigration and Refugee Protection Act and to make related and consequential amendments to other Acts* (the "Antiterrorist Act") was presented for first reading in the House of Commons. The *Antiterrorist Act* seeks to provide a new legislative framework for identifying and responding to persons suspected of threatening transportation security or of travelling by air for the purpose of committing a terrorism offence. The *Antiterrorist Act* would authorize the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. The Minister of Transport would also have the power to seize an aircraft for the purpose of inspecting it and take measures concerning the movement of the aircraft. The management cannot predict whether or when the *Antiterrorist Act* might be adopted.

Air Transat, like Transat Tours, is subject to the Canadian and foreign personal information protection legislation concerning the collection, use, disclosure and protection of passenger and employee data. In Canada, the federal legislation regarding the protection of personal information in the private sector, the *Personal Information Protection and Electronic Documents Act* (Canada) ("PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities of a federally regulated undertaking. Moreover, the PIPEDA governs the processing of personal information of employees working for federally regulated employers. Subject to certain exceptions, the PIPEDA also applies to the collection and disclosure of personal information from province to province or between Canada and another country, and within provinces in the absence of substantially similar legislation governing the protection of personal information applicable to the private sector. The PIPEDA requires the tacit or express informed consent of the persons whose personal information is collected and used. The personal information may then be used only for the

purposes for which it was initially collected or for other purposes provided or permitted by the PIPEDA. Air Transat's privacy policies respect or exceed the requirements of the Act.

As at the date of this AIF, Air Transat holds all necessary licences, certificates and permits and is in compliance, in all material respects, with the requirements of applicable Canadian legislation. Furthermore, all of our aircraft meet the ICAO chapter 3 noise requirements implemented by Transport Canada.

On July 1, 2014, *An Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act* came into force. Also called the "Canadian Anti-Spam Act" or "CASA", the Act particularly regulates the conditions under which commercial electronic messages may be sent. All of the Corporation's Canadian subsidiaries implemented mechanisms ensuring their compliance with the requirements of the CASA before July 1, 2014.

4.8.2.3 Foreign Legislation

In respect of each jurisdiction other than Canada in which Air Transat operates, we must comply with applicable laws and, when necessary, obtain the required licences, permits and authorizations. We are of the opinion that Air Transat holds all licences, permits and authorizations necessary for its operations and is in compliance, in all material respects, with the requirements of applicable foreign legislation.

4.8.2.4 IATA

IATA, the International Air Transport Association, is the prime vehicle for inter-airline co-operation in promoting safe, reliable, secure and economical air services - for the benefit of the world's consumers. IATA membership is open to both scheduled and non-scheduled airlines. Only airlines operating air services are eligible for IATA membership. However, travel agencies can be registered as IATA approved agents. Air Transat is a member of IATA.

4.8.3 Environment

We have put the necessary processes in place, and we are in compliance in all material respects with the provisions of applicable environmental laws and regulations that apply to our buildings and to our operations. This is true for all regulatory levels, from borough and municipal by-laws to provincial, federal and international regulations. The Risk Management and Corporate Governance Committee of the Board of Directors annually carries out a risk assessment and reviews corporate policies and procedures with respect to the environment. Air Transat has a legal review process whereby any new environmental legislation regarding Air Transat is identified and compliance is incorporated into our processes and procedures. The environmental legal review is done quarterly and is part of our environmental management system. Air Transat received the ISO14001:2015 certification for its head office in 2019. We are the first airline company in North America to receive certification for this standard, that several European and international airline companies, as well as large airports in Canada such as YUL, YYZ and YVR, have already received.

Since January 2012, all air carriers serving the EU, including Air Transat, are subject to EU regulations concerning the application to aviation of the EU's Emissions Trading Scheme ("ETS"). However, as a result of formal objections by numerous countries around the world concerning the extraterritorial application and resulting alleged state sovereignty violations of the ETS, the EU suspended application of its ETS to EU-third country air services in November 2012 pending the outcome of deliberations at

the ICAO during its General Meeting in the fall of 2013 on the question of a multilateral plan for reducing the effects of aviation GHGs on climate change. A resolution to this end was adopted by the ICAO General Assembly. The EU subsequently amended its ETS Regulation to limit its scope only to intra-European flights. This measure is referred to as the “suspended provision”. A second suspension regulation aimed at expanding the reduced scope was agreed upon in 2014 in order to allow more time for the ICAO. At its 2016 Triennial Meeting, the ICAO adopted the broad lines of a global offsetting system known as CORSIA (“Carbon Offsetting and Reduction Scheme for International Aviation”). The exemption for flights to and from Europe was extended until 2024, when regulators in Europe will have a better understanding of how CORSIA will work and how efficient it will be. Until then, Air Transat is still subject to the EU’s ETS, but only for intra-EEA (“European Economic Association”) flights. Until recently, the cost of these flights was not important to Air Transat because they represent a very small percentage, less than 0.1%, of our overall routes and because we receive enough free credits to cover our emissions. We even generally have a small surplus to sell. However, in the future, two factors will increase the cost of compliance to the EU ETS for Air Transat. The first is related to BREXIT. As a result of BREXIT negotiations, the United Kingdom has not been able to issue free credits for the 2018 period, and Air Transat had to buy approximately 1,200 credits, for a cost of 30 000 euros. Based on the result of a UK/EU BREXIT deal, we may have to move our Aircraft Operating Holder account to France and change our authorized authority from the UK Department for Environment to France’s Direction de l’aviation civile (“DGAC”). Also, starting in 2021, the EU will apply a linear reduction factor of 2.2% per year for the issuance of free credits.

At ICAO’s subsequent 39th Triennial General Meeting that took place in the fall of 2016, a new global market-based mechanism was agreed to that would create a voluntary carbon-offsetting system for international aviation emissions as of 2021. This system, referred to as CORSIA, will become mandatory for all countries, except for the world’s least developed states, by 2027. Canada is one of the numerous countries that will take part in the voluntary phase. Consequently, beginning in 2021, carbon emissions generated by an Air Transat aircraft operated from Canada to another non-exempted country that has agreed to take part in the voluntary transition phase will need to be offset through one or more authorized programs, based on the progressive increase of carbon emissions on the route in comparison with the baseline. Air Transat is legally required to submit an emissions MRV (“Monitoring, Reporting, and Verification”) plan to the Canadian government in order to comply with CORSIA. Air Transat submitted a MRV plan in the beginning of 2019, and the plan was accepted by Transport Canada, the authorized authority for the government of Canada. Air Transat, as well as all airlines, is required to monitor its emissions since January 1, 2019 and to submit a yearly verified emission report. The year 2019 served as a benchmarking year and Air Transat will need to pay for emissions starting in 2021. The payments are made over three-year cycles. For example, in 2024, we will be required to purchase carbon credits covering the emissions increase on the CORSIA routes for the years 2021-2024. Important costs will thus be incurred every three years. The determination of cost of the emissions will depend on participating countries, growth on qualified city pairs, and the type of eligible carbon offsets. Since many of the details of the system are yet to be decided, it is difficult to make an accurate cost prediction at this time.

In Canada, in order to deliver on our commitments under the Paris Accord, the government plans to set a minimum price for carbon in the Pan-Canadian Framework on Clean Growth and Climate Change. This price starts at \$20 per ton in 2019 and will rise at \$50 per ton in 2022. Certain provinces such as British Columbia have already started to tax fuel on intraprovincial flights. Since Air Transat has very few intraprovincial flights, this measure will not have a significant economic impact on us. However, the plan is to eventually include domestic flights (interprovincial), which could lead to a sharp increase in costs.

The Canadian government has not yet decided whether or not aviation will be part of a federal carbon tax. In addition, the Canadian government may include aviation in the Clean Fuel Standard, which would require airlines to use a certain percentage of less carbon intensive fuels such as sustainable aviation

jet fuel. This would pose a significant challenge as these types of fuels are in very short supply for aviation and cost considerably more than ordinary jet fuel. Air Transat is actively seeking to ensure a sustainable fuel supply for aviation and has joined a consortium, which includes Aéroports de Montréal, with a view to develop a jet fuel derived from industrial processes gas waste capture. This project was one of the four finalists of the "Sky's the Limit" Challenge of the NRCC (National Research Council Canada), which aims at establishing a viable and sustainable industrial basis for aircraft fuel in Canada. The consortium won a \$2 million prize to finance the development of the technology.

Transat's Board of Directors formally adopted a sustainable tourism policy in 2008 and Air Transat developed and implemented an environmental policy in 2010. This policy provides a framework and sets out the principles guiding our action in this area.

4.8.4 Corporate Social Responsibility

We endeavour to maintain healthy and mutually beneficial relationships with all communities, so that they benefit to the maximum from the favourable effects of our activities and of tourism in general, and we endeavour to minimize the adverse effects. In this regard, we have in place a comprehensive corporate responsibility program with a report available at resp.transat.com, which provides an account of the organization's commitment to taking responsible actions and describes the main accomplishments.

After ten years of sustainability efforts, Transat became the first North American tour operator to be awarded Travelife Partner certification status in 2016. In 2018, we were awarded the Travelife Certified status, thus becoming the first major tour operator in the world to receive such certification for all of its activities. Compliance with our undertakings has been audited for more than 200 requirements. In the context of these efforts, Transat has also filed its plan for the next two years, which focuses in particular on mobilization and training of our employees on matters of sustainable development, social commitment (volunteering days, Leave for Change, etc.), encouragement and recognition of the efforts of our partners, continued philanthropic action on our part in Canada and locally at our various destinations, and encouragement for our clients to travel responsibly.

The efforts we made in favour of a sound management of our residual material have also proven successful. In September 2019, Transat received, for its Montreal head office, the Performance + certification from Recyc-Québec's recognition program *Ici on recycle* .

Transat's Code of Ethics was revised in 2010 and 2015, and now includes commitments related to our vision of corporate responsibility. This document, approved by the Board of Directors, constitutes both an expression of our corporate culture and an instrument for managing change. Every employee is required to read it and commit to complying with it.

Our corporate responsibility program and all sub-programs are managed by the Corporate Responsibility Committee (CRC), which is primarily made up of senior executives from all sectors of the Corporation. The CRC meets twice a year.

4.9 RISK FACTORS

We are subject to a number of risks and other factors that could affect demand for our product offering, some of which are related or inherent to the travel industry in general. Please see the "Risks and Uncertainties" section of our Management's Discussion and Analysis for the year ended October 31, 2019, available for consultation on SEDAR (sedar.com).



4.9.1 Risks related to the Transaction

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

The main risks are:

Conditions Precedent and Required Approvals

There can be no certainty, nor can Transat provide any assurance, that all conditions precedent to the Arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver. Failure to complete the Arrangement could materially negatively impact the trading price of the voting shares.

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

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

Restrictive Covenants of the Corporation until the Closing of the Arrangement and Uncertainty may adversely affect the Corporation's Business

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

Termination in Certain Circumstances and Termination Fee

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

Occurrence of a Material Adverse Effect

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

The Securityholders will no longer own any Interest in the Corporation following the Arrangement.

Following the Arrangement, Shareholders will no longer hold any of the Voting Shares or other securities in the Corporation or its affiliates and Shareholders will forego any future increase in value that might result from future growth and the potential achievement of the Corporation's long-term plans.

Uncertainty Surrounding the Arrangement

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

4.9.2 Risks related to Human Resources

The cost of labour is one of the main items of the Corporation's operating expenses. There can be no assurance that Transat will be successful in maintaining these costs at levels that will not have an adverse effect on its business, results of operations or financial position.

The ability of the Corporation to successfully carry out its business plan depends on the experience of its key officers and employees, as well as on their knowledge of the tourism, travel and aviation industries. The loss of key employees could negatively affect our business and results of operations.



Also, our recruitment program, our salary structure, our performance management programs, our succession plan and our training plan involve risks which may have adverse effects on our ability to attract and retain the qualified resources necessary to support the growth and success of the Corporation.

As at October 31, 2019, the Corporation had 5,100 employees, approximately 60% of which are unionized and subject to six collective agreements that have all been renewed on October 31, 2019. The Air Line Pilots Association's agreement will expire over the course of next year. Therefore, there is a possibility that the negotiations regarding the renewal of this collective agreement lead to stoppages, work slowdowns or increases in the cost of labour, which may have an adverse effect on our business and results of operations.

4.9.3 Risks related to Hotel Development

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

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

5. DIVIDENDS

Transat has not declared or paid dividends to holders of the Variable Voting Shares and of the Voting Shares for any of the three most recently completed financial years in order to keep cash on hand to develop the hotel business and contend with business challenges arising from the prevailing economy. No decision has been taken with respect to future dividends, and no assurance can be given that any dividends will be paid in the future.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

We refer you to our Management's Discussion and Analysis for the year ended October 31, 2019, available for consultation on SEDAR (www.sedar.com).



7. OUR SHARE CAPITAL STRUCTURE

7.1 CONSTRAINTS ON SHARE OWNERSHIP

CLASS A VARIABLE VOTING SHARES

Since the plan of arrangement approved by the shareholders of the Corporation and the Québec Superior Court became effective on May 8, 2019, Class A Variable Voting Shares 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 is exceeded, the votes that should be attributed to holders of Class A Variable Voting 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;
- second, 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 Variable Voting 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; and
- third, 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 Variable Voting 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 Variable Voting 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 *Canada Transportation Act* (hereinafter, the "CTA"), or (ii) the CTA's provisions relating to foreign ownership restrictions are repealed and not replaced with 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 Variable Voting 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.

7.2 INFORMATION AND REPORTING

Transat or its transfer agent will provide the shareholders, in accordance with the applicable securities legislation, with Transat's financial statements (including the annual and quarterly financial statements) and other reports required by the applicable laws, including the prescribed forms required by the shareholders to file their tax returns in accordance with the *Income Tax Act* and the equivalent provincial legislation.

Before each shareholder meeting, Transat's Board of Directors will provide the shareholders (with the Notice of Meeting) with a form of proxy and all the information that must be provided to them, under the applicable legislation and the TSX rules.

Transat's directors and officers are required to file insider reports and comply with the insider trading provisions of the Canadian securities legislation regarding trading by these persons in Transat's securities.

7.3 SHAREHOLDER RIGHTS PLAN OF TRANSAT

Transat's Shareholder Subscription Rights Plan dates back to February 3, 1999 and was ratified by the shareholders on March 24, 1999. This plan was renewed by the Board of Directors and ratified by the shareholders every 3 years. The last renewal and ratification occurred in 2017 (the "2017 Rights Plan"). The 2017 Rights Plan came into force after the annual and special meeting of the shareholders held on March 16, 2017, and will expire at the close of business the day after the annual meeting of shareholders to be held in 2020, unless earlier terminated in accordance with its terms.

The 2017 Rights Plan is designed to provide Transat's shareholders and the Board of Directors additional time to assess an unsolicited takeover bid for the Corporation and, where appropriate, to give the Board of Directors additional time to pursue alternatives for maximizing shareholder value. It also encourages fair treatment of all shareholders by providing them with an equal opportunity to participate in a takeover bid. The 2017 Rights Plan creates one right in respect of each Variable Voting Share and each Voting Share of Transat outstanding as at March 16, 2017, or subsequently issued. Presently, until the separation time, which typically occurs at the time of an unsolicited takeover bid whereby an Acquiring Person (as defined in the rights plan) acquires or attempts to acquire 20% or more of Transat's outstanding Variable Voting Shares and Voting Shares, calculated on a combined basis, the rights are not separable from the shares, are not exercisable and no separate rights certificates are issued.

Under the 2017 Rights Plan, each right, other than those held by an Acquiring Person and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20% or more of the outstanding Variable Voting Shares and Voting Shares of Transat calculated on a combined basis (otherwise than through the "Permitted Bid" requirements of the rights plan) to purchase from Transat \$200 worth of Variable Voting Shares or Voting Shares for \$100 (i.e. at a 50% discount). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Variable Voting Shares.

The 2017 Rights Plan reflects the new rules governing takeover bids entered into in 2016, extending the minimum duration of a bid to at least 105 days. Consequently, for a bid to be eligible and considered authorized, the takeover bid must be presented in a takeover bid circular to all holders of common shares in order to be valid for at least 105 days and must contemplate more than 50% of the outstanding shares, as provided for in the 2017 Rights Plan.

What is more, the 2017 Rights Plan still gives effect to a 2014 decision issued by Canadian Securities Administrators that effectively treats Transat's Variable Voting Shares and Voting Shares as a single class for the purposes of applicable takeover bid requirements and early warning reporting requirements under Canadian securities laws. Consequently, the 2017 Rights Plan is triggered in the event of an offer to acquire 20% or more of both the Variable Voting Shares and the Voting Shares, on a combined basis, and not when the offer contemplates the acquisition of 20% or more of either class separately. A copy of the 2014 decision issued by the Canadian Securities Administrators is available under Transat's profile on SEDAR (www.sedar.com).

7.4 GENERAL DESCRIPTION OF OUR SHARE CAPITAL

As at the date of this AIF, Transat's share capital is composed of an unlimited number of Voting Shares and Variable Voting Shares. As at October 31, 2019, there were 4,243,821 issued and outstanding Variable Voting Shares and 33,503,269 issued and outstanding Voting Shares. Below is a summary describing the rights, privileges, restrictions and conditions attached to Transat's Variable Voting Shares, Voting Shares and Preferred Shares.

7.4.1 Class A Variable Voting Shares

7.4.1.1 Voting Rights

The holders of Class A Variable Voting Shares (hereinafter, the "Variable Voting Shares") shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of the Corporation, except where the holders of a specified class are entitled to vote separately as a class as provided in the *Canada Business Corporations Act* (hereinafter, the "CBCA").

The holders of Variable Voting Shares shall be entitled to one vote per Variable Voting Share held, unless any of the thresholds set forth in Sections 7.4.1.1.1, 7.4.1.1.2 and 7.4.1.1.3, as the case may be, are otherwise surpassed at any time, in which case the votes attached to a Variable Voting Share will decrease as described in this Section 7.4.1.1 below.

7.4.1.1.1 Single Non-Canadian Holder

If at any time:

- (i) a single non-Canadian holder, either individually or in affiliation with any other person, holds a number of Variable Voting Shares outstanding that, as a percentage of the total number of all voting shares outstanding, exceeds 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), or
- (ii) the total number of votes that would be cast by or on behalf of a single non-Canadian holder, either individually or in affiliation with any other person, at any meeting, would exceed 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 such meeting;

then the votes attached to each Variable Voting Share held by such single non-Canadian holder and by any person in affiliation with such single non-Canadian holder will decrease proportionately and automatically without further act or formality only to such extent that, as a result (a) the Variable Voting Shares held by such single non-Canadian holder and by any person in affiliation with such single non-Canadian holder do not 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 aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (b) the total number of votes cast by or on behalf of such single non-Canadian holder and by any person in affiliation with such single non-Canadian holder at any meeting do not exceed in the aggregate 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 such meeting.

7.4.1.1.2 Non-Canadian Holders Authorized to Provide Air Service

If at any time:

- (i) one or more non-Canadian holders authorized to provide air service, collectively hold, either individually or in affiliation with any other person, a number of Variable Voting Shares outstanding that, as a percentage of the total number of all voting shares outstanding, after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1 (if any, as may be required thereunder), exceeds 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); or
- (ii) the total number of votes that would be cast by or on behalf of non-Canadian holders authorized to provide air service and persons in affiliation with any non-Canadian holders authorized to provide air service at any meeting would, after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1 (if any, as may be required thereunder), exceed 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 such meeting,

then the votes attached to each Variable Voting Share held by all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service will decrease proportionately and automatically without further act or formality only to such extent that, as a result (a) the Variable Voting Shares held by all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service do not 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 aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (b) the total number of votes cast by or on behalf of all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service at any meeting do not exceed in the aggregate 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 such meeting.

7.4.1.1.3 General Voting

If at any time:

- (i) the number of Variable Voting Shares outstanding as a percentage of the total number of all voting shares outstanding after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1. and after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service in accordance with Section 7.4.1.1.2 (in each case, if any, as may be required under such Sections), exceeds 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); or
- (ii) the total number of votes that would be cast by or on behalf of holders of Variable Voting Shares at any meeting would, after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1 and after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service in accordance with Section 7.4.1.1.2 (in each case, if any, as may be required under such Sections), exceeds 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 at such meeting.

then, the votes attached to each Variable Voting Share will decrease proportionately and automatically without further act or formality only to such extent that, as a result (a) the Variable Voting Shares do not carry 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 aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (b) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 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 at such meeting.

7.4.1.2 Dividends

Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation ranking prior to the Variable Voting Shares, the holders of Variable Voting Shares shall be entitled to receive any dividend declared by the directors of the Corporation at the times and for the amounts that the Board of Directors may, from time to time, determine. The voting shares shall rank equally as to dividends, and all dividends declared in any fiscal year of the Corporation shall be declared in equal or equivalent amounts per share on all voting shares then outstanding, without preference or distinction.

7.4.1.3 Subdivision or Consolidation

No subdivision or consolidation of Variable Voting Shares or Voting Shares shall occur unless the Variable Voting Shares or the Voting Shares, as the case may be, are at the same time subdivided or consolidated in the same manner, so as to maintain and preserve the respective rights of the holders of the shares of each class.

7.4.1.4 Liquidation, Dissolution or Winding-up

Subject to the rights, privileges, restrictions and conditions attaching to other classes of shares ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding-up of the Corporation, the holders of voting shares shall be entitled to receive the remaining property of the Corporation and shall be entitled to share equally, share for share, in all distributions of such assets.

7.4.1.5 Conversion

7.4.1.5.1 Automatic

Each issued and outstanding Variable Voting Share shall be convertible into one Voting Share, automatically and without any further act on the part of the Corporation or the holder, if:

- (i) such Variable Voting Share is or becomes owned and controlled by a Canadian; or
- (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

7.4.1.5.2 Upon an Offer

In the event that an offer is made to purchase Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, to be made to all or substantially all the holders of Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to Section 7.4.1.1., notwithstanding their conversion. The transfer agent shall deposit the resulting Voting Shares on behalf of the holder.

To exercise such conversion right, the holder or such holder's attorney duly authorized in writing shall:

- (i) give written notice to the transfer agent of the exercise of such right and of the number of Variable Voting Shares in respect of which the right is being exercised;
- (ii) deliver to the transfer agent the share certificate or certificates representing the Variable Voting Shares in respect of which the right is being exercised; and
- (iii) pay any applicable stamp tax or similar duty on or in respect of such conversion.

No share certificates representing Voting Shares resulting from the conversion of Variable Voting Shares shall be delivered to the holders on whose behalf such deposit is being made.

If Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the holder or are not taken up by the offeror; or the offer is abandoned or withdrawn by the offeror or the offer otherwise expires without such Voting Shares being taken up and paid for, the Voting Shares resulting from the conversion will be reconverted into Variable Voting Shares and a share certificate representing the Variable Voting Shares will be sent to the holder by the transfer agent. Voting Shares resulting from the conversion and taken up and paid for by the offeror shall be deemed reconverted into Variable Voting Shares at the time the offeror is required under the applicable securities legislation to take up and pay for such shares if the offeror is not a Canadian.

In the event that the offeror takes up and pays for the Voting Shares resulting from conversion, the transfer agent shall deliver to the holders thereof the consideration paid for such shares by the offeror.

There will be no right to convert the Variable Voting Shares into Voting Shares in the following cases:

- (i) the offer to purchase Voting Shares is not required under applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed to be made to all or substantially all of the holders of Voting Shares in a province of Canada to which the requirement applies, that is, the offer is an "exempt take-over bid" within the meaning of the foregoing securities legislation;
- (ii) an offer to purchase Variable Voting Shares is made concurrently with an offer to purchase the Voting Shares and the two offers are identical in respect of price per share, percentage of outstanding shares for which the offer is made, and in all material respects, including in respect of the conditions attaching thereto. The offer to purchase the Variable Voting Shares must be unconditional, subject to the exception that the offer for the Variable Voting Shares may contain a condition to the effect that the offeror is not required to take up and pay for Variable Voting Shares deposited pursuant to the offer if no shares are purchased pursuant to the contemporaneous offer for the Voting Shares; or
- (iii) holders of more than sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the then outstanding Voting Shares (excluding shares owned immediately prior to the offer by the offeror and any joint actor) certify to the transfer agent and to the secretary of the Corporation that they will not deposit any shares in response to the offer for the Voting Shares.

7.4.1.6 Constraints on Ownership

The Variable Voting Shares may only be owned or controlled by persons who are not Canadians.

7.4.2 Class B Voting Shares

7.4.2.1 Voting Rights

The holders of Class B Voting Shares (hereinafter, the "Voting Shares") shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of the Corporation, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA. Each Voting Share shall confer the right to one vote per share at all meetings of the shareholders of the Corporation.

7.4.2.2 Dividends and Distributions

Subject to the rights, privileges, restrictions and conditions attached to any class of shares of the Corporation ranking prior to the Voting Shares, holders of Voting Shares shall be entitled to receive the dividends declared by the directors of the Corporation at the times and for the amounts that the Board of Directors may, from time to time, determine. The voting shares shall rank equally as to dividends, and all dividends declared in any fiscal year of the Corporation shall be declared in equal or equivalent amounts per share on all voting shares then outstanding, without preference or distinction.

7.4.2.3 Subdivision or Consolidation

No subdivision or consolidation of Voting Shares or Variable Voting Shares shall occur unless the Voting Shares or the Variable Voting Shares, as the case may be, are at the same time subdivided or consolidated in the same manner, so as to maintain and preserve the respective rights of the holders of shares of each class.

7.4.2.4 Liquidation, Dissolution or Winding-up

Subject to the rights, privileges, restrictions and conditions attaching to other classes of shares ranking prior to the Voting Shares, upon liquidation, dissolution or winding-up of the Corporation, the holders of voting shares shall be entitled to receive the remaining property of the Corporation and shall be entitled to share equally, share for share, in all distributions of such assets.

7.4.2.5 Conversion

7.4.2.5.1 Automatic

Subject to the foreign ownership restrictions of the CTA, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of the Corporation or the holder, if such Voting Share is or becomes owned or controlled, by a person who is not a Canadian.

7.4.2.5.2 Upon an Offer

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, to be made to all or substantially all the holders of Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to Section 7.4.2.1, notwithstanding their conversion. The transfer agent shall deposit the resulting Variable Voting Shares on behalf of the holder.

To exercise such conversion right, the holder or such holder's attorney duly authorized in writing shall:

- (i) give written notice to the transfer agent of the exercise of such right and of the number of Voting Shares in respect of which the right is being exercised;
- (ii) deliver to the transfer agent the share certificate or certificates representing the Voting Shares in respect of which the right is being exercised; and
- (iii) pay any applicable stamp tax or similar duty on or in respect of such conversion.

No share certificates representing Variable Voting Shares resulting from the conversion of the Voting Shares will be delivered to the holders on whose behalf such deposit is being made.

If Variable Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the holder or are not taken up by the offeror; or the offer is abandoned or withdrawn by the offeror or the offer otherwise expires without such Variable Voting Shares being taken up and paid for, the Variable Voting Shares resulting from the conversion will be reconverted into Voting Shares and a share certificate representing the Voting Shares will be sent to the holder by the transfer agent. Variable Voting Shares resulting from the conversion and taken up and paid for by the offeror shall be deemed reconverted into Voting Shares at the time the offeror is required under the applicable securities legislation to take up and pay for such shares if the offeror is Canadian.

In the event that the offeror takes up and pays for the Variable Voting Shares resulting from conversion, the transfer agent shall deliver to the holders thereof the consideration paid for such shares by the offeror.

There will be no right to convert the Voting Shares into Variable Voting Shares in the following cases:

- (i) the offer to purchase Variable Voting Shares is not required under applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed to be made to all or substantially all of the holders of Variable Voting Shares, that is, the offer is an "exempt take-over bid" within the meaning of the foregoing securities legislation;
- (ii) an offer to purchase Voting Shares is made concurrently with an offer to purchase Variable Voting Shares and the two offers are identical in respect of price per share, percentage of outstanding shares for which the offer is made, and in all material respects, including in respect of the conditions attaching thereto. The offer to purchase the Voting Shares must be unconditional, subject to the exception that the offer for the Voting Shares may contain a condition to the effect that the offeror is not required to take up and pay for Voting Shares deposited pursuant to the offer if no shares are purchased pursuant to the contemporaneous offer for the Variable Voting Shares; or
- (iii) holders of more than sixty-six and two-thirds percent (66⅔%) of the then outstanding Variable Voting Shares (excluding shares owned immediately prior to the offer by the offeror and any joint actor) certify to the transfer agent and to the secretary of the Corporation that they will not deposit any shares in response to the offer for the Variable Voting Shares.

7.4.2.6 Constraints on Ownership

The Voting Shares may only be owned and controlled by persons who are Canadians.

7.4.3 Preferred Shares

The Preferred Shares, if issued, will rank prior to the Variable Voting Shares and the Voting Shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution or liquidation of the Corporation or the distribution of its capital, no amount shall be paid and no asset shall be distributed to the holders of shares of any other class of the Corporation until the holders of the Preferred Shares receive an amount equal to the value of the consideration received by the Corporation upon the issuance of such shares and, in the case of Preferred Shares of a series entitled to cumulative dividends, of all dividends then accrued and unpaid, and, for Preferred Shares of a series entitled to non-cumulative dividends, of all dividends declared thereon and unpaid, if any, plus any other amount, if any, determined by the directors in respect of each series prior to the issue of any Preferred Shares of such series. The holders of the Preferred Shares of a particular series shall be entitled to the payment of this entire amount from the assets of the Corporation in preference and prior to the holders of any other class of shares of the capital of the Corporation.

8. MARKET FOR SECURITIES

On November 16, 2015, the Transat Variable Voting Shares and Voting Shares were listed on the TSX under a single symbol, "TRZ". Previously, the shares were listed respectively under two symbols, "TRZ.A" and "TRZ.B".

The following table sets out the reported high and low and closing prices and trading volume of the Variable Voting Shares and Voting Shares listed and traded under the symbol "TRZ" for each month of the fiscal year ended October 31, 2019.

TRANSAT A.T. INC. "TRZ"			
Month	High	Low	Volume
October 2019	\$16.04	\$14.30	4,772,108
September 2019	\$15.42	\$14.39	4,285,536
August 2019	\$17.00	\$11.40	28,873,290
July 2019	\$13.60	\$11.39	12,965,028
June 2019	\$14.24	\$11.74	20,141,348
May 2019	\$12.50	\$8.08	27,459,562
April 2019	\$8.86	\$4.69	8,738,012
March 2019	\$5.50	\$4.50	5,514,978
February 2019	\$5.98	\$5.38	3,040,554
January 2019	\$6.05	\$5.61	2,328,262
December 2018	\$7.20	\$5.39	3,408,410
November 2018	\$7.21	\$6.43	2,661,344

On October 31, 2019, the closing price on the TSX of Variable Voting Shares and Voting Shares was \$15.37 per share.

9. OUR DIRECTORS AND OFFICERS

9.1 OUR DIRECTORS

The following table states, as at the date of this AIF, the name, province and country of residence, year of election as director and present principal occupation of each director of Transat, as well as the number of voting shares of Transat owned by each director or over which he or she exercises control or direction. Each of our directors shall hold office until Transat's next annual meeting or until his or her replacement is elected.

Name of Director, Province and Country of Residence	Principal Occupation	Director since	Expected Retirement ⁽¹⁾	Voting Shares Owned or Controlled or Directed ⁽²⁾	Deferred Share Units (DSUs) ⁽¹⁾
Jean-Marc Eustache <i>Québec, Canada</i>	Chairman of the Board, President and Chief Executive Officer	February 1987	2023	427,202	10,331
Raymond Bachand <i>Québec, Canada</i>	Lead Director and Strategic Advisor, Norton Rose Fulbright	March 2014	2022	0	45,148
Louis-Marie Beaulieu <i>Québec, Canada</i>	Chairman of the Board and Chief Executive Officer of Groupe Desgagnés Inc.	March 2013	2029	20,000	29,601
Lucie Chabot <i>Québec, Canada</i>	Corporate Director	October 2015	2034	6,290	18,158
Lina De Cesare <i>Québec, Canada</i>	Corporate Director	May 1989	2026	35,576	19,476
W. Brian Edwards <i>Québec, Canada</i>	Corporate Director	June 2010	2024	18,790	48,287
Susan Kudzman <i>Québec, Canada</i>	Corporate Director	March 2014	2037	0	45,240
Jean-Yves Leblanc <i>Québec, Canada</i>	Corporate Director	December 2008	2021	13,000	29,493
Ian Rae <i>Québec, Canada</i>	Founder and Chief Executive Officer of CloudOps Inc.	October 2018	2047	0	3,949
Jacques Simoneau <i>Québec, Canada</i>	Corporate Director	November 2000	2032	18,280	21,658
Louise St-Pierre <i>Québec, Canada</i>	Corporate Director	October 2017	2030	0	7,523
Philippe Sureau <i>Québec, Canada</i>	Corporate Director	February 1987	2024	323,209	25,548

- (1) According to the Policy on Diversity of the Board and Senior Management and the mechanisms for board renewal approved by the Board of Directors on September 9, 2015, a director usually becomes ineligible when he or she reaches retirement age, which is set at seventy-five (75) years old. Notwithstanding the foregoing, the Board maintains its full discretion in the application of the criteria regarding the retirement age, which will take into account, among other things, the years of service of the members of the Board and the expertise required from the Board at that time.
- (2) The number of shares or deferred share units indicated is given as at October 31, 2019 and is based on the declarations of our directors. Under the guidelines adopted by Transat, each director who is not an employee must hold a number of shares or deferred share units of Transat equivalent to at least five times the annual retainer to which he or she is entitled after having served five years as a director. Please refer to our Arrangement Circular for additional detail (or our most recent Management Proxy Circular).

Each of the directors of Transat has had the principal occupation indicated opposite his or her name during the past five years, except as indicated below:

- Mr. Raymond Bachand retired from political life on September 13, 2013. Since January 20, 2014, he acts as strategic advisor for the law firm Norton Rose Fulbright;
- Ms. Lucie Chabot was Vice-President and Chief Financial Officer of SAIL Outdoors Inc. from 2014 to 2018. Since 2017, she is the chair of the board of directors of CDMV and, since May 2019, she is also a member of the board of directors and the audit committee of Albecour Inc. and a member of the board of directors, the audit committee and the governance committee of Tourisme Montréal;
- Mrs. Lina De Cesare was Advisor to the President of Transat from November 2009 to October 2014, and, from November 2014 to October 2015, she was acting as a consultant to the Corporation. Up until November 2009, she was President, Tour Operators of Transat and President of several subsidiaries of the Corporation, namely Cameleon Hotel Management Corporation, Cameleon Marival (Canada) Inc., Trafictours Canada Inc. and Transat Holidays USA, Inc.;
- Ms. Susan Kudzman is an actuary and was Executive Vice-President, Chief Risk Officer and Corporate Affairs at the Laurentian Bank of Canada until 2018. Prior to that, she held the position of Chief Risk Officer at the Caisse de dépôt et placement du Québec. Ms. Kudzman is currently chair of the board of directors of Yellow Pages and has been a member of the board since November 2014. Since September 2018, she is a member of the board of directors of Medavie and a member of its Audit and Risk Committee and Human Resources Committee;
- Mr. Ian Rae is the founder and CEO of CloudOps Inc., a corporation providing cloud computing services, solutions and products since 2005. Mr. Rae is also the founder of cloud.ca, a Canadian cloud infrastructure platform. Prior to CloudOps, Mr. Rae was chief engineer at Coradiant, and, prior thereto, he was CIO at Candarel Management. Mr. Rae has been a member of the board of directors of Genome Canada since 2016. He is also involved in the startup community as an advisor and angel investor;
- Mr. Jacques Simoneau was President and CEO and a director of Gestion Univalor, LP from 2012 to 2019. He currently serves on the boards of directors of Exploration Azimut Inc. (since 2012), Génome Canada (since 2016) and Édilex Inc. (since 2017), and is the sole director of his investment company, Fer 3 Capital Inc., since 2011. He was also a member of the boards of directors of Génome Québec, from 2013 to 2016, 9264-5381 Québec inc. (also known as eValorix), from 2012 to 2019, and QuébecInnove in 2017-2018.
- Ms. Louise St-Pierre was President and Chief Executive Officer of Cogeco Connexion from 2013 to 2016. She also held several positions as vice-president within Cogeco Connexion, including Senior Vice-President, Residential Services from 2009 to 2013, Vice-President, Customer Services and Operations from 2007 to 2009, and Vice-President, Chief of Information

Technology from 1999 to 2007. She is chairing the Board of Directors of Domaine Forget in Charlevoix since 2017 but has been a director thereof since 2012. She also sits on the Board of Directors of Arterra Wines Canada (OTPP); and

- Mr. Philippe Sureau was Advisor to the President of Transat from November 2009 to October 2014. Since 2018, he is the chair of the board of Tourisme Montréal.

For a detailed description of all of the other boards of directors on which the Corporation's directors have served, please see our Management Proxy Circular for the Annual Meeting of the Shareholders that will be held on March 12, 2020 (or in our most recent Management Proxy Circular, where applicable) available on SEDAR (www.sedar.com).

Transat's Board of Directors has created four committees, to which it has delegated specific mandates and necessary powers to assist it in effectively fulfilling its duties. The table below indicates the committees of the Board of Directors, with their respective membership as at October 31, 2019:

	EXECUTIVE COMMITTEE	AUDIT COMMITTEE	HUMAN RESOURCES AND COMPENSATION COMMITTEE	RISK MANAGEMENT AND CORPORATE GOVERNANCE COMMITTEE
Chair	Jean-Marc Eustache	Jean-Yves Leblanc	W. Brian Edwards	Jacques Simoneau
Members	<ul style="list-style-type: none"> ▪ Raymond Bachand ▪ W. Brian Edwards ▪ Jean-Yves Leblanc ▪ Jacques Simoneau 	<ul style="list-style-type: none"> ▪ Raymond Bachand ▪ Louis-Marie Beaulieu ▪ Lucie Chabot ▪ Jacques Simoneau 	<ul style="list-style-type: none"> ▪ Louis-Marie Beaulieu ▪ Susan Kudzman ▪ Jean-Yves Leblanc ▪ Louise St-Pierre 	<ul style="list-style-type: none"> ▪ Lucie Chabot ▪ Lina De Cesare ▪ W. Brian Edwards ▪ Susan Kudzman

Since December 12, 2018, Mr. Raymond Bachand is the Lead Director of Transat. For more information, we refer you to Section 15 of this AIF.

On December 17, 2018, the Board of Directors of the Corporation formed a special committee to ensure that an independent and rigorous process to review the Arrangement proposal was put in place. This committee's membership, which is composed entirely of independent directors, is shown in the table below as at October 31, 2019:

SPECIAL COMMITTEE
Jean-Yves Leblanc, Chair
<ul style="list-style-type: none"> ▪ Raymond Bachand ▪ W. Brian Edwards ▪ Jacques Simoneau ▪ Philippe Sureau

For more details on the committee and its functions and for a summary of the committee's activities, please refer to the section "The Arrangement" in the Arrangement Circular filed with the securities regulatory authorities in Canada and available on SEDAR (www.sedar.com).

9.2 OUR EXECUTIVE OFFICERS

Recent Appointments and Resignations

On June 19, 2019, Transat announced the appointment of Ms. Louise Fecteau to the position of General Manager of Transat Distribution Canada Inc. and the appointment of Ms. Karine Gagnon to the position of Commercial Director of Transat for the Quebec region. These changes were made following the departure of Nathalie Boyer, who accepted a key executive position outside of the travel industry. Ms. Boyer left the Corporation on July 31, 2019.

Current Members

The following table sets forth the names, province and country of residence of Transat's executive officers, their first year of service and current position held with Transat, as well as the number of voting shares of Transat owned or over which he or she exercises control or direction.

As at October 31, 2019, the executive officers and directors of the Corporation as a group own a total of 1,302,052 Voting Shares, which represent 3.45% of the total number of Voting Shares and Variable Voting Shares issued and outstanding as at that date.

Name, Province and Country of Residence	First Year of Service with Transat	Position Held with Transat and Certain Subsidiaries	Voting Shares Owned or Controlled or Directed ⁽¹⁾
Jean-Marc Eustache <i>Québec, Canada</i>	1987	Chairman of the Board, President and Chief Executive Officer of Transat A.T. Inc.	427,202
Joseph Adamo <i>Québec, Canada</i>	2011	President and General Manager of Transat Distribution Canada Inc. and Vice-President, Chief Distribution Officer of Transat Tours Canada Inc.	39,336
Bernard Bussières <i>Québec, Canada</i>	2001	Vice-President, General Counsel and Corporate Secretary of Transat A.T. Inc.	76,909
Daniel Godbout <i>Québec, Canada</i>	1999	Senior Vice-President and Advisor to the President, Transat A.T. Inc.	59,891
Annick Guérard <i>Québec, Canada</i>	2002	Chief Operating Officer, Transat A.T. Inc. and President and General Manager of Transat Tours Canada Inc.	61,268
Christophe Hennebelle <i>Québec, Canada</i>	2009	Vice-President, Human Resources and Public Affairs of Transat A.T. Inc.	29,882
Bruno Leclaire <i>Québec, Canada</i>	2014	Chief Information Officer of Transat Tours Canada Inc.	19,517
Jean-François Lemay <i>Québec, Canada</i>	2011	President and General Manager of Air Transat A.T. Inc.	57,958
Denis Pétrin <i>Québec, Canada</i>	1990	Vice-President, Finance and Administration and Chief Financial Officer of Transat A.T. Inc.	87,355
Jordi Solé <i>Florida, United States</i>	2018	President, Hotel Division	7,569

⁽¹⁾ The number of shares indicated is given as at October 31, 2019 and is based on the declarations of our executive officers. It should be noted that the number of shares mentioned does not include, if applicable, shares purchased during the year by the executive officers under the Transat Share Purchase Plan for the Benefit of All Employees or Executives or awarded at the beginning of the year under the Transat Permanent Stock Ownership Incentive Plan for Top Managers. In addition, it does not include Voting Shares that are subject to vesting conditions as is more fully described under section and table "Ownership of Securities" in the Arrangement Circular.

With the exception of Messrs. Jean-Marc Eustache, Bernard Bussi eres, Daniel Godbout and Denis P etrin, who over the past five years have had the principal occupation indicated opposite their name, the other executive officers of Transat held the following positions:

- Mr. Joseph Adamo was the Vice-President, Marketing and E-Commerce of Transat Tours Canada from November 2011 to October 2014 and was also the General Manager of Transat Distribution Canada since June 2013. Since October 20, 2016, he is the President and General Manager of Transat Distribution Canada. Since May 1, 2017, he is the President of Transat Distribution Canada and the Vice-President and Chief Distribution Officer of Transat Tours Canada;
- Mrs. Annick Gu erard was the Vice-President, South Products from November 2011 to December 2012 of Transat Tours Canada and, thereafter, she was the General Manager of Transat Tours Canada from December 2012 to October 2016. In 2016, she was appointed President and General Manager of Transat Tours Canada. On November 1, 2017, she was appointed Chief Operating Officer of Transat A.T. Inc.;
- Mr. Christophe Hennebelle held the position of Director, Human Resources of Look Voyages, from March to October 2009, the position of Director, Human Resources of Transat France, from November 2009 to July 2014, and the position of Vice-President, Human Resources and Talent Management of Transat, from August 2014 to June 2016. Since June 23, 2016, he is the Vice-President, Human Resources and Public Affairs of Transat;
- Mr. Jean-Fran ois Lemay held the position of General Manager of Air Transat from April 2013 to October 2016 and also held the position of Vice-President, Human Resources and Talent Management of Transat from October 2011 to August 2014. From October 2003 to October 2011, he was a Partner at Dunton Rainville practising in administrative and employment law. Since October 20, 2016, he is the President-General Manager of Air Transat; and
- Mr. Jordi Sol e was previously Senior Vice-President, Operations of Blue Diamond Resorts from March 2015 to February 2018. Before that, he was National Executive Director, Mexico for the Iberostar Group from April 2009 to March 2015. Since February 20, 2018, he is the President of Transat's Hotel Division.

As of October 31, 2019, the aforementioned directors and officers collectively owned or had control over, directly or indirectly, 1,302,032 Voting Shares, representing approximately 3.45% of outstanding Voting Shares, and 24,254 Variable Voting Shares, representing approximately 0.0194% of outstanding Variable Voting Shares.

9.3 CEASE TRADE ORDERS OR BANKRUPTCIES

To Transat's knowledge, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, as at the date of the AIF, or was, within 10 years before the date of the AIF, a director or executive officer of any company that:

- (i) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while that person was acting in that capacity and was in effect for a period of more than 30 consecutive days;
- (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after that person ceased to act in that capacity, was in effect for a period of more than 30 consecutive days and resulted from an event that occurred while that person was acting in that capacity; or
- (iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets while that person was acting in that capacity or within a year of that person ceasing to act in that capacity.

9.4 PENALTIES OR SANCTIONS

To the best of the knowledge of the Corporation, no director or executive officer of Transat has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

9.5 PERSONAL BANKRUPTCIES

To the best of Transat's knowledge, no director or executive officer has declared bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

10. LEGAL PROCEEDINGS

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. The Corporation has directors' and officers' liability insurance as well as professional liability insurance, and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

On June 5, 2019, the Corporation settled, without any admission of liability, for an amount of US\$5.0 million (\$6.7 million), a litigation in which the Plaintiffs alleged misappropriation of confidential information and solicitation of employees. This amount has been recognized under Special Items in the restated consolidated statement of operations for the year ended October 31, 2018, and derecognized in the restated consolidated statement of operations for the period ended April 30, 2019. This adjustment is included under Trade and other payables and Retained earnings in the restated consolidated statement of financial position as at October 31, 2018. No provision was recorded in the October 31, 2018 financial statements as initially published since it was not possible to determine with certainty the extent of any financial liability that may result should the Corporation be unsuccessful in its defence of this lawsuit.

10.1 OTHER

From time to time, the Corporation is audited by the tax authorities, who raise questions regarding the treatment of certain transactions for tax purposes. Some of these questions could result in substantial costs, which will remain uncertain until one or more events occur or do not occur. Even though the outcome is difficult to predict with certainty, the tax claims or risks that will probably have an adverse outcome are accounted for by the Corporation according to the best possible estimate of the amount of the loss. The tax deductibility of the losses the Corporation reported during past years resulting from investments in asset-backed commercial paper was challenged by the tax authorities and notices of assessment were received to this effect during the fiscal year. This situation, which could result in an expense of approximately \$16.2 million, is not provisioned, because the Corporation intends to defend itself vigorously and firmly believes it has sufficient facts and arguments to conclude that the final decision will probably be in its favour. However, this situation resulted in a disbursement of \$15.1 million during the year ended October 31, 2015. This amount is accounted for as income tax receivable as at October 31, 2019.

11. TRANSFER AGENT AND REGISTRAR

As at the date of this AIF, the transfer agent and registrar for Transat's shares is AST Trust Company (Canada), 2001 Robert-Bourassa Blvd., Suite 1600, Montreal, Québec H3A 2A6. Their registrar offices are located in Toronto, Montreal, Calgary and Vancouver.

12. INTERESTS OF EXPERTS

Ernst & Young LLP is the independent auditor who prepared the auditors' report to shareholders with respect to the Corporation's consolidated financial statements for the years ended October 31, 2019, and 2018 included in the Corporation's 2019 Annual Report. Ernst & Young LLP has confirmed to the Corporation that it is independent within the meaning of the Rules of Professional Conduct of the *Ordre des comptables professionnels agréés du Québec*.

13. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Certain directors and officers of Transat have interests with regard to the Arrangement that may be in addition to, or separate from, those of shareholders generally. These interests relate to, among other things and if applicable, change of control benefits, rights of indemnification and insurance, as well as employee retention plans. For more details on the interests of certain persons in the arrangement, please refer to the section entitled "Interests of Certain Persons in the Arrangement" in the Arrangement Circular.

14. MATERIAL CONTRACTS

As at the date of this Annual Information Form, we have entered into seventeen (17) airplane leases that are considered to be material, ten (10) of which were entered into during fiscal 2017, and to which we added seven (7) during fiscal 2018. These airplane leases result from an agreement entered into between Air Transat and AerCap, pursuant to which Air Transat will lease a total of seventeen (17) aircraft, including fifteen (15) Airbus A321neo LRs and two (2) Airbus A321neos. For a detailed description of the Airbus A321neo LRs and A321neos and the role that they play in the Corporation's fleet strategy, please see the section entitled "Air Transportation" in this AIF.

On June 27, 2019, Transat entered into a definitive Arrangement Agreement with Air Canada providing for the acquisition by Air Canada of all the issued and outstanding shares of Transat, which agreement was amended on August 11, 2019 by entering into an amending agreement. Pursuant to the binding Arrangement Agreement which was unanimously approved by Transat's Board of Directors and

obtained a significant majority approval from Transat's security holders, Air Canada will acquire all of the outstanding shares of Transat. The transaction remains subject to the approval of regulatory authorities and other closing conditions set forth in the Arrangement Agreement. Additional information concerning the terms of the Arrangement Agreement and the background of the transaction was provided in the Arrangement Circular.

Copies of the Arrangement Agreement dated June 27, 2019, the Arrangement Circular related to an arrangement involving Transat and Air Canada dated July 19, 2019, and the amending agreement dated August 11, 2019, may be found on SEDAR (www.sedar.com).

15. FORWARD-LOOKING INFORMATION

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

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

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

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

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties facing the Corporation's business is provided in its disclosure materials, including this AIF and its most recent Management's Discussion and Analysis, filed with the securities regulatory authorities in Canada, available on SEDAR (www.sedar.com).

16. APPOINTMENT OF SINGLE LEAD DIRECTOR AND AUDIT COMMITTEE DISCLOSURE

16.1 APPOINTMENT OF SINGLE LEAD DIRECTOR

In 2012, Transat's Board of Directors adopted a policy amending its Board governance structure to provide for the appointment of a single Lead Director instead of three (3) Lead Directors. Since this amendment came into force, the members of the Board of Directors now elect only one Lead Director each year from among the independent directors after the annual and special meeting of shareholders.

The Lead Director is responsible, among other things, to set the agenda of the Board meetings in conjunction with the Chairman and President and Chief Executive Officer. This Lead Director, if and when appropriate, has the power to call, set the agenda for and chair meetings of the independent directors and chair in-camera sessions of the Board without management so as to give the directors an opportunity to fully and frankly discuss certain issues and provide feedback and direction to management. Mr. Raymond Bachand replaced Mr. Jean-Yves Leblanc as Lead Director in September 2018.

16.2 CHARTER OF THE AUDIT COMMITTEE

The latest version of Transat's Charter of the Audit Committee was approved at the meeting of such committee held on September 8, 2015. The Board of Directors adopted and ratified the Charter of the Audit Committee on September 9, 2015. A copy of the Charter of the Audit Committee is attached as Schedule A to this AIF.

16.3 COMPOSITION OF OUR AUDIT COMMITTEE

Our Audit Committee is currently composed of unrelated, independent and financially literate directors, namely Messrs. Jean-Yves Leblanc (Chairman), Raymond Bachand, Louis-Marie Beaulieu, and Jacques Simoneau, and Ms. Lucie Chabot.

16.4 FINANCIAL LITERACY

Jean-Yves Leblanc. Mr. Leblanc holds a Bachelor of Mechanical Engineering degree from Université Laval, a Master of Industrial Engineering from the University of Toronto and a Master of Business Administration (MBA) from the University of Western Ontario. He was President and Chief Operating Officer of Bombardier Transportation from 1986 to 2001 and served as Chairman of its Board from 2001 to 2004. From 1982 to 1985, he worked as an executive officer for Marine Industries where he served as Vice-President, Hydro-Electric Division, and Executive Vice-President and Chief Operating Officer of the company respectively. Prior to that, from 1973 to 1981, he was Vice-President, then President, of Sométal Atlantic Ltée. Mr. Leblanc serves as a director of various corporations including Pomerleau Inc., Premier Tech Ltd. and Emballage St-Jean Ltée. He is Chairman of the Audit Committee of Premier Tech Ltd. and the Audit Committee of Emballage St-Jean Ltée. This experience allowed Mr. Leblanc to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

Raymond Bachand. Mr. Bachand received his law degree from the Université de Montréal in 1969 and became a member of the Québec Bar the following year. He obtained a Masters of Business Administration (MBA) degree from Harvard University in 1972, followed by a Doctorate of Business Administration (DBA) degree in 1981. He taught at the École des hautes études commerciales de Montréal between 1972 and 1977, held the position of Chief of Staff to the Québec Minister of Labour and Manpower between 1977 and 1979, and served as Special Secretary in the Office of the Premier of Québec between 1979 and 1981. In the business world, he was Vice-President of Métro-Richelieu between 1981 and 1989 and Culinar between 1990 and 1993. He joined the Fonds de solidarité des travailleurs du Québec (FTQ) in 1994 as First Vice-President and Chief Investment Officer, and was appointed President and Chief Executive Officer from 1997 to 2001. He was also President and Chief Executive Officer of Secor Conseil from 2002 to 2005.

He was a director of SSQ - Life from 1995 to 2002, a director of Gaz Métropolitain from 1987 to 1990, a director of the Fonds de solidarité FTQ from 1983 to 2001, and a member of the executive committee (1987-2001), chair of the audit committee (1988-1994) as well as a member of the Board of Directors and member of the Audit Committee of the Canadian Public Accountability Board from 2003 to 2005.

Mr. Bachand was elected to the Québec National Assembly for Outremont on December 12, 2005. He was Minister of Economic Development, Innovation and Export Trade from February 2006 to June 2009, Minister of Tourism from April 2007 to December 2008, Minister responsible for the Montreal region from April 2007 to September 2012, Minister of Finance from April 2009 to September 2012 and Minister of Revenue from August 2010 to September 2013. He retired from political life on September 13, 2013.

Mr. Bachand joined the firm Norton Rose Fulbright on January 20, 2014, as a strategic advisor. He has also been President of the Institut du Québec, a partnership between the Conference Board of Canada and HEC Montréal, since February 2014, and a member of the Board of Directors as well as the Risk Management Committee and the Conduct Review and Corporate Governance Committee of National Bank of Canada since October 29, 2014. He was also Chairman of the Board of Tourisme Montréal from June 2014 to June 2018.

Louis-Marie Beaulieu. Mr. Louis-Marie Beaulieu is Chairman of the Board and CEO as well as majority shareholder of Groupe Desgagnés Inc., a private company specialized in marine transportation of general cargo and passengers. A graduate in Business Administration, with an option in accounting, of the Université du Québec à Rimouski (UQAR) and a Fellow of the Ordre des comptables professionnels agréés du Québec since 2001, Mr. Beaulieu also holds a diploma from McMaster University's corporate governance program, granting him the designation of Chartered Director. Before acquiring Desgagnés in 1987, he held the position of Director of Finance and Administration in the company from 1981 to 1987, after having worked as an auditor at Mallette, Benoit, Boulanger, Rondeau in Québec City.

Over the course of his career, Mr. Beaulieu has served on many boards of directors and audit committees, including those of the St-Lawrence Economic Development Council (SODES), the Société de l'assurance automobile du Québec (SAAQ) from 1989 to 1996, the Canadian Shipowners Association from 1990 to 2016, the Société Immobilière du Québec from 1997 to 2003, the Canadian Commercial Corporation (CCC) from 2001 to 2004 and the Conseil du patronat du Québec from May 2011 to April 2017, where he also acted as chairman of the board from April 2014 to April 2017. He also served as Chairman of a number of audit committees, including those of SAAQ, CCC and Standard Compensation Act Liability Association Ltd. (SCALA). In addition, Mr. Beaulieu was a member of various organizations, such as the Commission des études of UQAR and the National Marine and Industrial Council, president of the National Marine and Industrial Coalition and of the Great Lakes / St-Lawrence Marine and Industrial Coalition, co-president of the Marine Industry Forum with the Québec Minister of Transport and co-president of the Canadian Marine Advisory Council with the Deputy Minister of Transport Canada.

He is currently a member of several boards of directors, including the board of the Chamber of Marine Commerce since 1997, where he also chairs the Finance Committee since March 2017. Also, since his acquisition of Groupe Desgagnés, he serves as Chairman of the board of directors of the company's subsidiaries. He is also a member of various organizations and associations, including the Canadian Marine Advisory Council, the Cercle des présidents, the QG-100 Network and the Business Council of Canada.

He is the recipient of several awards, including the Joseph-Hode Keyser award from the Association québécoise des transports et des routes in 2001 and the Alumni Award from the Université du Québec à Rimouski (UQAR) in 2011, and he was inducted into the Cercle des Grands Bâisseurs Maritimes by the Groupe Maritime Québec in 2010 and into the Académie des Grands Québécois in 2014.

Lucie Chabot. Ms. Lucie Chabot is chair of the board of directors, chair of the audit committee, chair of the information technology committee and a member of the human resources committee of CDMV Inc., a Canada-wide distributor of products and services dedicated to veterinarians, since 2017. Since May 2019, she is also a member of the board of directors and the audit committee of Albecour Inc., a aluminum company and an Investissement Québec subsidiary. Also since May 2019, she is a member of the board of directors, the audit committee and the governance committee of Tourisme Montréal, an organization responsible for the promotion of tourism in the city of Montreal. Ms. Chabot was Vice-President and Chief Financial Officer of SAIL Outdoors Inc., a major Canadian retailer of sporting goods and outdoor equipment, from 2014 to 2018, and as such was responsible for the firm's accounting and financial services, human resources and information technology. She previously served as President of Distribution Vinearius Inc., a wine accessories distributor she founded. She also worked at Intertrade Systems Inc. from 2004 to 2007 as General Manager, Operations and Managed Services, after having served as the company's Vice-President, Finance and Human Resources. For more than a decade, she was a co-shareholder of Strator Consulting Group Inc., a consulting firm in the retail, distribution and services field, whose main client was Caisse de dépôt et placement du Québec. In this capacity, she was involved in several accounts, such as Motovan, The Hockey Company, Chapters and Rona, which gave her a better understanding of the objectives of financial institutions, their risk analysis, the returns sought and how to structure major transactions. From 1986 to 1994, she worked as Director and Vice-President, Finance, of Sports Experts Inc., the Canadian leader in sporting goods and sportswear retailing. She began her career at Clarkson Gordon (EY) as an auditor in 1981 and joined the Provigo Group in 1984. Ms. Chabot is a graduate of Université Laval and a member of the Ordre des comptables agréés du Québec. She was named to the National Honour Roll of the Canadian Institute of Chartered Accountants, ranking 11th in Canada in 1982.

These experiences allowed Ms. Chabot to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

Jacques Simoneau. Dr. Simoneau has a Bachelor of Science degree and a Master of Applied Science degree from Université Laval and a Ph.D. from Queen's University. He has completed the Directors Education Program at McGill University and is certified ICD.D by the Institute of Corporate Directors. He also participated in several intensive executive training courses in finance, accounting, marketing and leadership. From 1982 to 1989, he taught at Royal Military College and then joined Alcan where he held research and management positions. In 1994, he was appointed as Director, Business Development at Advanced Scientific Computing. In 1995, Dr. Simoneau focused his career in investments. In 1995, he was appointed as President and Chief Executive Officer and a Director of *Société Innovatech du sud du Québec*, a venture-capital fund. In 1999, he joined the Fonds de solidarité FTQ as Group Vice-President for Technology Investment, and was then promoted to Senior Vice President, Industry and Services in 2000. In 2004, he became President and CEO and a director of Hydro-Québec CapiTech, the corporate venture capital subsidiary of Hydro-Québec. In 2006, Dr. Simoneau joined the Business Development Bank of Canada (BDC) as Executive Vice-President, Investment, where he was responsible for the venture capital and subordinate financing portfolios until

2010. He also served on BDC's Executive Committee, Asset and Liability Committee and Pension Fund Investment Committee. Dr. Simoneau then served as President & Chief Executive Officer and director of Gestion Univalor, L.P. until 2019. He is a director of Azimut Exploration Inc. (TSXV:AZM), Genome Canada and Edilex Inc. He also serves as chair or member of the audit, governance, investment or compensation committees of these organizations.

During his career, Dr. Simoneau was actively involved in analyzing, evaluating, structuring and negotiating investments for private and publicly traded corporations. In doing so, he examined and evaluated financial statements, business and strategic plans, and questioned management thereon. He served on the Board of Directors of six public companies and 15 private companies and on more than 10 committees and boards of various organizations. This experience allowed Dr. Simoneau to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

16.5 COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

In response to National Instrument 52-110 – *Audit Committees*, and as part of our efforts to maintain a high standard of good corporate governance, we developed a whistleblower policy and reporting procedures that allow Transat employees to report, in a confidential manner, any concerns they may have regarding questionable accounting practices, internal accounting controls or auditing matters. Complaints may be addressed separately to the attention of the Vice-President, General Counsel and Corporate Secretary of Transat or to the Vice-President, Internal Audit and Risk Management. At each Audit Committee meeting, members receive a report indicating whether any complaints have been filed regarding accounting or auditing matters. Moreover, as part of Transat's Code of Ethics, we have introduced, in recent years, a whistleblower process by providing an email address, "Ethic@transat.com", through which only three persons receive notification of this reporting: the Vice-President, Human Resources, the Vice-President, General Counsel and Corporate Secretary and the Vice-President, Internal Audit and Risk Management. All reports are reviewed and handled by the responsible person or persons. The Code of Ethics must be reviewed annually by all employees, who are required to sign a certificate to that effect.

16.6 POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

Transat's Audit Committee has a Policy Respecting the Pre-Approval of Audit and Non-Audit Services. Transat's Risk Management and Corporate Governance Committee also approved this policy on November 16, 2004, and its Board of Directors adopted and ratified the said policy on the same date. This policy prohibits the Corporation from engaging the external auditors to provide certain non-audit services to the Corporation and its subsidiaries, including bookkeeping, or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing services, investment banking services, management or human resources functions, legal services and expert services unrelated to the audit. The policy allows the Corporation to engage the external auditors to provide non-audit services, other than the prohibited services, only if the services have specifically been pre-approved by the Audit Committee.

16.7 EXTERNAL AUDITOR SERVICE FEES

Ernst and Young LLP have been Transat's auditors since its incorporation. They have confirmed their independence with Transat's Audit Committee.

For the fiscal years ended October 31, 2019 and October 31, 2018, Ernst & Young LLP billed the following fees for audit, audit-related, tax and all other services provided to the Corporation:



	2019	2018
Audit Fees ⁽¹⁾	\$883,000	\$855,000
Audit-Related Fees ⁽²⁾	\$99,000	\$28,000
Tax Fees ⁽³⁾	\$82,000	\$317,000
All Other Fees ⁽⁴⁾	—	—
TOTAL	\$1,064,000	\$1,200,000

(1) Audit fees include fees for professional services rendered by the external auditors for the audit of the Corporation's financial statements or other services that are normally provided by the external auditors in connection with statutory or regulatory filings or engagements. These fees also include fees for services rendered in connection with the interpretation of accounting and financial reporting standards.

(2) Audit-related fees include fees for assurance and related services that are performed by the Corporation's external auditors. These services include accounting consultations in connection with acquisitions, special audits and due diligence.

(3) Tax fees include fees for assistance with tax planning (restructuring and discontinued operations), tax opinions as well as the preparation and review of income and other tax returns.

(4) This category of fees would normally include professional services rendered by the Corporation's external auditors, which are not reported under the captions "audit fees", "audit-related fees" and "tax fees". No such services were rendered to the Corporation for the fiscal years ended October 31, 2018, and October 31, 2019.

17. ADDITIONAL INFORMATION

Additional financial information may be found in our comparative financial statements and Management's Discussion and Analysis for the year ended October 31, 2019, both of which are contained in the 2019 Annual Report. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Transat securities and securities authorized for issuance under equity compensation plans, will be contained in our Management Proxy Circular for the Annual Meeting of the Shareholders to be held on March 12, 2020.

Copies of these documents and additional information relating to Transat may be found on SEDAR (www.sedar.com) and may also be obtained upon request from the Corporate Secretary of the Corporation at the following address: Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Québec, Canada H2X 4C2.

SCHEDULE A
CHARTER OF THE AUDIT COMMITTEE
of Transat A.T. inc.

Constitution

The Board of Directors established an audit committee (the "Audit Committee") composed solely of independent directors, that is, who have no direct or indirect material relationship with the Corporation¹ and whose members and Chair are appointed by the Board of Directors. The Audit Committee is composed of no fewer than three (3) members.

The Audit Committee helps the Board of Directors discharge the oversight responsibilities it owes to shareholders, employees, and all interested parties. Such oversight responsibilities pertain to the financial statements of the Corporation, internal control systems, identification of risks (in collaboration with the Risk Management and Corporate Governance Committee), the statutory audit of the annual financial statements and compliance with the laws, regulations and codes as established by management and the Board.

Role of the stakeholders

Management is responsible for ensuring the integrity of the financial information and the efficiency of the Corporation's internal controls. The external auditors are responsible for auditing and certifying the fair presentation of the Corporation's financial statements and, in carrying out this mission, for evaluating the internal control procedures to determine the nature, scope and chronology of the audit procedures used. The Audit Committee is responsible for supervising the participants in the preparation procedure of the financial information and reporting thereon to the Board of Directors of the Corporation.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation are invited to and heard at the meetings of the Audit Committee. From time to time, the President and Chief Executive Officer or the Vice-President, Finance and Administration and Chief Financial Officer or any other officer of the Corporation shall appear before the Audit Committee when required to do so. Moreover, the Audit Committee meets on a quarterly and annual basis with the Corporation's external and internal auditors, at the committee's option (but no less than once a year), without the presence of management. Each meeting of the Audit Committee provides for an in-camera session to be held, as needed, without the presence of the

¹ A material relationship means a relationship that could, in the opinion of the Board of Directors, be reasonably expected to interfere with the exercise of independent judgment of a member of the committee. The following individuals are considered to have a material relationship with the Corporation: (a) an individual who is, or has been, an employee or executive officer of the Corporation in the past three (3) years, or whose immediate family member is, or has been, an executive officer of the Corporation in the past three (3) years; (b) an individual who is, or has been, or whose immediate family member is, or has been, a member of an affiliated entity or a partner of, or employed by, a current or former internal or external auditor of the Corporation, unless a period of three (3) years has elapsed since the end of such individual's relationship with the internal or external auditor, or of the auditing relationship; (c) an individual who is, or has been, or whose immediate family member is or has been, an executive officer of an entity if any of the current executive officers of the Corporation serves on the compensation committee of such entity, unless a period of three (3) years has elapsed since the end of the service or employment; (d) an individual who has a relationship with the Corporation pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensation fee from the Corporation or any subsidiary of the Corporation, other than remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors; (e) an individual who receives, or whose immediate family member who is employed as an executive officer of the Corporation receives, more than seventy-five thousand dollars (\$75,000.00) per year in direct compensation from the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors, unless a period of three (3) years has elapsed since he or she ceased to receive more than seventy-five thousand dollars (\$75,000.00) a year in such compensation; (f) an individual who is a member of an affiliated entity of the Corporation or of any of its subsidiaries. The foregoing is a summary of the rule. For more details, see subsection 1.4 of Regulation 52-110 respecting Audit Committees.

President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer or of any other officer.

The Audit Committee shall ensure, with the assistance of management and the external auditors, that the financial statements fairly present the Corporation's financial position in accordance with International Financial Reporting Standards ("IFRS") (including their evaluation of the quality of the accounting principles and policies adopted, the consistency of the accounting estimates and the clarity of the financial information disclosed). Furthermore, the Audit Committee shall enquire of the external auditors about the results of the annual audit and any other matters, which must be disclosed to it pursuant to Canadian generally accepted auditing standards ("GAAS").

The auditors are appointed each year by the shareholders at the annual meeting based on the recommendation of the Board of Directors, following the Audit Committee's opinion. Only shareholders may remove the auditors from office.

When the auditors resign or are about to be removed or replaced, they should deliver to the Corporation, with a copy to the Audit Committee, a written declaration indicating the grounds for their resignation or their objection to the removal or replacement².

The directors shall promptly fill any vacancy in the position of external auditor.

Powers

The Audit Committee has all the powers and duties conferred on it by the laws governing the Corporation. Within the performance of its duties, the Audit Committee has the right to examine the books, registers, and accounts of the Corporation and its subsidiaries and to discuss them, as well as any other matter regarding the financial situation of the Corporation and its subsidiaries, with the officers and auditors of the Corporation and its subsidiaries.

The Audit Committee has the power to communicate directly with the internal auditors and the external auditors.

Financial Literacy

All members of the Audit Committee are financially literate³.

Mandate

The duties of the Audit Committee are as follows:

- I. Recommend to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or certification services;
- II. Recommend to the Board of Directors the compensation of the external auditors;

² Under the rules stated in National Instrument 51-102 -- *Continuous Disclosure Obligations*.

³ An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.



- III. Review, with the Corporation's external auditors, the approach and the scope of their audit plan and report to the Board of Directors on any material reservations the Audit Committee may have, or which the external auditors may have expressed regarding their work;
- IV. Resolve disagreements between management and the external auditors regarding financial information;
- V. Review and recommend acceptance to the Board of Directors of the audited annual financial statements, as well as all other financial statements and reports that may require review by the Audit Committee under the applicable laws or in respect of which the Board of Directors requests a review and any financial information pertaining thereto; including the press release, message to shareholders and management's discussion and analysis for annual report purposes, prior to publication;
- VI. Obtain the annual certificate signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings;
- VII. Review and recommend acceptance to the Board of Directors of the unaudited quarterly financial statements and any related financial information, including the press release, message to shareholders and management's discussion and analysis for quarterly report purposes;
- VIII. Obtain the certification of the interim (quarterly) documents signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings;
- IX. Receive and examine the reports of the external auditors following their year-end audit and their interim review, as the case may be, and ensure follow-up on the letter they subsequently address to management containing the latter's comments. Also ensure, with the assistance of management and the external auditors, that these financial statements fairly present the financial position of the Corporation according to IFRS. Furthermore, the Audit Committee evaluates the work of the external auditors as to quality, and not just acceptability, of the accounting principles and policies adopted by the Corporation, the consistency of the accounting estimates and the clarity of the financial information disclosed in the financial statements. The Audit Committee ensures that the procedures performed by the external auditors for the audit and the interim review, as the case may be, as well as the nature of the items communicated to the Audit Committee, are in accordance with GAAS;
- X. Supervise the internal auditor and monitor the scope of the plan and review the work of the internal audit functions. The internal auditor has the responsibility, among others, to assess the internal controls put in place by management to:
 - determine whether they are effective and efficient; and
 - identify and disclose any weaknesses noted to the Audit Committee and the parties concerned;
- XI. Oversee follow-up of the policy respecting the external communication of financial information and ensure that the quality, scope and communication process are in keeping with the said policy;

- XII. Draft and ensure follow-up of a policy on complaint procedures for accounting and auditing matters for the Corporation and its subsidiaries and ensure compliance therewith;
- XIII. Establish procedures for the confidential submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- XIV. Evaluate annually the competence and independence and quality of the work of the external auditors in the performance of their duties and recommend to the Board of Directors, if it is deemed appropriate, to call a shareholders' meeting in order to consider the removal of the external auditors;
- XV. Obtain annual confirmation of the independence of the Corporation's external auditors, including the filing of any written confirmation required by the standards and by-laws;
- XVI. Receive and review the quarterly report of the Vice-President, Finance and Chief Financial Officer and study, if applicable, the contingent liabilities of the Corporation and its subsidiaries, the acquisition and disposition of assets, the risk factors that could influence the financial results or financial structure of the Corporation, the redemption of shares and derivatives, and review the level of provisions recorded in the Corporation's accounts and assess their reasonableness;
- XVII. Identify and evaluate, in collaboration with the Risk Management and Corporate Governance Committee, the principal financial risk factors pertaining to the Corporation's business and approve the strategies and measures proposed to manage such risks, including, in particular, those related to the derivatives relating to fuel, foreign currency and interest and any other factor considered relevant. Furthermore, the Audit Committee shall be kept informed by management, either on request or periodically, regarding the management of the Corporation's other material risks;
- XVIII. Review the status of capital expenditures;
- XIX. Review the status of current and potential litigation and insurance coverage;
- XX. Retain independent counsel and external advisors or consultants, whose compensation it sets, to assist it in its duties, when necessary;
- XXI. Examine, with management and the external auditor, the new financial or regulatory requirements that could affect the Corporation's financial reporting;
- XXII. Ensure that management of the Corporation maintains effective internal control and risk management systems, see to the efficient operation of the internal control system and periodically receive from management and, as the case may be, from the internal auditor, confirmation as to:
 - the efficiency of operations;
 - the reliability of the financial information disclosed;
 - compliance with laws and regulations;
- XXIII. Review the loans, financings, granting of security, guarantees and other material financial commitments and ensure that the Corporation and its subsidiaries are in compliance with their obligations;

- XXIV. Maintain structures and procedures in place to meet separately with the President and Chief Executive Officer, the Vice-President, Finance and Administration and Chief Financial Officer, and the internal auditor and the external auditors;
- XXV. Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
- XXVI. Approve the audit services, which may be provided by the external auditors within the framework of their independence and the restrictions imposed on non-audit services. "Audit services" means the professional services rendered by the external auditors for the audit and review of the issuer's financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements.

The external auditors may perform all other non-audit services, including taxation services, provided that the services offered are pre-approved by the Audit Committee⁴.

Moreover, the Audit Committee shall oversee the audit engagement, as needed, and approve, where applicable, any change in the conditions and fees resulting from a change in the scope of the audit, the corporate structure, or any other element.

The non-audit services that are prohibited include, on the date hereof:

- bookkeeping or other services related to the accounting records or the financial statements;
 - valuation services, opinions on the fairness of the price offered or reports on contributions in kind;
 - internal audit outsourcing services;
 - management functions;
 - human resources services;
 - expert services prohibited by regulatory authorities;
 - design and implementation of a financial information system;
 - legal services;
 - actuarial services; and
 - brokerage, investment counsel and investment agreement services.
- XXVII. Review, with the Corporation's external auditors, the findings resulting from their audit, if any, and report to the Board of Directors on the following points:
- the effectiveness of the registers and the accounting, internal control and information systems of the Corporation and the extent to which such registers are appropriately kept and such systems are uniformly applied;
 - in collaboration with the Human Resources and Compensation Committee, the competence and efficiency of personnel assigned to finance, accounting and internal control of the activities of the Corporation; and

⁴ For this purpose, the Audit Committee has adopted a Policy Respecting the Pre-Approval of Audit Services and Non-Audit Services.



- examine any other issue or perform any other work that the Board of Directors may deem appropriate to entrust to the Audit Committee from time to time.

Annual Work Program

The Audit Committee has elaborated and adopted its annual work program, which appears in the Corporation's Corporate Governance Manual.

Additional Comments

The Audit Committee approves the disclosure policy and reviews it periodically. When a follow-up is required of the Audit Committee, the latter coordinates the appropriate solution and supervises disclosure to ensure the consistency of any information that is disseminated regarding the Corporation.

