TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended January 31, 2023, compared with the quarter ended January 31, 2022, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2022 and accompanying notes and the 2022 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first-quarter update to the information contained in the MD&A section of our 2022 Annual Report. The risks and uncertainties set out in the MD&A of the 2022 Annual Report are herein incorporated by reference and remain substantially unchanged. Unless otherwise indicated, the information contained herein is dated as of March 8, 2023. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended January 31, 2023 and the Annual Information Form for the year ended October 31, 2022.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

As at January 31, 2023, a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. The MD&A's Section 7. Financial position, liquidity and capital resources and Note 2 to the interim condensed consolidated financial statements contain more detail on this issue.

Despite the resumption of operations and the recovery in demand, concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine continued to create significant demand uncertainty, and the effects will still be partially present in fiscal 2023. While the situation considerably improved since the second quarter of 2022, the Corporation cannot yet predict with certainty all the impacts of this situation on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the Corporation is currently experiencing a significant resumption of operations, it does not expect to reach the pre-pandemic level before 2024.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2022 Annual Report.

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

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

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.
- The outlook whereby, subject to going concern uncertainty as discussed in Section 7. Financial position, liquidity and capital resources of the MD&A and Note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby, for the full fiscal year 2023, the Corporation expects to deploy capacity equivalent to 90% of the 2019 level.
- The outlook whereby, the combination of demand and higher prices will allow the Corporation to cope with higher costs.
- The outlook whereby, the Corporation maintains the target of an adjusted operating income margin of 4% to 6% for fiscal 2023.

In making these statements, the Corporation assumes, among other things, that no travel or border restrictions will be imposed by government authorities, that the standards and measures for the health and safety of personnel and travellers imposed by government and airport authorities will be consistent with those currently in effect, that travellers will continue to travel despite the health measures and other constraints imposed as a result of the pandemic, that workers will continue to be available to the Corporation, its suppliers and the companies providing passenger services at the airports, that credit facilities and other terms of credit extended by its business partners will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year and that fuel prices, exchange rates, selling prices, and hotel and other costs remain stable. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

	Quarters ended January 31	
(in thousands of Canadian dollars, except per share amounts)	**2023 $**	**2022 $**
Operating loss	**(38,103)**	(73,841)
Special items	**2,900**	—
Depreciation and amortization	**41,108**	37,472
Premiums related to derivatives that matured during the period	**(2,574)**	—
Adjusted operating income (loss)	**3,331**	(36,369)
Loss before income tax expense	**(56,658)**	(113,848)
Special items	**2,900**	—
Change in fair value of derivatives	**9,921**	528
Revaluation of liability related to warrants	**10,139**	456
Gain on asset disposals	**(2,511)**	(3,952)
Foreign exchange (gain) loss	**(22,829)**	21,996
Premiums related to derivatives that matured during the period	**(2,574)**	—
Adjusted pre-tax loss	**(61,612)**	(94,820)
Net loss	**(56,610)**	(114,345)
Special items	**2,900**	—
Change in fair value of derivatives	**9,921**	528
Revaluation of liability related to warrants	**10,139**	456
Gain on asset disposals	**(2,511)**	(3,952)
Foreign exchange (gain) loss	**(22,829)**	21,996
Premiums related to derivatives that matured during the period	**(2,574)**	—
Adjusted net loss	**(61,564)**	(95,317)
Adjusted net loss	**(61,564)**	(95,317)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,065**	37,747
Adjusted net loss per share	**(1.62)**	(2.53)

(in thousands of dollars)	**As at January 31, 2023 $**	**As at October 31, 2022 $**
Long-term debt	**679,387**	664,160
Deferred government grant	**163,673**	169,025
Liability related to warrants	**34,499**	24,360
Deferred financing costs	**(12,743)**	(12,552)
Lease liabilities	**1,024,822**	1,087,908
Total debt	**1,889,638**	1,932,901
Total debt	**1,889,638**	1,932,901
Cash and cash equivalents	**(467,712)**	(322,535)
Total net debt	**1,421,926**	1,610,366

3. FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
	2023	**2022**	**Difference**	**Difference**
(in thousands of Canadian dollars, except per share amounts)	**$**	**$**	**$**	**%**
Consolidated Statements of Loss				
Revenues	**667,457**	202,438	465,019	229.7
Operating loss	**(38,103)**	(73,841)	35,738	48.4
Net loss	**(56,610)**	(114,345)	57,735	50.5
Basic loss per share	**(1.49)**	(3.03)	1.54	50.8
Diluted loss per share	**(1.49)**	(3.03)	1.54	50.8
Adjusted operating income (loss)[1]	**3,331**	(36,369)	39,700	109.2
Adjusted net loss[1]	**(61,564)**	(95,317)	33,753	35.4
Adjusted net loss per share[1]	**(1.62)**	(2.53)	0.91	36.0
Consolidated Statements of Cash Flows				
Operating activities	**195,088**	(79,709)	274,797	344.8
Investing activities	**(10,481)**	(4,163)	(6,318)	(151.8)
Financing activities	**(40,307)**	(6,567)	(33,740)	(513.8)
Effect of exchange rate changes on cash and cash equivalents	**877**	375	502	133.9
Net change in cash and cash equivalents	**145,177**	(90,064)	235,241	261.2

	As at January 31, 2023	**As at October 31, 2022**	**Difference**	**Difference**
	$	**$**	**$**	**%**
Consolidated Statements of Financial Position				
Cash and cash equivalents	**467,712**	322,535	145,177	45.0
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**555,106**	375,557	179,549	47.8
	1,022,818	698,092	324,726	46.5
Total assets	**2,527,062**	2,271,131	255,931	11.3
Debt (current and non-current)	**679,387**	664,160	15,227	2.3
Total debt [1]	**1,889,638**	1,932,901	(43,263)	(2.2)
Total net debt [1]	**1,421,926**	1,610,366	(188,440)	(11.7)

[1] See Non-IFRS Financial Measures section

4. HIGHLIGHTS OF THE QUARTER

IMPACT OF THE COVID-19 PANDEMIC

Despite the resumption of operations and the recovery in demand, concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine continued to create significant demand uncertainty, and the effects will still be partially present in fiscal 2023. While the situation considerably improved since the second quarter of 2022, the Corporation cannot yet predict with certainty all the impacts of this situation on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the Corporation is currently experiencing a significant resumption of operations, it does not expect to reach the pre-pandemic level before 2024.

Cash levels and generating cash remain priorities for the Corporation. During the quarter ended January 31, 2023, the Corporation took the following actions with respect to the COVID-19 pandemic and other opportunities are being evaluated to achieve this objective:

- The Corporation has announced the closure of the Vancouver base effective June 30, 2023. The 200 affected employees, namely flight attendants and pilots, may be relocated to the Montréal or Toronto base on a voluntary basis. This decision comes after the Corporation centralized its operations in Eastern Canada and deployed its strategic plan, which included reviewing and optimizing resource management and operating costs. An amount of $1.6 million was reported in Special items as a provision for, among other things, severance costs.

- The Corporation continuously adjusts its flight program according to demand. Since resuming operations in July 2021, the Corporation resumed its flight schedule for the winter season representing nearly 98% of its pre-pandemic volume.

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

- As at January 31, 2023, cash and cash equivalents totalled $467.7 million.

5. OVERVIEW

CORE BUSINESS

Founded in Montréal 35 years ago, Transat is a holiday travel leader, particularly as an air carrier under the Air Transat brand. Voted World's Best Leisure Airline in North America by passengers at the 2022 Skytrax World Airline Awards, it flies to international, U.S. and Canadian destinations. By renewing its fleet with the most energy-efficient aircraft in their category, it is committed to a healthier environment, knowing that this is essential to its operations and the destinations it serves. Transat has been Travelife-certified since 2018.

6. CONSOLIDATED OPERATIONS

	Quarters ended January 31			
(in thousands of dollars)	**2023 $**	**2022 $**	**Difference $**	**Difference %**
Revenues	**667,457**	202,438	465,019	229.7
Operating expenses				
Costs of providing tourism services	**225,828**	66,218	159,610	241.0
Aircraft fuel	**137,215**	36,313	100,902	277.9
Salaries and employee benefits	**101,426**	46,320	55,106	119.0
Sales and distribution costs	**50,377**	16,156	34,221	211.8
Aircraft maintenance	**38,625**	18,229	20,396	111.9
Airport and navigation fees	**36,752**	15,914	20,838	130.9
Aircraft rent	**1,987**	776	1,211	156.1
Other airline costs	**45,496**	20,588	24,908	121.0
Other	**24,242**	17,914	6,328	35.3
Share of net loss of a joint venture	**(396)**	379	(775)	(204.5)
Depreciation and amortization	**41,108**	37,472	3,636	9.7
Special items	**2,900**	—	2,900	100.0
	705,560	276,279	429,281	155.4
Operating loss	**(38,103)**	(73,841)	35,738	48.4
Financing costs	**32,213**	21,968	10,245	46.6
Financing income	**(8,378)**	(989)	(7,389)	(747.1)
Change in fair value of derivatives	**9,921**	528	9,393	1,779.0
Revaluation of liability related to warrants	**10,139**	456	9,683	2,123.5
Gain on asset disposals	**(2,511)**	(3,952)	1,441	36.5
Foreign exchange (gain) loss	**(22,829)**	21,996	(44,825)	(203.8)
Loss before income tax expense	**(56,658)**	(113,848)	57,190	50.2
Income taxes (recovery)				
Current	**254**	497	(243)	(48.9)
Deferred	**(302)**	—	(302)	100.0
	(48)	497	(545)	(109.7)
Net loss for the period	**(56,610)**	(114,345)	57,735	50.5

REVENUES

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

Compared with 2022, our revenues were up $465.0 million (229.7%) for the quarter ended January 31, 2023. This significant increase resulted primarily from the fact that in 2022 the Corporation's revenues were dampened by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant during the first quarter and the new restrictive measures put in place by the federal government on December 15, 2021. As a result, the Corporation initially cancelled nearly 30% of flights scheduled from January 2022 to the end of February 2022. Since then, the Corporation has deployed winter season capacity almost equal to pre-pandemic levels. Compared with the same quarter in fiscal 2019, revenues were up 3.1%.

For the quarter, across all programs, the capacity offered matched those of 2019, while the capacity for sun destinations, the main program during this period, represented 98% of the 2019 level. Overall, the number of travellers in the first quarter of 2023 was similar to the number of travellers for the corresponding quarter of 2019, whereas the airline unit revenues, expressed in revenue per passenger-mile (or yield), were 20.5% higher than in 2019. For our sun destinations program, the selling prices showed an average increase of 20.5%. The recovery in demand combined with higher fuel prices contributed to the increase in average selling prices compared with 2019. Across all our markets, the Corporation reported a load factor of 84.5% compared with 86.7% in 2019.

OPERATING EXPENSES

Total operating expenses were up $429.3 million (155.4%) for the quarter, compared with 2022. This increase was mainly due to the greater capacity deployed compared with the first quarter of 2022, following higher demand compared with last year.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. Compared with 2022, these costs increased by $159.6 million (241.0%) for the quarter. The increase primarily resulted from the rise in the number of packages sold compared with 2022.

Aircraft fuel

Aircraft fuel expense was up $100.9 million (277.9%) for the quarter. The increase was mainly attributable to a higher capacity compared with 2022, combined with a significant rise in fuel prices, which increased 46% ($41.4 million) for the quarter, compared with 2022.

Salaries and employee benefits

Salaries and employee benefits were up $55.1 million (119.0%) for the quarter, compared with 2022. The increase was mainly attributable to the resumption of airline operations.

During the quarter ended January 31, 2022, the Corporation benefited from the THRP and HHBRP, recording an amount of $15.1 million under these programs. The THRP and HHBRP ended on May 7, 2022.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were up $34.2 million (211.8%) during the quarter, compared with 2022. The increase was mainly driven by higher revenues and advertising expenses following the resumption of operations.

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was up $3.6 million (9.7%) during the first quarter, compared with 2022. The increase was primarily due to the commissioning of two Airbus A321LRs in 2022.

Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. These costs were up $20.4 million (111.9%) during the quarter, compared with 2022. The increase was attributable to the greater capacity deployed compared with 2022.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $20.8 million (130.9%) during the quarter, compared with 2022. The increase mainly resulted from the greater capacity deployed compared with 2022 and higher prices.

Aircraft rent

Aircraft rent refers to variable aircraft rent. Aircraft rent was up $1.2 million during the quarter. The increase was attributable to higher capacity compared with 2022.

Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were up $24.9 million (121.0%) during the quarter, compared with 2022. The increase mainly resulted from the greater capacity deployed compared with 2022.

Other

Other costs were up $6.3 million (35.3%) during the quarter, compared with 2022. The increase resulted from higher business volume compared with 2022.

Share of net income (loss) of a joint venture

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net income amounted to $0.4 million for the first quarter, compared with a share of net loss of $0.4 million for the corresponding quarter of 2022, showing more sustained signs of recovery compared with 2022.

Special items

Special items generally include restructuring charges and other significant unusual items, including impairment losses.

As at January 31, 2023, special items included severance costs of $2.9 million corresponding mainly to the estimated termination benefits costs related to the closure of the Vancouver base effective June 30, 2023.

OPERATING RESULTS

Given the above, we reported an operating loss of $38.1 million (5.7%) for the first quarter, compared with $73.8 million (36.5%) in 2022.

The improvement in operating results for the quarter was attributable to the resumption of flight operations, the recovery in demand and the increase in selling prices. However, the significant increase in fuel prices greatly dampened the improvement in our results. Demand during the quarter was significantly greater compared with 2022. In 2022, the gradual and partial resumption of airline operations was hampered by the cancellation of flights for the winter season due to the drop in demand and booking cancellations following the emergence of the Omicron variant and restrictive measures put in place by the federal government on December 15, 2021.

For the quarter, the Corporation reported an adjusted operating income of $3.3 million, compared with an adjusted operating loss of $36.4 million in 2022.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $10.2 million (46.6%) for the quarter, compared with 2022. The increase resulted from higher debt following drawdowns on the credit facilities with the Government of Canada and the increase in interest rates.

Financing income

Financing income was up $7.4 million during the quarter, compared with 2022, mainly due to higher interest rates compared with 2022 and the increase in average cash and cash equivalents balances.

Change in fair value of derivatives

The change in fair value of derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and exchange rates as well as the change in fair value of the pre-payment option on the unsecured debt - LEEFF.

During the quarter ended January 31, 2023, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies decreased by $9.9 million, mainly due to the decrease in the fair value of fuel-related and foreign currency derivatives. During the quarter ended January 31, 2023, the fair value of the pre-payment option related to LEEFF unsecured financing remained the same. During the quarter ended January 31, 2022, the fair value of the pre-payment option related to LEEFF unsecured financing decreased by $0.5 million.

Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the quarter ended January 31, 2023, the fair value of warrants increased by $10.1 million, mainly owing to the increase in the closing share price from $2.60 to $3.38 between October 31, 2022 and January 31, 2023.

Gain on asset disposals

For the quarter ended January 31, 2023, the $2.5 million gain on asset disposals was due to the return of a Boeing 737-800 to the lessor during the quarter. The gain resulted mainly from the reversal of related lease liabilities. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2020.

During the quarter ended January 31, 2022, the $4.0 million gain on asset disposals was primarily attributable to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4.1 million gain, which resulted from the reversal of lease liabilities of $4.0 million and other assets and liabilities totalling $0.1 million. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2021.

Foreign exchange loss (gain)

During the quarter, the Corporation recorded a foreign exchange gain of $22.8 million compared with a foreign exchange loss of $22.0 million in 2022. In 2023, the foreign exchange gain resulted mainly from the favourable exchange effect on lease liabilities related to aircraft, following the strengthening of the dollar against the U.S. dollar.

INCOME TAXES

Income tax recovery totalled $0.0 million,for the first quarter, compared with an income tax expense of $0.5 million for the corresponding quarter of last year. The effective tax rate was 0.1% for the quarter ended January 31, 2023, and -0.4% for the quarter ended January 31, 2022.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances related to Canadian operations whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the uncertainty as to when the Corporation would return to profitability. Accordingly, during the quarter ended January 31, 2023, no deferred tax assets of Canadian subsidiaries were recognized.

NET LOSS AND ADJUSTED NET LOSS

Considering the items discussed in the Consolidated Operations section, net loss was $56.6 million, or $1.49 per share (basic and diluted), compared with $114.3 million, or $3.03 per share (basic or diluted) during the corresponding quarter of the previous year. For the first quarter of 2023, the weighted average number of outstanding shares used to compute per share amounts was 38,065,000 (basic and diluted) compared with 37,747,000 (basic and diluted) for the corresponding quarter in 2022.

For the first quarter, adjusted net loss was $61.6 million ($1.62 per share), compared with $95.3 million ($2.53 per share) in 2022.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. For all the quarters reported, revenue growth was attributable to partial and gradual resumption of operations. The Corporation had to fully suspend its airline operations from January 29, 2021 to July 30, 2021 due to the COVID-19 pandemic. Nevertheless, the recovery in demand continues to gather strength since July 31, 2021, driving revenue growth.

The improvement in our operating results for the first part of winter (Q1) was driven by the resumption of operations. The operating losses for the second half of winter 2021 (Q2) and for summer 2021 (Q3 and Q4) were mainly attributable to the suspension of our airline operations combined with a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. The recovery of demand was stronger in 2022 than in 2021, and accordingly, operating results improved for the 2022 summer season compared with 2021. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	**Q2-2021** $	**Q3-2021** $	**Q4-2021** $	**Q1-2022** $	**Q2-2022** $	**Q3-2022** $	**Q4-2022** $	**Q1-2023** $
Revenues	7,569	12,548	62,781	202,438	**358,157**	**508,304**	**573,139**	**667,457**
Operating loss	(86,480)	(98,368)	(118,326)	(73,841)	**(87,513)**	**(93,218)**	**(48,848)**	**(38,103)**
Net loss	(69,537)	(138,059)	(121,339)	(114,345)	**(98,276)**	**(106,472)**	**(126,231)**	**(56,610)**
Net loss attributable to shareholders	(69,561)	(138,125)	(121,339)	(114,345)	**(98,276)**	**(106,472)**	**(126,231)**	**(56,610)**
Basic loss per share	(1.84)	(3.66)	(3.21)	(3.03)	**(2.60)**	**(2.82)**	**(3.32)**	**(1.49)**
Diluted loss per share	(1.84)	(3.66)	(3.21)	(3.03)	**(2.60)**	**(2.82)**	**(3.32)**	**(1.49)**
Adjusted operating loss(1)	(50,963)	(50,928)	(58,362)	(36,369)	**(51,014)**	**(57,824)**	**(11,545)**	**3,331**
Adjusted net loss(1)	(103,287)	(115,641)	(118,400)	(95,317)	**(111,563)**	**(120,901)**	**(75,930)**	**(61,564)**
Adjusted net loss per share(1)	(2.74)	(3.06)	(3.14)	(2.53)	**(2.95)**	**(3.20)**	**(2.00)**	**(1.62)**

[1] See Non-IFRS financial measures section

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from January 31, 2023. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due to the global COVID-19 pandemic since the beginning of 2020, the Corporation's operations have been severely disrupted and its financial results significantly impacted. The Corporation had to suspend all of its flights twice, from April 1, 2020 to July 23, 2020, and from January 29, 2021 to July 30, 2021, and also to scale back its offering to adjust to demand.

The Corporation reported a net loss of $56.6 million and generated positive cash flows related to operations totalling $195.1 million for the quarter ended January 31, 2023. In addition to its balances of cash and cash equivalents of $467.7 million as at January 31, 2023, and as described in Note 9, the Corporation has financing facilities that allow it to borrow up to $963.3 million, $863.2 million of which was drawn as at January 31, 2023, and the ratios applicable to the credit facilities are suspended until October 29, 2023.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on its ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios, which will be applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess liquidity needs and the capital structure and is not ruling out any option that could provide greater financial flexibility to the Corporation.

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

There can be no assurance that the Corporation will be able to borrow sufficient additional amounts to meet its future needs, or that it will be able to do so on acceptable terms or that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next 12 months.

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

The interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. The interim condensed consolidated financial statements as at January 31, 2023, do not include adjustments to the carrying amount and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

CONSOLIDATED FINANCIAL POSITION

As at January 31, 2023, cash and cash equivalents totalled $467.7 million compared with $322.5 million as at October 31, 2022. Cash and cash equivalents in trust or otherwise reserved amounted to $555.1 million as at January 31, 2023, compared with $375.6 million as at October 31, 2022. The Corporation's statement of financial position reflected $82.5 million in negative working capital, for a ratio of 0.94, compared with $21.7 million in negative working capital and a ratio of 0.98 as at October 31, 2022.

Total assets increased by $255.9 million (11.3%), from $2,271.1 million as at October 31, 2022, to $2,527.1 million as at January 31, 2023. This increase is explained in the financial position table provided below. Equity decreased by $56.9 million, from a negative amount of $750.2 million as at October 31, 2022 to negative equity of $807.1 million as at January 31, 2023. The deterioration resulted primarily from the $56.6 million net loss.

(in thousands of dollars)	January 31, 2023 $	October 31, 2022 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**467,712**	322,535	145,177	See Cash flows section
Cash and cash equivalents otherwise reserved	**555,106**	375,557	179,549	Seasonal nature of operations combined with increased business volume
Trade and other receivables	**124,323**	265,050	(140,727)	Decrease in receivables from credit card processors
Income taxes receivable	**5,300**	5,537	(237)	No significant difference
Inventories	**30,485**	26,725	3,760	Increase in inventory of fuel and aircraft parts
Prepaid expenses	**39,607**	26,428	13,179	Increase in prepayments due to seasonal nature of operations
Deposits	**287,518**	201,623	85,895	New deposits with credit card processors and increase in deposits for aircraft maintenance
Deferred tax assets	**1,255**	953	302	Recognition of deferred tax assets by certain foreign subsidiaries
Property, plant and equipment	**969,346**	1,000,151	(30,805)	Amortization for the period, partially offset by acquisitions for the period
Intangible assets	**13,208**	13,261	(53)	Amortization for the period, partially offset by software acquisitions
Derivative financial instruments	**11,443**	11,939	(496)	Unfavourable change in fuel-related and foreign currency derivatives contracted and premiums paid
Investment	**9,016**	8,820	196	Share of net income of a joint venture
Deferred financing costs	**12,743**	12,552	191	Deferred financing costs related to amendments to the LEEFF financing

(in thousands of dollars)	January 31, 2023 $	October 31, 2022 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**341,533**	289,897	51,636	Seasonal nature of operations combined with increased business volume
Income taxes payable	**1,032**	1,054	(22)	No significant difference
Customer deposits and deferred revenues	**898,260**	602,509	295,751	Seasonal nature of operations combined with increased business volume
Derivative financial instruments	**7,646**	6,209	1,437	Unfavourable change in currencies related to contracted derivatives
Long-term debt and lease liabilities	**1,704,209**	1,752,068	(47,859)	Appreciation of the dollar against the U.S. currency, principal repayments and the return of an aircraft
Provision for return conditions	**161,793**	154,772	7,021	Increase mainly related to the passage of time partially offset by the appreciation of the dollar against the U.S. currency
Liability related to warrants	**34,499**	24,360	10,139	Increase in fair value of warrants during the period
Deferred government grant	**163,673**	169,025	(5,352)	Revenue from government grants for the period
Employee benefits liability	**20,915**	20,773	142	No significant difference
Deferred tax liabilities	**630**	644	(14)	No significant difference
Equity				
Share capital	**222,265**	221,924	341	Shares issued from treasury
Share-based payment reserve	**16,148**	16,092	56	Share-based payment expense
Deficit	**(1,041,212)**	(984,602)	(56,610)	Net loss
Cumulative exchange differences	**(4,329)**	(3,594)	(735)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended January 31		
(in thousands of dollars)	2023 $	2022 $	Difference $
Cash flows related to operating activities	**195,088**	(79,709)	274,797
Cash flows related to investing activities	**(10,481)**	(4,163)	(6,318)
Cash flows related to financing activities	**(40,307)**	(6,567)	(33,740)
Effect of exchange rate changes on cash	**877**	375	502
Net change in cash and cash equivalents	**145,177**	(90,064)	235,241

Operating activities

Operating activities generated cash flows of $195.1 million during the first quarter, compared with cash flows used of $79.7 million in 2022. The $274.8 million increase in cash flows generated by operating activities resulted from the $241.1 million increase in cash flows generated by the net change in non-cash working capital balances related to operations, the $37.2 million decrease in net loss before operating items not involving an outlay (receipt) of cash, partially offset by the $3.7 million decrease in the net change in other assets and liabilities related to operations.

Investing activities

Cash flows used in investing activities amounted to $10.5 million for the first quarter compared with $4.2 million in 2022, representing an increase of $6.3 million. For the quarter ended January 31, 2023, additions to property, plant and equipment and intangible assets amounted to $10.5 million and consisted primarily in aircraft maintenance and spare parts, compared with $4.2 million in 2022.

Financing activities

For the first quarter, cash flows used in financing activities increased to $40.3 million from $6.6 million in 2022, representing an increase of $33.7 million. The Corporation made repayments on its lease liabilities amounting to $40.5 million compared with $34.6 million in 2022. No drawdowns were made during the quarter ended January 31, 2023, while the Corporation drew down a total of $28.0 million from its credit facilities in 2022.

FINANCING

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allows it to borrow up to $843.3 million through the Large Employer Emergency Financing Facility (LEEFF). Transat also has access to an additional credit facility of up to $50.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only on an as-needed basis, are as follows:

Secured debt – LEEFF

An amount of $98.0 million, in the form of a non-revolving and secured credit facility maturing on April 29, 2024. The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. No drawdowns were made during the quarter ended January 31, 2023. As at January 31, 2023, and October 31, 2022, an amount of $78.0 million was drawn down with a carrying amount of $77.3 million as at January 31, 2023 ($77.2 million as at October 31, 2022).

The financing arrangement also provides Transat with an additional credit facility of up to $10.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

Unsecured debt – LEEFF

An amount $392.0 million, in the form of an unsecured, non-revolving credit facility. The credit facility bears interest at a rate of 5.0% until December 31, 2023, increasing to 8.0% until December 31, 2024, and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024. An amount of $312.0 million matures on April 29, 2026, while the balance of $80.0 million matures on July 29, 2027. In the event of a change of control, this credit facility becomes immediately due and payable. As at January 31, 2023, and October 31, 2022, an amount of $312.0 million was drawn down with a carrying amount of $293.9 million as at January 31, 2023 ($284.8 million as at October 31, 2022). No drawdowns were made during the first quarter of 2023.

The financing arrangement also provides Transat with an additional credit facility of up to $40.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

In the context of the initial financing arrangement related to the LEEFF unsecured financing facility, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share (representing the volume-weighted average trading price for the five trading days preceding the issuance of the warrants) over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt - LEEFF.

On July 29, 2022, as part of the amendments to the financing arrangement related to the unsecured financing facility - LEEFF, the Corporation issued an additional 4,687,500 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $3.20 per share over a 10-year period, representing 18.75% of the additional commitment available under the unsecured financing facility - LEEFF.

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was to be repaid prior to December 31, 2023, 50% of the vested warrants would be forfeited.

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

As at January 31, 2023, and October 31, 2022, a total of 13,000,000 warrants had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

Under the limitations set out above, if the 17,687,500 warrants issued are exercised:

- a maximum of 9,536,000 warrants could be exercised through the issuance of shares;
- 8,151,500 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Unsecured credit facility related to travel credits

An amount of $353.3 million, in the form of an unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at January 31, 2023 and October 31, 2022, the credit facility was fully drawn. As at January 31, 2023, the carrying amount of the credit facility was $187.9 million ($182.5 million as at October 31, 2022), and an amount of $163.7 million was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

The Corporation has a $50.0 million revolving credit facility for its operations which expires on April 29, 2024. This agreement can be extended for one year on each anniversary date subject to lender approval. The balance becomes immediately due and payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at January 31, 2023, and October 31, 2022, the credit facility was fully drawn.

Subordinated credit facility

The Corporation also has a $70.0 million subordinated credit facility for its operations. The agreement expires on April 29, 2024 and becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or at the financial institution's prime rate, plus a 5.0% premium. Until October 29, 2023, an additional capitalizable premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at January 31, 2023 and October 31, 2022, the credit facility was fully drawn.

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and cash flows, some of which are reported as liabilities in the interim condensed consolidated financial statements and others are disclosed in the notes to the consolidated financial statements.

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $1,000.9 million as at January 31, 2023 ($978.0 million as at October 31, 2022) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at January 31, 2023** **$**	**As at October 31, 2022** **$**
Guarantees		
Irrevocable letters of credit	**1,004**	978
Collateral security contracts	**458**	469
Leases		
Lease obligations	**999,429**	976,510
	1,000,891	977,957

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

The Corporation has a $74.0 million annually renewable revolving credit facility for issuing letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at January 31, 2023, $56.1 million of the facility was drawn ($55.9 million as at October 31, 2022), including $31.3 million ($31.3 million as at October 31, 2022) to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits from which £1.2 million ($2.0 million) has been drawn down.

As at January 31, 2023, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $22.9 million compared with October 31, 2022. This increase was primarily due to the signing of an agreement for the lease of one Airbus A330, the impact of higher interest rates on future rents and partially offset by the appreciation of the dollar against the U.S. dollar.

Subject to going concern uncertainty discussed in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

Debt levels

The Corporation reported $679.4 million in long-term debt and $1,024.8 million in lease liabilities in the consolidated statement of financial position.

The Corporation's total debt stood at $1,889.6 million as at January 31, 2023, down $43.3 million compared with October 31, 2022. The decrease was primarily due to the weakening of the U.S. dollar against the Canadian dollar, the return of an aircraft and the repayment of lease liabilities.

Total net debt decreased by $188.4 million from $1,610.4 million as at October 31, 2022 to $1,421.9 million as at January 31, 2023. The decrease in total net debt resulted from the decrease in total debt and the increase in cash and cash equivalent balances.

Outstanding shares

As at January 31, 2023, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at March 3, 2023, there were a total of 38,185,327 voting shares outstanding.

Stock options

As at March 3, 2023, a total of 406,034 stock options was outstanding, 106,034 of which were exercisable.

Warrants

As at January 31, 2023, and as at March 3, 2023, a total of 17,687,500 warrants was issued. As at January 31, 2023, and as at March 3, 2023, a total of 13,000,000 warrants had vested following drawdowns on the credit facility and no warrants had been exercised. Under the terms of the unsecured debt – LEEFF financing agreement, if the loan were to be repaid prior to December 31, 2023, 50% of the vested warrants would be forfeited.

8. OTHER

FLEET

As at January 31, 2023, Air Transat's fleet consisted of twelve Airbus A330s (332 or 345 seats), twelve Airbus A321LRs (199 seats), and seven Airbus A321ceos (199 seats). During the quarter ended January 31, 2023, one Boeing 737-800 was returned to the lessor.

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. There are often many uncertainties surrounding these disputes and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, with coverage under said insurance policies that is usually sufficient to pay amounts that the Corporation may be required to disburse in connection with these lawsuits that are specific to the directors and officers, and not the Corporation. In addition, the Corporation holds professional liability and general liability insurance for lawsuits relating to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has always defended itself vigorously and intends to continue to do so.

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of petitions for class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. While some of these petitions have not yet been definitively settled, the Corporation has refunded almost all customers, particularly since April 2021, using the unsecured credit facility related to travel credits. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation will continue to defend itself vigorously in this respect. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income (loss) and could have an unfavourable effect on cash.

9. ACCOUNTING

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2022. There have been no significant changes to the Corporation's accounting policies since that date.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash-generating unit ["CGU"] exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation.

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

As mentioned in the financial statements for the year ended October 31, 2022, the Corporation determined at that date that the declines in revenues and demand due to the COVID-19 pandemic, were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on their value in use, using a discounted cash flow model. As at October 31, 2022, no impairment was recognized on the carrying amount of the Corporation's two CGUs as their recoverable amount was higher than their carrying amount.

As at January 31, 2023, the Corporation concluded that there was no indication of additional impairment of assets or any CGUs compared with October 31, 2022. Nevertheless, the Corporation reviewed and updated certain assumptions used in the most recent impairment test performed as at October 31, 2022. The Corporation determined that these adjustments did not give rise to any changes to the results of the impairment testing of its CGUs performed as at October 31, 2022.

Provision for return conditions

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

Liability related to warrants

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

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

Changes in accounting policies

Amendments to IAS 1 – Financial Statement Presentation

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) which amends IAS 1, *Presentation of Financial Statements*. The amendments aim to clarify how an entity classifies its debt instruments and other financial liabilities with uncertain settlement dates as current or non-current in particular circumstances. On October 31, 2022, the IASB published amendments to *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1). The amendments aim to improve the information an entity provides when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. More specifically, the amendments clarify that when an entity has to comply with covenants after the reporting date, those covenants would not affect the classification of debt instruments or other financial liabilities as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. It is too early to determine whether the application of these amendments could have an impact on the Corporation's consolidated financial statements at the date of adoption.

10. CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer which, among other things, consider adequate for January 31, 2023, the design :

- Disclosure controls and procedures that provide reasonable assurance that material financial information of the Company and its subsidiaries is properly disclosed and recorded, processed, summarized and reported within the time periods specified in the legislation;

- Internal control over financial reporting ["ICFR"] which provides, based on the established criteria in the 2013 COSO control framework, reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2023, that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

11. OUTLOOK

To date, for the second quarter of 2023, although load factors are 3 percentage points lower than in 2019, airline unit revenues, expressed in revenue per passenger-mile (or yield), are significantly higher and show a 25% increase. The combination of demand and higher prices will allow the Corporation to cope with higher costs. While it is too early to have a complete picture for the summer, the winter trends seem to be continuing into summer 2023.

For the full fiscal year 2023, the Corporation expects to deploy capacity equivalent to 90% of the 2019 level. This level is consistent with International Air Transport Association (IATA) projections for the Corporation's main markets.

Bearing in mind the indicators to date, the Corporation maintains the target of an adjusted operating income margin of 4% to 6% for fiscal 2023. In making these forward-looking statements, the Corporation has relied on a number of assumptions, including moderate growth in Canada's GDP taking into account the risk of a short recession, an exchange rate of C$1.34 to US$1 and an average price per gallon of jet fuel of C$4.50.

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Notes	As at January 31, 2023 $	As at October 31, 2022 $
ASSETS			
Cash and cash equivalents		**467,712**	322,535
Cash and cash equivalents in trust or otherwise reserved	4	**523,833**	344,284
Trade and other receivables	5	**124,323**	265,050
Income taxes receivable		**5,300**	5,537
Inventories		**30,485**	26,725
Prepaid expenses		**39,607**	26,428
Derivative financial instruments		**11,443**	11,939
Current portion of deposits	6	**105,453**	29,392
Current assets		**1,308,156**	1,031,890
Cash and cash equivalents reserved	4	**31,273**	31,273
Deposits	6	**182,065**	172,231
Deferred tax assets		**1,255**	953
Property, plant and equipment	7	**969,346**	1,000,151
Intangible assets		**13,208**	13,261
Investment	8	**9,016**	8,820
Deferred financing costs		**12,743**	12,552
Non-current assets		**1,218,906**	1,239,241
		2,527,062	2,271,131
LIABILITIES			
Trade and other payables		**341,533**	289,897
Income taxes payable		**1,032**	1,054
Customer deposits and deferred revenues		**898,260**	602,509
Derivative financial instruments		**7,646**	6,209
Current portion of lease liabilities	9	**118,066**	137,165
Current portion of liability related to warrants	10	**24,115**	16,799
Current liabilities		**1,390,652**	1,053,633
Long-term debt and lease liabilities	9	**1,586,143**	1,614,903
Liability related to warrants	10	**10,384**	7,561
Deferred government grant	9	**163,673**	169,025
Provision for return conditions	11	**161,793**	154,772
Employee benefits liability		**20,915**	20,773
Deferred tax liabilities		**630**	644
Non-current liabilities		**1,943,538**	1,967,678
NEGATIVE EQUITY			
Share capital	12	**222,265**	221,924
Share-based payment reserve		**16,148**	16,092
Deficit		**(1,041,212)**	(984,602)
Cumulative exchange differences		**(4,329)**	(3,594)
		(807,128)	(750,180)
		2,527,062	2,271,131

See accompanying notes to the interim unaudited condensed consolidated financial statements

On behalf of the Board,

Director

Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended January 31 2023 $	 2022 $
Revenues	13	**667,457**	202,438
Operating expenses			
Costs of providing tourism services		**225,828**	66,218
Aircraft fuel		**137,215**	36,313
Salaries and employee benefits	13	**101,426**	46,320
Sales and distribution costs		**50,377**	16,156
Aircraft maintenance		**38,625**	18,229
Airport and navigation fees		**36,752**	15,914
Aircraft rent	9	**1,987**	776
Other airline costs		**45,496**	20,588
Other		**24,242**	17,914
Share of net loss (income) of a joint venture	8	**(396)**	379
Depreciation and amortization		**41,108**	37,472
Special items	14	**2,900**	—
		705,560	276,279
Operating loss		**(38,103)**	(73,841)
Financing costs	9	**32,213**	21,968
Financing income		**(8,378)**	(989)
Change in fair value of derivatives		**9,921**	528
Revaluation of liability related to warrants	10	**10,139**	456
Gain on asset disposals	15	**(2,511)**	(3,952)
Foreign exchange (gain) loss		**(22,829)**	21,996
Loss before income tax expense		**(56,658)**	(113,848)
Income taxes (recovery)			
Current		**254**	497
Deferred		**(302)**	—
		(48)	497
Net loss for the period		**(56,610)**	(114,345)
Loss per share	12		
Basic		**(1.49)**	(3.03)
Diluted		**(1.49)**	(3.03)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Notes	Quarters ended January 31 2023 $	 2022 $
Net loss for the period		**(56,610)**	(114,345)
Other comprehensive income (loss)			
Items that will be reclassified to net loss			
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries		**(735)**	143
Reclassification to net loss		**—**	(360)
		(735)	(217)
Total other comprehensive loss		**(735)**	(217)
Comprehensive loss for the period		**(57,345)**	(114,562)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Deficit $	Accumulated other comprehensive income (loss) Cumulative exchange differences $	Total equity $
Balance as at October 31, 2021	221,012	15,948	(544,881)	(7,189)	(315,110)
Net loss for the period	—	—	(114,345)	—	(114,345)
Other comprehensive loss	—	—	—	(217)	(217)
Comprehensive loss for the period	—	—	(114,345)	(217)	(114,562)
Share-based payment expense	—	29	—	—	29
	—	29	—	—	29
Balance as at January 31, 2022	**221,012**	**15,977**	**(659,226)**	**(7,406)**	**(429,643)**
Net loss for the period	—	—	(330,979)	—	(330,979)
Other comprehensive income	—	—	5,603	3,812	9,415
Comprehensive income (loss) for the period	—	—	(325,376)	3,812	(321,564)
Issued from treasury	912	—	—	—	912
Share-based payment expense	—	115	—	—	115
	912	115	—	—	1,027
Balance as at October 31, 2022	221,924	16,092	(984,602)	(3,594)	(750,180)
Net loss for the period	—	—	(56,610)	—	(56,610)
Other comprehensive loss	—	—	—	(735)	(735)
Comprehensive loss for the period	—	—	(56,610)	(735)	(57,345)
Issued from treasury	341	—	—	—	341
Share-based payment expense	—	56	—	—	56
	341	56	—	—	397
Balance as at January 31, 2023	**222,265**	**16,148**	**(1,041,212)**	**(4,329)**	**(807,128)**

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

		Quarters ended January 31	
Unaudited		**2023**	**2022**
(in thousands of Canadian dollars)	*Notes*	**$**	$
OPERATING ACTIVITIES			
Net loss for the period		**(56,610)**	(114,345)
Operating items not involving an outlay (receipt) of cash:			
Depreciation and amortization		**41,108**	37,472
Change in fair value of derivatives		**9,921**	528
Revaluation of liability related to warrants		**10,139**	456
Gain on asset disposals	*15*	**(2,511)**	(3,952)
Foreign exchange (gain) loss		**(22,829)**	21,996
Share of net loss (income) of a joint venture	*8*	**(396)**	379
Capitalized interests on long-term debt and lease liabilities		**11,416**	10,219
Deferred taxes		**(302)**	—
Employee benefits		**450**	480
Share-based payment expense		**56**	29
		(9,558)	(46,738)
Net change in non-cash working capital balances related to operations		**208,785**	(32,325)
Net change in provision for return conditions		**11,183**	11,019
Net change in other assets and liabilities related to operations		**(15,322)**	(11,665)
Cash flows related to operating activities		**195,088**	(79,709)
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(10,481)**	(4,163)
Cash flows related to investing activities		**(10,481)**	(4,163)
FINANCING ACTIVITIES			
Proceeds from borrowings	*9*	**—**	28,000
Transaction costs		**(191)**	—
Proceeds from issuance of shares		**341**	—
Repayment of lease liabilities	*9*	**(40,457)**	(34,567)
Cash flows related to financing activities		**(40,307)**	(6,567)
Effect of exchange rate changes on cash and cash equivalents		**877**	375
Net change in cash and cash equivalents		**145,177**	(90,064)
Cash and cash equivalents, beginning of period		**322,535**	433,195
Cash and cash equivalents, end of period		**467,712**	343,131
Supplementary information (as reported in operating activities)			
Net income taxes paid		**57**	71
Net interest paid		**10,973**	3,656

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

Note 1 Corporate information

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2023 were approved by the Corporation's Board of Directors on March 8, 2023.

Note 2 Uncertainty related to going concern

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from January 31, 2023. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due to the global COVID-19 pandemic since the beginning of 2020, the Corporation's operations have been severely disrupted and its financial results significantly impacted. Among other things, the Corporation had to suspend all of its flights twice, from April 1, 2020 to July 23, 2020 and from January 29, 2021 to July 30, 2021, and also to scale back its offering to adjust to demand.

The Corporation reported a net loss of $56,610 and generated positive cash flow related to operating activities totalling $195,088 for the quarter ended January 31, 2023. In addition to its balances of cash and cash equivalents of $467,712 as at January 31, 2023, and as discussed in Note 9, the Corporation has financing facilities that allow it to borrow up to $963,300, of which $863,216 was drawn at January 31, 2023. The ratios applicable to the credit facilities are suspended until October 29, 2023.

Despite the resumption of operations and recovering demand, concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine continued to create significant demand uncertainty, and the effects will still be partially present in fiscal 2023. While the situation has considerably improved since the second quarter of 2022, the Corporation cannot yet predict with certainty all the impacts on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the Corporation is currently experiencing a significant resumption of operations, it does not expect to reach the pre-pandemic level before 2024.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on its ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess its liquidity needs and the capital structure and is not ruling out any options that could provide greater financial flexibility to the Corporation.

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

There can be no assurance that the Corporation will be able to borrow sufficient additional amounts to meet its future needs, or that it will be able to do so on acceptable terms or that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next 12 months.

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

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at January 31, 2023 do not include adjustments to the carrying value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

Note 3 Significant accounting policies

Basis of preparation

These interim condensed consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada. These interim condensed consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*.

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2022.

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

Significant accounting estimates and judgments

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

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash-generating unit ["CGU"] exceeds its recoverable amount, which is the higher of the fair value less costs to sell the asset or the CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation.

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

As mentioned in the financial statements for the year ended October 31, 2022, the Corporation determined at that date that the declines in revenues and demand due to the COVID-19 pandemic, and the resulting significant reductions in capacity were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of CGUs was determined based on their value in use, applying a discounted cash flow model. As at October 31, 2022, no impairment was recognized on the carrying amount of the Corporation's two CGUs as their recoverable amount was higher than their carrying amount.

As at January 31, 2023, the Corporation concluded that there was no indication of additional impairment of assets or any CGUs compared with October 31, 2022. Nevertheless, the Corporation reviewed and updated certain assumptions used in the most recent impairment test performed as at October 31, 2022. The Corporation determined that these adjustments did not give rise to any changes to the results of the impairment testing of its CGUs performed as at October 31, 2022.

Provision for return conditions

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

Liability related to warrants

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

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

Changes in accounting policy

Amendments to IAS 1, Presentation of Financial Statements

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) which amends IAS 1, *Presentation of Financial Statements*. The amendments aim to clarify how an entity classifies its debt instruments and other financial liabilities with uncertain settlement dates as current or non-current in particular circumstances. On October 31, 2022, the IASB published amendments to *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1). The amendments aim to improve the information an entity provides when the right to defer settlement of a liability for at least twelve months is subject to the entity complying with covenants after the reporting date. More specifically, the amendments clarify that when an entity has to comply with covenants after the reporting date, those covenants would not affect the classification of debt instruments or other financial liabilities as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. It is too early to determine whether the application of these amendments could have an impact on the Corporation's consolidated financial statements at the date of adoption.

Note 4 Cash and cash equivalents in trust or otherwise reserved

As at January 31, 2023, cash and cash equivalents in trust or otherwise reserved included $496,956 [$319,162 as at October 31, 2022] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation’s business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $58,150, $31,273 of which was recorded as non-current assets [$56,395 as at October 31, 2022, $31,273 of which was recorded as non-current assets], and pledged as collateral security against letters of credit.

Note 5 Trade and other receivables

	As at January 31, 2023 $	As at October 31, 2022 $
Credit card processors receivables	**52,108**	196,894
Government receivables	**26,371**	31,179
Trade receivables	**17,083**	9,497
Cash receivable from lessors	**12,286**	9,959
Other receivables	**16,475**	17,521
	124,323	265,050

Note 6 Deposits

	As at January 31, 2023 $	As at October 31, 2022 $
Maintenance deposits with lessors	**144,439**	135,563
Deposits on leased aircraft and engines	**37,982**	37,920
Deposits with suppliers	**105,097**	28,140
	287,518	201,623
Less current portion	**105,453**	29,392
	182,065	172,231

Note 7 Property, plant and equipment

	Leasehold improvements Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2022	**105,911**	**142,270**	**46,843**	**63,209**	**1,415,370**	**111,449**	**1,885,052**
Additions	**533**	**4,020**	**1,706**	**8**	**3,017**	**896**	**10,180**
Disposals	**(1,599)**	**—**	**—**	**—**	**(18,690)**	**—**	**(20,289)**
Write-offs	**—**	**(37)**	**—**	**—**	**(1,976)**	**(690)**	**(2,703)**
Exchange difference	**—**	**—**	**(88)**	**(1,266)**	**—**	**3**	**(1,351)**
Balance as at January 31, 2023	**104,845**	**146,253**	**48,461**	**61,951**	**1,397,721**	**111,658**	**1,870,889**
Accumulated depreciation							
Balance as at October 31, 2022	**63,648**	**86,376**	**32,842**	**11,534**	**618,142**	**72,359**	**884,901**
Depreciation	**2,038**	**1,736**	**942**	**148**	**33,660**	**1,253**	**39,777**
Disposals	**(1,599)**	**—**	**—**	**—**	**(18,690)**	**—**	**(20,289)**
Write-offs	**—**	**(37)**	**—**	**—**	**(1,976)**	**(690)**	**(2,703)**
Exchange difference	**—**	**—**	**(84)**	**(54)**	**—**	**(5)**	**(143)**
Balance as at January 31, 2023	**64,087**	**88,075**	**33,700**	**11,628**	**631,136**	**72,917**	**901,543**
Net book value as at January 31, 2023	**40,758**	**58,178**	**14,761**	**50,323**	**766,585**	**38,741**	**969,346**

	Leasehold improvements Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2021	117,118	135,486	57,193	78,684	1,300,068	122,450	1,810,999
Additions	537	7,605	4,646	19	158,425	1,001	172,233
Disposals	(4,585)	(36)	(815)	(229)	(32,358)	(3,006)	(41,029)
Write-offs	(7,159)	(2)	(14,302)	(20,189)	(10,765)	(9,000)	(61,417)
Impairment	—	(783)	—	—	—	—	(783)
Exchange difference	—	—	121	4,924	—	4	5,049
Balance as at October 31, 2022	105,911	142,270	46,843	63,209	1,415,370	111,449	1,885,052
Accumulated depreciation							
Balance as at October 31, 2021	67,277	78,803	43,180	30,168	539,787	77,555	836,770
Depreciation	8,115	7,611	4,506	1,680	118,148	6,287	146,347
Disposals	(4,585)	(36)	(663)	(229)	(29,028)	(2,486)	(37,027)
Write-offs	(7,159)	(2)	(14,302)	(20,189)	(10,765)	(9,000)	(61,417)
Exchange difference	—	—	121	104	—	3	228
Balance as at October 31, 2022	63,648	86,376	32,842	11,534	618,142	72,359	884,901
Net book value as at October 31, 2022	42,263	55,894	14,001	51,675	797,228	39,090	1,000,151

During the quarter ended January 31, 2023, the Corporation returned to the lessor a Boeing 737-800. This return resulted in disposals of property, plant and equipment and accumulated depreciation balances of $20,290.The carrying amounts of assets for this aircraft were fully impaired as at October 31, 2020.

Note 8 Investment

As at January 31, 2023, the change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2022	**8,820**
Share of net income	**396**
Translation adjustment	**(200)**
Balance as at January 31, 2023	**9,016**

The investment was translated at the USD/CAD closing rate of 1.3334 as at January 31, 2023 [1.3641 as at October 31, 2022].

Note 9 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at January 31, 2023 and October 31, 2022. The current portion of lease liabilities included deferred rent payments related to aircraft leases of $13,813 [$32,148 in 2022]:

	Final maturity	Weighted average effective interest rate	As at January 31, 2023	As at October 31, 2022
		%	$	$
Long-term debt				
Secured debt - LEEFF	**2024**	**5.55**	**77,250**	77,215
Unsecured debt - LEEFF	**2026**	**13.27**	**293,872**	284,757
Unsecured credit facility - Travel credits	**2028**	**14.00**	**187,936**	182,520
Revolving credit facility	**2024**	**9.24**	**49,641**	49,644
Subordinated credit facility	**2024**	**14.53**	**70,688**	70,024
Long-term debt		**12.43**	**679,387**	664,160
Lease liabilities				
Fleet	**2023-2034**	**5.85**	**982,312**	1,044,951
Real estate and other	**2023-2037**	**5.49**	**42,510**	42,957
Lease liabilities		**5.84**	**1,024,822**	1,087,908
Total long-term debt and lease liabilities		**8.46**	**1,704,209**	1,752,068
Current portion of lease liabilities			**(118,066)**	(137,165)
Long-term debt and lease liabilities			**1,586,143**	1,614,903

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allows it to borrow up to $843,300 through the Large Employer Emergency Financing Facility (LEEFF). The Corporation also has access to an additional credit facility of up to $50,000 subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses on an as-needed basis, are as follows:

Secured debt – LEEFF

An amount of $98,000, in the form of a non-revolving and secured credit facility maturing on April 29, 2024. The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. No drawdowns were made during the quarter ended January 31, 2023. As at January 31, 2023, and October 31, 2022, an amount of $78,000 was drawn down with a carrying value of $77,250 as at January 31, 2023 [$77,215 as at October 31, 2022].

The financing arrangement also provides Transat with an additional credit facility of up to $10,000, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

Unsecured debt – LEEFF

An amount of $392,000, in the form of a non-revolving and unsecured credit facility. The credit facility bears interest at a rate of 5.0% until December 31, 2023, increasing to 8.0% until December 31, 2024, and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024. An amount of $312,000 matures on April 29, 2026, while the balance of $80,000 will mature on July 29, 2027. In the event of a change in control, this credit facility becomes immediately due and payable.

The financing arrangement also provides Transat with an additional credit facility of up to $40,000, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

As at January 31, 2023, and October 31, 2022, an amount of $312,000 was drawn down with a carrying value of $293,872 as at January 31, 2023 [$284,757 as at October 31, 2022]. No drawdowns were made during the first quarter of 2023. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a deduction from the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of loss under Change in fair value of derivatives. As at January 31, 2023 and October 31, 2022, the fair value of the prepayment option was $128 and was determined using a trinomial tree approach based on the Hull-White model.

In the context of the financing arrangement, the Corporation issued a total of 17,687,500 warrants [Note 10] related to the unsecured financing facility - LEEFF.

Unsecured credit facility related to travel credits

An amount of $353,300, in the form of an unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at the rate of 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at January 31, 2023 and October 31, 2022, the credit facility was fully drawn. As at January 31, 2023, the carrying amount of the credit facility was $187,936 [$182,520 as at October 31, 2022], and an amount of $163,673 was also recognized as deferred government grant related to these drawdowns. During the quarter ended January 31, 2023, an amount of $5,417 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

Other credit facilities

Revolving credit facility

The Corporation has a $50,000 revolving term credit facility for its operations which expires on April 29, 2024. This agreement can be extended for one year on each anniversary date subject to lender approval and becomes immediately due and payable in the event of a change of control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian and U.S. dollars. The agreement is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars, plus a premium of 4.5% or at the financial institution's prime rate, plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at January 31, 2023 and October 31, 2022, the credit facility was fully drawn.

Subordinated credit facility

The Corporation also has a $70,000 subordinated credit agreement for its operations. The agreement expires on April 29, 2024 and becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate plus a premium of 6.0% or at the financial institution's prime rate, plus a premium of 5.0%. Until October 29, 2023, an additional capitalizable premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at January 31, 2023, and October 31, 2022, the credit facility was fully drawn.

Revolving credit facility agreement - Letters of credit

The Corporation has a $74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at January 31, 2023, $56,095 had been drawn down under the facility [$55,935 as at October 31, 2022], $31,273 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure the obligations under senior executive defined benefit pension agreements will be drawn.

Financing costs

Interest expense for the periods ended January 31, 2023 and 2022 is detailed as follows:

	Quarters ended January 31	
	2023	2022
	$	$
Interest expense on long-term debt	**14,632**	9,114
Interest expense on lease liabilities	**14,968**	11,429
Accretion on provision for return conditions	**1,302**	491
Other interest	**1,311**	934
Financing costs	**32,213**	21,968

Rent expense

Rent expense for the periods ended January 31, 2023 and 2022 is detailed as follows:

	Quarters ended January 31	
	2023	**2022**
	$	**$**
Variable lease payments	**1,693**	776
Short-term leases	**294**	—
Aircraft rent	**1,987**	776
Short-term leases	**1,080**	737
Low value leases	**93**	74
	3,160	1,587

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the quarter ended January 31, 2023:

	Cash flows	**Non-cash changes**	**Total**
	$	**$**	**$**
Balance as at October 31, 2022			**1,087,908**
Repayments	**(40,457)**	**—**	**(40,457)**
New lease liabilities (new contracts and amendments)	**—**	**896**	**896**
Interest portion of deferred rent payments	**—**	**1,535**	**1,535**
Offset of rent payments and lease terminations	**—**	**(2,113)**	**(2,113)**
Exchange difference	**—**	**(22,947)**	**(22,947)**
Balance as at January 31, 2023	**(40,457)**	**(22,629)**	**1,024,822**

Maturity analysis

Repayment of principal and interest on long-term debt and lease liabilities as at January 31, 2023 is detailed as follows. Interest on long-term debt only includes interest payable as at January 31, 2023. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.3334 as at January 31, 2023:

Year ending October 31	**2023**	**2024**	**2025**	**2026**	**2027**	**2028 and up**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Long-term debt obligations	**—**	**197,579**	**—**	**293,872**	**—**	**187,936**	**679,387**
Fleet	129,361	164,956	168,049	148,138	133,395	486,782	**1,230,681**
Real estate and other	2,356	3,684	6,134	5,365	5,426	35,575	**58,540**
Lease liabilities	**131,717**	**168,640**	**174,183**	**153,503**	**138,821**	**522,357**	**1,289,221**
Total	**131,717**	**366,219**	**174,183**	**447,375**	**138,821**	**710,293**	**1,968,608**

Note 7 provides the information required for right-of-use assets and depreciation. Note 16 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 10 Liability related to warrants

In the context of the initial financing arrangement related to the unsecured facility – LEEFF [Note 9], on April 29, 2021, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share, exercisable over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt – LEEFF.

On July 29, 2022, as part of the amendments to the financing package related to the LEEFF unsecured financing, the Corporation issued an additional 4,687,500 warrants to purchase an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $3.20 per share over a 10-year period, representing 18.75% of the additional commitment available under the LEEFF unsecured financing.

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was to be repaid prior to December 31, 2023, 50% of the vested warrants would be forfeited.

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

As at January 31, 2023, and October 31, 2022, a total of 13,000,000 warrants had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

Under the limitations set out above, if the 17,687,500 warrants issued are exercised:

- a maximum of 9,536,000 warrants could be exercised through the issuance of shares;
- 8,151,500 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,536,000 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,536,000 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, using the Black-Scholes model, the fair value of the 13,000,000 warrants issued on April 29, 2021 was estimated at $41,491 and recorded as a liability. In its model, the Corporation used a risk-free interest rate of 1.66%, expected volatility of 55.8% and a contractual term of 10 years. The fair value of the 4,687,500 warrants issued on July 29, 2022 was estimated at $9,792 and recorded as a liability. In its model, the Corporation used a risk-free interest rate of 2.69%, expected volatility of 53.3% and a contractual term of 10 years.

The initial fair value of the warrants was also recorded under other assets as deferred financing costs related to the unsecured debt – LEEFF. When the LEEFF unsecured financing is drawn, the deferred financing costs recorded as an asset are applied against the initial carrying amount of the liabilities recorded, pro rata to the amounts drawn. The resulting discount will form part of the determination of the effective rate of each drawdown in conjunction with the expected cash flows to repay the drawdowns.

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

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

The change in the liability related to warrants for the quarter ended January 31, 2023 is detailed as follows:

	As at January 31, 2023 $	As at October 31, 2022 $
Opening balance	**24,360**	36,557
Issuance	**—**	9,792
Revaluation of liability related to warrants	**10,139**	(21,989)
Closing balance	**34,499**	24,360
Current liability	**24,115**	16,799
Non-current liability	**10,384**	7,561
Closing balance	**34,499**	24,360

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at January 31, 2023, the primary unobservable input used in the model is expected volatility, which is estimated at 53.7%. A 5.0 percentage points increase in the expected volatility used in the pricing model would result in a total increase of $2,419 in the liability related to the warrants as at January 31, 2023.

Note 11 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the quarter ended January 31, 2023 is detailed as follows:

	As at January 31, 2023 $	As at October 2022 $
Opening balance	**154,772**	126,244
Additional provisions	**3,275**	49,858
Changes in estimates	**2,444**	(15,276)
Utilization of provision	**—**	(6,163)
Unused amounts reversed	**—**	(2,864)
Accretion	**1,302**	2,973
Closing balance	**161,793**	154,772
Current provisions	**—**	—
Non-current provisions	**161,793**	154,772
Closing balance	**161,793**	154,772

Changes in estimates mainly include adjustments to the inflation rate to be applied to estimated current costs and to the discount rate for the provision for return conditions.

As at October 31, 2022, the unused amounts reversed correspond to the reversals of the provision for return conditions for three aircraft, including one aircraft whose lease was terminated and two aircraft that were returned early in 2021.

Note 12 Equity

Authorized share capital

CLASS A VARIABLE VOTING SHARES

An unlimited number of participating Class A Variable Voting Shares ("Class A Shares"), which may be owned or controlled only by non-Canadians as defined by the *Canada Transportation Act* ("CTA"), carry one vote per share at any meeting of the shareholders, subject to an automatic reduction of the voting rights attached thereto in the event that [i] any non-Canadian, individually or in affiliation with another person, holds more than 25% of the votes cast, [ii] any non-Canadian authorized to provide air service in any jurisdiction (in aggregate) holds more than 25% of the votes cast, or [iii] the votes that would be cast by the holders of Class A Shares would be more than 49%. If any of the above-mentioned applicable limitations are exceeded, the votes that should be attributed to holders of Class A Shares will be attributed as follows:

- first, if applicable, there will be a decrease of the votes of any non-Canadian individual (including a non-Canadian authorized to provide air service) whose votes total more than 25% of the votes cast, so that such non-Canadian holder never hold more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast at any meeting;
- next, if applicable, and once the pro rata distribution as described above is made, a further pro rata reduction will be made in the voting rights of all non-Canadian holders of Class A Shares authorized to provide an air service, so that such non-Canadian holders may never hold votes totalling more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting;
- last, if applicable, and once the two pro rata allocations described above have been made, a proportional reduction will be made in the voting rights of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares may never hold votes totalling more than 49% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting.

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

Class B Voting Shares

An unlimited number of 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 shall be converted into one Class A Share, automatically without any further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

Preferred shares

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

Issued and outstanding share capital

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

	Number of shares	$
Balance as at October 31, 2021	37,747,090	221,012
Issued from treasury	265,054	912
Balance as at October 31, 2022	38,012,144	221,924
Issued from treasury	131,858	341
Balance as at January 31, 2023	**38,144,002**	**222,265**

As at January 31, 2023, the number of Class A Shares and Class B Shares stood at 1,302,796 and 36,841,206, respectively [1,428,479 and 36,583,665, respectively, as at October 31, 2022].

Stock option plan

	Number of options	Weighted average price ($)
Balance as at October 31, 2022	480,847	6.13
Cancelled	(25,125)	10.01
Expired	(49,688)	6.01
Balance as at January 31, 2023	**406,034**	**5.91**
Options exercisable as at January 31, 2023	**106,034**	**10.18**

Warrants

No warrants were exercised during the quarter ended January 31, 2023. Accordingly, the Corporation issued no shares related to the exercise of warrants [Note 10].

Loss per share

Basic and diluted loss per share were calculated as follows:

	Quarters ended January 31	
(in thousands of dollars, except per share data)	2023 $	2022 $
NUMERATOR		
Net loss used in computing basic loss per share	**(56,610)**	(114,345)
Effect of deemed conversion of warrants	**10,139**	456
Less anti-dilutive impact	**(10,139)**	(456)
Net loss used in computing diluted loss per share	**(56,610)**	(114,345)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**38,065**	37,747
Effect of potential dilutive securities		
Stock options	**—**	—
Warrants	**—**	144
Less anti-dilutive impact	**—**	(144)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**38,065**	37,747
Loss per share		
Basic	**(1.49)**	(3.03)
Diluted	**(1.49)**	(3.03)

For the quarter ended January 31, 2023, a total of 406,034 outstanding stock options and the 9,536,000 vested warrants that can be exercised through the issuance of shares were excluded from the calculation since their exercise price exceeded the average share price for the period [330,847 stock options and 9,436,772 warrants for the quarter ended January 31, 2022].

Note 13 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

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

	Quarters ended January 31	
	2023 $	2022 $
Customers		
Transatlantic	**91,718**	31,561
Americas	**570,383**	167,899
Other	**5,356**	2,978
Total revenues	**667,457**	202,438

Government grants

During the quarter ended January 31, 2022, the Corporation recognized a deduction of $15,066 from Salaries and employee benefits related to the subsidy programs (THRP and HHBRP). The THRP and HHBRP ended on May 7, 2022.

Note 14 Special items

Special items generally include restructuring charges and other significant unusual items, including impairment losses. As at January 31, 2023, special items included severance costs of $2,900 in respect of estimated employee termination benefits related to the closure of the Vancouver base effective June 30, 2023.

The change in the provision for employee termination benefits for the quarter ended January 31, 2023 was as follows:

	$
Balance as of October 31, 2022	**2,015**
Additional provisions	**2,900**
Utilization of provision	**(538)**
Balance as of January 31, 2023	**4,377**

Note 15 Gain on asset disposals

The gain on disposal of assets relates to asset disposals and lease terminations.

During the quarter ended January 31, 2023, the gain on asset disposals of $2,511 was due to the return of a Boeing 737-800 to the lessor during the quarter. The gain resulted mainly from the reversal of related lease liabilities. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2020.

During the quarter ended January 31, 2022, the gain on asset disposals is mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4,085 gain, which resulted from the reversal of lease liabilities of $3,976 and other assets and liabilities totalling $109. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2021.

Note 16 Commitments and contingencies

Leases and other commitments

As at January 31, 2023, the Corporation was party to agreements to lease seven Airbus A321LRs for delivery up to 2024, three Airbus A321XLRs to be delivered in 2025 and 2026 and one Airbus A321ceo and one Airbus A330 for delivery in 2023. The Corporation also has leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, particularly in connection with information technology service contracts, undertaken in the normal course of business. The following table sets out the minimum payments due under aircraft leases to be delivered over the next few years and under leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations:

Year ending October 31	**2023**	**2024**	**2025**	**2026**	**2027**	**2028 and up**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Leases (aircraft and other)	10,519	50,551	61,568	78,610	83,653	714,528	**999,429**
Purchase obligations	20,402	7,287	4,782	32	14	—	**32,517**
	30,921	**57,838**	**66,350**	**78,642**	**83,667**	**714,528**	**1,031,946**

Litigation

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. There are often many uncertainties surrounding these disputes and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, with coverage under said insurance policies that is usually sufficient to pay amounts that the Corporation may be required to disburse in connection with these lawsuits that are specific to the directors and officers, and not the Corporation. In addition, the Corporation holds professional liability and general liability insurance for lawsuits relating to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has always defended itself vigorously and intends to continue to do so.

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of applications for authorization to institute class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. While some of these applications have not yet been definitively settled, the Corporation has refunded almost all of the customers, particularly since April 2021, using the unsecured credit facility related to travel credits. Consequently, applications for authorization to institute class actions that have not yet been settled may become moot. In any event, the Corporation will continue to defend itself vigorously in this respect. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income (loss) and could have an unfavourable effect on cash.

Other

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is difficult to predict with certainty, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss.

Note 17 Guarantees

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

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

Notes 5, 14, 17 and 24 to the consolidated financial statements for the year ended October 31, 2022 provide information about some of these agreements. The following constitutes additional disclosure.

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2023, the total amount of these guarantees unsecured by deposits totalled $458. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2023, no amounts had been accrued with respect to the above-mentioned agreements.

Note 18 Segment disclosures

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

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