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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 year ended October 31, 2021, compared with the year ended October 31, 2020, and should be read in conjunction with the audited consolidated financial statements and notes thereto. Unless otherwise indicated, the information contained herein is dated as of December 8, 2021. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2021 and the Annual Information Form.

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 gradual resumption of certain flights 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.

We draw your attention to the MD&A's section 7, Financial position, liquidity and capital resources and note 2 to the consolidated financial statements which describe an environment, events and conditions, specifically in the context of a pandemic, which indicate the existence of material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen fully, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. Starting July 30, 2021, the Corporation partially resumed its operations and gradually rolled out a reduced summer program. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. The Corporation has implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

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

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

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

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

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

- 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 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.

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

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

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

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 consolidated financial statements with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to fulfil its financial obligations.

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

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

Adjusted operating income (loss)	Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss) and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus the amount for lease liabilities and the liability related to warrants, net of deferred financing cost related to the 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:

(in thousands of Canadian dollars, except per share amounts)	2021 $	2020 $	2019 $
Operating loss	**(401,222)**	(425,962)	(13,588)
Special items	**27,572**	99,675	23,875
Depreciation and amortization	**159,765**	204,112	182,321
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	—	(167)
Adjusted operating income (loss)	**(213,885)**	(122,175)	192,441
Loss before income tax expense	**(389,415)**	(488,973)	(37,736)
Special items	**27,572**	99,675	23,875
Change in fair value of fuel-related derivatives and other derivatives	**(8,849)**	13,715	8,664
Revaluation of liability related to warrants	**(4,934)**	—	—
Loss (gain) on asset disposals	**(17,347)**	11,271	(9)
Foreign exchange (gain) loss	**(53,260)**	3,601	(1,110)
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	—	(167)
Adjusted pre-tax loss	**(446,233)**	(360,711)	(6,483)
Net loss attributable to shareholders	**(389,559)**	(496,545)	(32,347)
Special items	**27,572**	99,675	23,875
Change in fair value of fuel-related derivatives and other derivatives	**(8,849)**	13,715	8,664
Revaluation of liability related to warrants	**(4,934)**	—	—
Loss (gain) on asset disposals	**(17,347)**	11,271	(9)
Foreign exchange (gain) loss	**(53,260)**	3,601	(1,110)
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	—	(167)
Tax impact	**—**	12,948	(8,304)
Adjusted net loss	**(446,377)**	(355,335)	(9,398)
Adjusted net loss	**(446,377)**	(355,335)	(9,398)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,747**	37,747	37,673
Adjusted net loss per share	**(11.83)**	(9.41)	(0.25)

(in thousands of dollars)	October 31, 2021 $	October 31, 2020 $	October 31, 2019 $
Long-term debt	**463,180**	49,980	—
Liability related to warrants	**36,557**	—	—
Deferred financing costs	**(19,368)**	—	—
Lease liabilities	**956,358**	853,906	665,929
Total debt	**1,436,727**	903,886	665,929
Total debt	**1,436,727**	903,886	665,929
Cash and cash equivalents	**(433,195)**	(426,433)	(564,844)
Total net debt	**1,003,532**	477,453	101,085

3. FINANCIAL HIGHLIGHTS

				Difference	
	2021	2020	2019	2021	2020
(in thousands of Canadian dollars, except per share amounts)	$	$	$	%	%
Consolidated Statements of Income (Loss)					
Revenues	**124,818**	1,302,069	2,937,130	(90.4)	(55.7)
Operating loss	**(401,222)**	(425,962)	(13,588)	5.8	(3,034.8)
Net loss attributable to shareholders	**(389,559)**	(496,545)	(32,347)	21.5	(1,435.1)
Basic loss per share	**(10.32)**	(13.15)	(0.86)	21.5	(1,429.1)
Diluted loss per share	**(10.32)**	(13.15)	(0.86)	21.5	(1,429.1)
Adjusted operating income (loss)[1]	**(213,885)**	(122,175)	192,441	(75.1)	(163.5)
Adjusted net loss[1]	**(446,377)**	(355,335)	(9,398)	(25.6)	(3,681.0)
Adjusted net loss per share[1]	**(11.83)**	(9.41)	(0.25)	(25.7)	(3,664.0)
Consolidated Statements of Cash Flows					
Operating activities	**(518,444)**	(46,136)	216,021	(1,023.7)	(121.4)
Investing activities	**4,542**	(60,414)	(163,779)	107.5	63.1
Financing activities	**522,071**	(33,374)	(81,993)	1,664.3	59.3
Effect of exchange rate changes on cash and cash equivalents	**(1,407)**	1,513	941	(193.0)	60.8
Net change in cash and cash equivalents	**6,762**	(138,411)	(28,810)	104.9	(380.4)

				Difference	
	October 31, 2021	October 31, 2020	October 31, 2019	2021	2020
	$	$	$	%	%
Consolidated Statements of Financial Position					
Cash and cash equivalents	**433,195**	426,433	564,844	1.6	(24.5)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**170,311**	308,647	352,771	(44.8)	(12.5)
	603,506	735,080	917,615	(17.9)	(19.9)
Total assets	**1,897,658**	2,016,071	2,324,490	(5.9)	(13.3)
Debt (current and non-current)	**463,180**	49,980	—	826.7	100.0
Total debt [1]	**1,436,727**	903,886	665,929	59.0	35.7
Total net debt [1]	**1,003,532**	477,453	101,085	110.2	372.3

[1] See Non-IFRS financial measures section

4. HIGHLIGHTS FOR THE YEAR

TERMINATION OF THE DEFINITIVE ARRANGEMENT AGREEMENT WITH AIR CANADA

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

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

END OF DISCUSSIONS FOR THE ACQUISITION OF THE CORPORATION

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

FUNDING OF $700.0 MILLION FROM THE GOVERNMENT OF CANADA

As described in the Financing section, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the Large Employer Emergency Financing Facility ["LEEFF"]. In addition to the new funding, the amounts already drawn on the existing facilities remain in place and are extended for a period of two years from the implementation of the new financing. The ratios applicable to the existing facilities will be suspended for a period of 18 months. The undrawn credit under the short-term subordinated facility is cancelled. In total, the available financing therefore represents a maximum of $820.0 million, of which $650.0 million was drawn as at October 31, 2021.

CHANGES IN LEADERSHIP

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

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

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

On June 23, 2021, the Corporation also announced the departure of Denis Pétrin, Vice-President, Finance and Administration, and Chief Financial Officer, who left his functions on July 9 and was temporarily replaced by Jacques Simoneau, member of the Board of Directors of Transat, who served in an interim role until the recruitment process for Mr. Pétrin's successor was completed. On October 7, 2021, the Corporation announced the appointment of Patrick Bui as Chief Financial Officer. Mr. Bui took office on November 15.

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

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

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

DISCONTINUATION OF THE HOTEL DIVISION

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. During the year ended October 31, 2021, the hotel division's operations generated a net loss of $6.7 million.

IMPACT OF THE COVID-19 PANDEMIC

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen fully, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. Starting July 30, 2021, the Corporation partially resumed its operations and gradually rolled out a reduced summer program. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. The Corporation has implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

Preserving cash is a priority for the Corporation. During the year ended October 31, 2021, 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 completed its efforts to obtain long-term financing. As described in the Financing section, the available financing therefore represents a maximum of $820.0 million, of which $650.0 million was drawn as at October 31, 2021. Of the drawn down amount, a total of $310.0 million was used to repay travellers who were scheduled to leave after February 1, 2020, for which a travel credit had been issued due to COVID-19 and who had requested to be reimbursed.

- During the year ended October 31, 2021, four Airbus A330s and one Boeing 737-800 were returned to lessors early.

- The Corporation continuously adjusts its flight program as the situation evolves. After having suspended for the second time its operations on January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation gradually resumed its flights on July 30, 2021, offering a reduced program of international flights departing from Montréal and Toronto that it enhanced progressively, particularly in order to train its flight crews and be in a position to deploy a more significant winter program.

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

- The Corporation is continuing to make use of the Canada Emergency Wage Subsidy ["CEWS"] for its Canadian workforce, which enabled it, until October 23, 2021, to finance part of the salaries of its staff still at work and, until August 28, 2021, to offer employees on temporary layoff to receive a portion of their salary equivalent to the amount of the grant received, with no work required.

- As at October 31, 2021, cash and cash equivalents totalled $433.2 million.

5. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists primarily of air carriers serving holiday travellers, mainly for tourism, vacation or to visit family and friends, as well as tour operators, travel agencies (both in-person and online), destination service companies, hoteliers and airlines. Each of these subsectors includes companies with different operating models.

CORE BUSINESS, VISION AND STRATEGY

Core Business

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

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

Strategy

In its 2022-2026 strategic plan, Transat set itself the objective of making the Corporation profitable again and complete its transformation to achieve a level of profitability that exceeds pre-pandemic levels, as well as grow in new markets. This phase must enable the Corporation to leverage those achievements after 2026 to propel Transat toward a new growth phase.

STRATEGIC PLAN

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

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

The Corporation will continue to rely on and leverage its strengths:

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

For fiscal 2022, which is the first year of the plan, Transat has set the following objectives and performance drivers:

1. Continue to resume operations by increasing volumes and employment levels during the winter and summer seasons to prepare for a return to pre-pandemic levels by 2023 at the latest.
2. Preserve liquidity and optimize cash to support the recovery and development of activities.
3. Continue to streamline the fleet, in particular with the addition of new A321neoLR aircraft and Mixed Fleet Flying accreditation, and prepare the necessary changes for the next five years.
4. Deploy the alliance strategy by initiating multiple interline or codeshare agreements.
5. Reconsider existing financing and optimize capital structure.
6. Deploy a global corporate responsibility strategy and set concrete objectives for decarbonizing our business.

REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2021

The main objectives and achievements for fiscal 2021 were as follows:

Obtain the regulatory authorizations necessary to close the transaction with Air Canada, operate in full compliance with the conditions set by Air Canada, and if applicable, complete the transaction

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

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

Continue efforts to reduce costs, preserve cash and tailor the offering to the volatile situation triggered by the COVID-19 pandemic

During the year ended October 31, 2021, four Airbus A330s and one Boeing 737-800 were returned to lessors early.

The Corporation continuously adjusted its flight program as the situation evolves. After having suspended for the second time its operations on January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation gradually resumed its flights on July 30, 2021, offering a reduced program of international flights departing from Montréal and Toronto that it enhanced progressively, particularly in order to train its flight crews and be in a position to deploy a more significant winter program.

Throughout the fiscal year, the Corporation had negotiations with its suppliers, including aircraft lessors to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.

The Corporation made use of the CEWS for its Canadian workforce, which enabled it, until October 23, 2021, to finance part of the salaries of its staff still at work and, until August 28, 2021, to offer employees on temporary layoff to receive a portion of their salary equivalent to the amount of the grant received, with no work required.

Maintain intact the capacity to operate independently and develop a medium- to long-term post-COVID-19 recovery plan

By securing the financing discussed in the following section and by implementing the measures described in the previous paragraph, the Corporation has the means to resume its operations, which it has been doing gradually since July 30, 2021, following a suspension for the second time in early 2021.

Through the use of the CEWS and proximity management of its teams, the Corporation has ensured that it has not only reduced its personnel costs in order to cope with the significant reduction in its revenues, but also that it has the staff required to handle the recovery amid a labour shortage.

In conjunction with these short-term efforts, the Corporation has developed a 2022-2026 strategic plan setting out the path for its recovery and growth in the years ahead.

Secure the long-term financing required for the post-COVID-19 recovery

As described in the Financing section, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the LEEFF. In addition to the new funding, the amounts already drawn on the existing facilities remain in place and are extended for a period of two years from the implementation of the new financing. The ratios applicable to the existing facilities will be suspended for a period of 18 months. The undrawn credit under the short-term subordinated facility is cancelled. In total, the available financing therefore represents a maximum of $820.0 million, of which $650.0 million was drawn as at October 31, 2021.

Continue to resize the company in terms of fleet, workforce, installations and resources in line with the plan in the medium and long term

During the year ended October 31, 2021, four Airbus A330s and one Boeing 737-800 were returned to lessors early. These are in addition to the three Boeing 737-800s and one Airbus A330 that were returned in advance to their lessors during the fiscal year ended October 31, 2020. The Corporation also took delivery of ten Airbus A321neoLRs, including four during the year ended October 31, 2021. All these changes, plus the aircraft that the Corporation will take delivery of during fiscal 2022, will allow the Corporation to deploy a fleet adapted to the post-pandemic recovery.

In terms of workforce, the Corporation had a headcount of 5,100 pre-pandemic in Canada. As at October 31, 2021, it was reduced to about 4,300, 2,100 of which were active and 2,200 still temporarily laid off. During 2022, the Corporation intends to lay off some staff due to the still reduced business volume, while ensuring that it recruits the staff necessary to handle the greater workload and a prospective full recovery in the longer term.

In addition, the implementation of working from home has allowed the Corporation to review its real estate needs and renegotiate its property leases, resulting in a significant reduction in leased square footage in fiscal 2022, particularly in downtown Montréal and Toronto.

Redefine the financial structure of the hotel chain based on the new economic environment

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations.

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $433.2 million as at October 31, 2021 .
Credit facilities	For operational purposes, we can also rely on, among other resources, a $50.0 million revolving term credit facility and a $70.0 million subordinated short-term credit facility maturing on April 29, 2023. In addition, as described in the Financing section, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the LEEFF. Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements contain more detail on this issue.

Our non-financial resources include:

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

Subject to the going concern uncertainty described in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, Transat has the resources it needs to meet its 2022 objectives and continue building on its long-term strategies.

6. CONSOLIDATED OPERATIONS

	2021	2020	2019	Difference	
(in thousands of dollars)	$	$	$	%	%
Revenues	**124,818**	1,302,069	2,937,130	(90.4)	(55.7)
Operating expenses					
Salaries and employee benefits	**122,770**	239,250	412,375	(48.7)	(42.0)
Aircraft maintenance	**48,832**	110,413	229,909	(55.8)	(52.0)
Costs of providing tourism services	**31,958**	431,562	808,937	(92.6)	(46.7)
Aircraft fuel	**22,373**	258,947	517,588	(91.4)	(50.0)
Airport and navigation fees	**13,032**	77,622	175,833	(83.2)	(55.9)
Sales and distribution costs	**13,020**	97,086	209,344	(86.6)	(53.6)
Aircraft rent	**—**	23,358	46,803	(100.0)	(50.1)
Other airline costs	**24,643**	109,424	251,560	(77.5)	(56.5)
Other	**57,371**	75,410	90,923	(23.9)	(17.1)
Share of net loss of a joint venture	**4,704**	1,172	1,250	301.4	(6.2)
Depreciation and amortization	**159,765**	204,112	182,321	(21.7)	12.0
Special items	**27,572**	99,675	23,875	(72.3)	317.5
	526,040	1,728,031	2,950,718	(69.6)	(41.4)
Operating loss	**(401,222)**	(425,962)	(13,588)	5.8	(3,034.8)
Financing costs	**77,024**	48,049	37,935	60.3	26.7
Financing income	**(4,441)**	(13,625)	(21,332)	(67.4)	(36.1)
Change in fair value of fuel-related derivatives and other derivatives	**(8,849)**	13,715	8,664	164.5	(58.3)
Revaluation of liability related to warrants	**(4,934)**	—	—	100.0	—
Loss (gain) on asset disposals	**(17,347)**	11,271	(9)	253.9	N/A
Foreign exchange (gain) loss	**(53,260)**	3,601	(1,110)	1,579.0	(424.4)
Pre-tax loss	**(389,415)**	(488,973)	(37,736)	20.4	(1,195.8)
Income taxes (recovery)					
Current	**(52)**	(4,376)	1,028	98.8	(525.7)
Deferred	**75**	12,168	(9,048)	(99.4)	234.5
	23	7,792	(8,020)	(99.7)	197.2
Net loss for the year	**(389,438)**	(496,765)	(29,716)	21.6	(1,571.7)
Net income (loss) attributable to:					
Shareholders	**(389,559)**	(496,545)	(32,347)	21.5	(1,435.1)
Non-controlling interests	**121**	(220)	2,631	155.0	(108.4)
	(389,438)	(496,765)	(29,716)	21.6	(1,571.7)
Loss per share:					
Basic	**(10.32)**	(13.15)	(0.86)	21.5	(1,429.1)
Diluted	**(10.32)**	(13.15)	(0.86)	21.5	(1,429.1)

REVENUES

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

For the year ended October 31, 2021, revenues were down $1,177.3 million (90.4%). Since mid-March of 2020, restrictions on international travel and government-imposed quarantine measures have made travel sales very difficult. Due to the global COVID-19 pandemic, the Corporation suspended its airline operations on January 29, 2021 for the second time since March 2020, until their partial resumption on July 30, 2021. For the first half of winter 2021, demand was very weak and the Corporation’s capacity represented a fraction of the 2020 level. These factors caused the fall in revenues. For the summer season, demand remains very weak due to the COVID-19 pandemic with the Corporation’s capacity representing a fraction of the 2019 level

OPERATING EXPENSES

Total operating expenses were down $1,202.0 million (69.6%) for the year compared with 2020. The decrease was attributable to the suspension of airline operations for the second and third quarters of 2021 and a significant reduction in capacity deployed in the first half of winter due to demand remaining well below prior year level because of the COVID-19 pandemic. In 2020, airline operations were suspended from April 1 to July 22.

Salaries and employee benefits

Salaries and employee benefits were down $116.5 million (48.7%) to $122.8 million for the year ended October 31, 2021. The decrease resulted from significant temporary layoffs. During the year ended October 31, 2021, the Corporation made use of the CEWS for its Canadian workforce and accordingly an amount of $25.8 million was recognized related to the active employees, compared with $38.8 million for 2020. Lastly, an amount of $80.9 million was recorded for inactive employees, which corresponds to the salaries paid to them, compared with $74.8 million for 2020.

Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. Compared with 2020, these expenses decreased by $61.6 million (55.8%) during the year. This decrease was attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations for the second and third quarters of 2021. Moreover, during the year ended October 31, 2021, in connection with future repairs that will not take place, the Corporation wrote off maintenance deposits with lessors and reversed provisions for return conditions, resulting in a net unfavourable effect of $11.8 million. Aircraft maintenance costs also take into account changes in assumptions.

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. The $399.6 million decrease (92.6%) resulted primarily from a sharp decline in the number of packages sold compared with 2020 due to the COVID-19 pandemic.

Aircraft fuel

Aircraft fuel expense was down $236.6 million (91.4%) for the year. The decrease was attributable to the suspension of airline operations for the second and third quarters of 2021 and a significant reduction in capacity deployed in the first half of winter due to demand remaining well below prior year level because of the COVID-19 pandemic.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees were down $64.6 million (83.2%) compared with 2020. This decrease was attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations for the second and third quarters of 2021.

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 amounted to $13.0 million, down $84.1 million (86.6%) compared with fiscal 2020. The decrease was attributable to the fall in revenues.

Aircraft rent

Aircraft rent was down $23.4 million (100.0%) for the year, compared with 2020. As part of its cost reduction program and in connection with the transformation of its fleet, the Corporation did not enter into leases for a seasonal fleet in winter 2021.

Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were down $84.8 million (77.5%) for the year, compared with 2020. This decrease was attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations for the second and third quarters of 2021.

Other

Other expenses were down $18.0 million (23.9%) for the year, compared with 2020. The decrease resulted from the cost reduction measures implemented by the Corporation in connection with the COVID-19 pandemic.

Share of net income (loss) of a joint venture

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. For fiscal 2021, our share of net loss totalled $4.7 million, compared with $1.2 million for 2020. Operations at our hotel joint venture were substantially scaled down due to the COVID-19 pandemic, and the volume of business was gradually increased during summer 2021.

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 down $44.3 million (21.7%) in fiscal 2021. The decrease was due to the decline in the carrying amount of right-of-use assets related to the fleet. During the last quarter of 2020, the carrying amount of right-of-use assets related to the fleet declined following the recognition of impairment charges in respect of ten leased aircraft, namely five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, as well as the early return of three Boeing 737-800s and one Airbus A330. The lower depreciation and amortization expense was partially offset by the commissioning of four Airbus A321neoLRs in 2021 and the accelerated amortization of certain right-of-use assets related to the fleet.

Special items

	2021 $	2020 $
Special items related to the transaction with Air Canada		
Termination payment	**(12,500)**	–
Professional fees	**6,106**	7,753
Reversal of compensation expense	**(6,223)**	(4,491)
	(12,617)	3,262
Other special items		
Impairment of contract costs and other assets	**24,333**	–
Impairment of the fleet (including right-of-use assets)	**9,117**	50,817
Severance	**6,739**	891
Provision for return conditions of impaired leased aircraft	**–**	6,395
Impairment of the land in Mexico	**–**	32,826
Impairment of the investment in a joint venture	**–**	3,100
Impairment of trademarks	**–**	2,384
	40,189	96,413
	27,572	99,675

Special items related to the transaction with Air Canada

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. During the year ended October 31, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, $6.1 million in professional fees as well as $6.2 million in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada, compared with $7.8 million in professional fees and $4.5 million in reversals of compensation expenses for the previous fiscal year. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of impairment expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

Other special items

As at October 31, 2021, other special items included $21.9 million for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers. The Corporation also recorded an impairment expense of $2.4 million for the deposits related to the impaired aircraft.

Due to the COVID-19 pandemic occurring worldwide, the global tourism industry has faced a collapse in demand. As a result, the Corporation had to scale back its capacity significantly and recognize impairment charges accordingly. These impairment charges are included under Special items. During the year ended October 31, 2021, it was determined that a leased Airbus A330 will no longer be used until its return to the lessor. An impairment charge of $9.1 million was recognized in this respect.

Due to the COVID-19 pandemic, the Corporation started reducing its workforce through permanent layoffs. Termination benefits in the amount of $6.7 million ($0.9 million in 2020) were recognized in 2021, of which $5.2 million was included in trade and other payables as at October 31, 2021. The provision includes the costs estimated for termination notices and benefits provided for in the collective agreements of the Corporation and applicable laws, the amount of which could be adjusted based on various factors such as the relevant advanced notice, the number of employees being laid off and the period during which they will remain laid off.

During the year ended October 31, 2020, ten leased aircraft, namely five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s were written down. The Corporation recognized an asset impairment charge of $50.8 million related to these leased aircraft, which is equal to the total carrying amount of the right-of-use assets, maintenance components and leasehold improvements of the aircraft. In addition, adjustments of $6.4 million were recorded in connection with the provision for return conditions of these aircraft.

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2021 and 2020, the land held in Mexico did not meet the required criteria to be presented as an asset held for sale. Given the above-mentioned factors and the uncertainty surrounding future use of the land in Mexico, an assessment of its recoverable amount compared with its carrying amount made as at October 31, 2021 and 2020. The recoverable amount of the land was determined based on the fair value less costs to sell, according to a valuation prepared by an independent, external valuator as at October 19, 2021 and October 12, 2020, respectively. As at October 31, 2021, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly, no impairment charge was required. As at October 31, 2020, the recoverable amount of the land in Mexico was less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized an impairment charge of $32.8 million related to its land in Mexico under Special items in order for the carrying amount of the land to be equal to its recoverable amount as at October 31, 2020.

The Corporation recognized asset impairment charges of $3.1 million related to its investment in a joint venture and $2.4 million related to its trademarks during the year ended October 31, 2020.

OPERATING RESULTS

Given the above, we recorded an operating loss of $401.2 million for the year, compared with $426.0 million in 2020. Operating results by season are summarized as follows:

				Difference	
	2021	**2020**	**2019**	**2021**	**2020**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Winter season					
Revenues	**49,489**	1,264,097	1,544,979	(96.1)	(18.2)
Operating expenses	**234,017**	1,318,714	1,597,367	(82.3)	(17.4)
Operating loss	**(184,528)**	(54,617)	(52,388)	(237.9)	(4.3)
Operating loss (%)	**(372.9)**	(4.3)	(3.4)	(8,529.9)	(27.4)
Summer season					
Revenues	**75,329**	37,972	1,392,151	98.4	(97.3)
Operating expenses	**292,023**	409,317	1,353,351	(28.7)	(69.8)
Operating income (loss)	**(216,694)**	(371,345)	38,800	41.6	(1,057.1)
Operating income (loss) (%)	**(287.7)**	(977.9)	2.8	70.6	(35,188.8)

We recognized an operating loss for the winter season amounting to $184.5 million (372.9%) compared with $54.6 million (4.3%) in 2020. The decline in operating results was attributable to the suspension of airline operations for the second quarter of 2021 and a significant reduction in capacity deployed in the first half of winter 2021 due to demand remaining well below prior year level because of the COVID-19 pandemic. Despite the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs; as a result, the fall in revenues was more pronounced than the decrease in operating expenses.

During the summer season, the Corporation recorded an operating loss of $216.7 million (287.7%) compared with $371.3 million (977.9%) for the previous year. Airline operations were suspended for the third quarters of 2021 and 2020. For the fourth quarters of 2021 and 2020, since the resumption of airline operations, demand remains very weak and the Corporation's capacity represents a fraction of the 2019 level; however, the recovery of demand is stronger in 2021 compared with 2020. Despite the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs; as a result, the fall in revenues was more pronounced than the decrease in operating expenses. In 2020, the decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts. The improvement in operating results in summer 2021 compared with the prior year was driven by these factors.

During the winter season, the Corporation recorded an adjusted operating loss of $104.6 million (211.3%), compared with an adjusted operating income of $48.5 million (3.8%) in 2020. For the summer season, we recorded an adjusted operating loss of $109.3 million (145.1%) compared with $170.7 million (449.5%) in 2020. Overall, for the fiscal year, the Corporation recorded an adjusted operating loss of $213.9 million (171.4%), compared with $122.2 million (9.4%) in 2020.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $29.0 million (60.3%) in 2021, compared with 2020. The increase resulted from interest expenses, standby and arrangement fees related to the $70.0 million subordinated credit facility, interest on the credit facilities arranged with the Government of Canada through the LEEFF as well as interest on lease liabilities related to aircraft following the commissioning of four Airbus A321neoLRs in 2021.

Financing income

Financing income was down $9.2 million (67.4%) during the year compared with 2020, as a result of decreases in average balances of cash and cash equivalents and interest rates compared with 2020.

Change in fair value of fuel-related derivatives and other derivatives

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange as well as the change in fair value of the pre-payment option on the unsecured debt - LEEFF. Since April 30, 2021, all the fuel-related derivatives and foreign exchange derivatives held by the Corporation have matured and the Corporation no longer holds any fuel-related derivatives and foreign exchange derivatives. For the year, the fair value of fuel-related derivatives and other derivatives was up $8.8 million, compared with a decrease in fair value of $13.7 million in 2020. The increase in the fair value of fuel-related derivatives and other derivatives was mainly attributable to the maturing of fuel-related derivatives.

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. During the year ended October 31, 2021, the fair value of warrants decreased by $4.9 million, driven by the decrease in the closing price of the share from $4.80 to $4.39 between the date of initial recognition of warrants, that is April 29, 2021, and October 31, 2021.

Loss (gain) on asset disposals

The loss (gain) on asset disposals relates to asset disposals and lease terminations. Due to the global COVID-19 pandemic, the global tourism industry has faced a collapse in demand and as a result, the Corporation has early terminated certain leases. For the year ended October 31, 2021, the $17.3 million gain was primarily attributable to the termination of aircraft leases for four Airbus A330s and one Boeing 737-800. The gain on termination of aircraft leases of $14.6 million resulted from the reversal of lease liabilities of $20.0 million, property, plant and equipment of $9.3 million and the provision for return conditions of $3.9 million. The carrying amount of right-of-use assets for four of these terminated aircraft leases were fully impaired during the year ended October 31, 2020. Moreover, during the year ended October 31, 2021, the Corporation recognized a gain on real estate lease termination of $2.6 million that stemmed from the reversal of $22.1 million lease liabilities and $19.5 million property plant and equipment.

The loss of $11.3 million for the year ended October 31, 2020 was mainly attributable to the loss on the termination of certain aircraft leases and travel agencies of $18.8 million and $0.6 million, respectively. The loss on termination of aircraft leases resulted from the reversal of lease liabilities of $12.8 million, property, plant and equipment of $31.3 million and other assets of $0.3 million. The loss was partially offset by an $8.1 million gain on the disposal of Airbus A310 engines.

Foreign exchange (gain) loss

For the year, the Corporation recognized a $53.3 million foreign exchange gain, compared with a foreign exchange loss of $3.6 million in 2020. In 2021, 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

For the year, the income tax expense amounted to $0.0 million, compared with $7.8 million in 2020. The effective tax rate was -0.0% for the year ended October 31, 2021 and -1.6% for the previous year.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the high level of uncertainty related to demand for fiscal 2021 and 2020. Accordingly, during the year ended October 31, 2021, no deferred tax assets were recognized.

NET LOSS

Considering the items discussed in the Consolidated operations section, net loss for the year ended October 31, 2021 was $389.4 million compared with $496.8 million in 2020.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For the year, net loss attributable to shareholders amounted to $389.6 million or $10.32 per share (basic and diluted) compared with $496.5 million or $13.15 per share (basic and diluted) for the previous year. The weighted average number of outstanding shares used to compute basic per share amounts was 37,747,000 for fiscal 2021 and 37,747,000 for fiscal 2020 (37,747,000 and 37,747,000, respectively, for diluted per share amounts).

For the year ended October 31, 2021, adjusted net loss amounted to $446.4 million ($11.83 per share) compared with $355.3 million ($9.41 per share) in 2020.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Compared with the corresponding quarters of the previous year, revenues were down in the winter (Q1 and Q2) but up in the summer (Q3 and Q4). During winter (Q1 and Q2), the fall in revenues was attributable to the suspension of our airline operations for the second quarter of 2021, combined with the sharp decline in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic. For the summer season (Q3 and Q4), the higher revenues resulted from the partial resumption of operations at a higher level in 2021 compared with 2020.

The increase in operating loss during winter (Q1 and Q2) was 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. For the 2020 summer season (Q3 and Q4), the decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts. For the second part of summer (Q4), the recovery of demand was stronger in 2021 than in 2020, and accordingly operating results for the 2021 summer season improved compared with 2020. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q1-2020 $	Q2-2020 $	Q3-2020 $	Q4-2020 $	**Q1-2021 $**	**Q2-2021 $**	**Q3-2021 $**	**Q4-2021 $**
Revenues	692,799	571,298	9,546	28,426	**41,920**	**7,569**	**12,548**	**62,781**
Operating loss	(25,066)	(29,551)	(132,013)	(239,332)	**(98,048)**	**(86,480)**	**(98,368)**	**(118,326)**
Net loss	(32,962)	(179,712)	(45,721)	(238,370)	**(60,503)**	**(69,537)**	**(138,059)**	**(121,339)**
Net loss attributable to shareholders	(33,805)	(179,548)	(45,115)	(238,077)	**(60,534)**	**(69,561)**	**(138,125)**	**(121,339)**
Basic loss per share	(0.90)	(4.76)	(1.20)	(6.31)	**(1.60)**	**(1.84)**	**(3.66)**	**(3.21)**
Diluted loss per share	(0.90)	(4.76)	(1.20)	(6.31)	**(1.60)**	**(1.84)**	**(3.66)**	**(3.21)**
Adjusted operating income (loss)[1]	27,393	21,108	(79,941)	(90,735)	**(53,632)**	**(50,963)**	**(50,928)**	**(58,362)**
Adjusted net loss[1]	(20,303)	(38,792)	(139,848)	(156,392)	**(109,049)**	**(103,287)**	**(115,641)**	**(118,400)**
Adjusted net loss per share[1]	(0.54)	(1.03)	(3.70)	(4.14)	**(2.89)**	**(2.74)**	**(3.06)**	**(3.14)**

[1] See non-IFRS financial measures

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $62.8 million in revenues, up $34.4 million (120.9%) from $28.4 million for the corresponding period of 2020. This increase resulted from the partial resumption of operations at a higher level in 2021 compared with 2020. However, the Corporation’s maintained a significant reduction in capacity compared with 2019 due to the COVID-19 pandemic, with demand remaining very weak since the resumption of airline operations suspension on July 30, 2021. Operations generated an operating loss of $118.3 million compared with an operating loss of $239.3 million in 2020. Operating results improved compared with 2020 but the decline in revenues continued to be greater than the decrease in operating expenses. Despite the fall in revenues and the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs. In 2021, the operating loss was aggravated by special items of $20.3 million, including an aircraft impairment charge of $9.1 million, termination benefits of $6.7 million and impairment of contract balances of $4.5 million. In 2020, the operating loss was aggravated by special items totalling $96.7 million and unfavourable settlements of fuel-related derivative contracts. In 2020, the special items included impairment charges totalling $86.7 million, comprising $50.8 million for assets related to leased aircraft that will no longer be used until they are returned to the lessors, $32.8 million for the land in Mexico and $3.1 million for the investment in a joint venture. The special items also include additional provisions for return conditions of $6.4 million for leased aircraft that will no longer be used until they are returned to the lessors, professional fees and reversal of compensation expenses of $2.7 million related to the transaction with Air Canada and termination benefits of $0.9 million.

We recorded a net loss of $121.3 million in the fourth quarter, compared with a net loss of $238.4 million in 2020. Net loss attributable to shareholders was $121.3 million ($3.21 per share, basic and diluted), compared with a net loss of $238.1 million ($6.31 per share, basic and diluted) in 2020.

For the fourth quarter, adjusted net loss amounted to $118.4 million ($3.14 per share) compared with an adjusted net loss of $156.4 million ($4.14 per share) in 2020.

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 October 31, 2021. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due is to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $389.4 million and generated negative cash flows related to operations totalling $518.4 million for the year ended October 31, 2021. However, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the LEEFF. To supplement the new financing, the amounts already drawn on existing facilities remain in place and are extended for a period of two years, until April 29, 2023. The ratios applicable to existing facilities are suspended for a period of 18 months, until October 31, 2022. The undrawn credit under the short-term subordinated facility is cancelled. Therefore, available credit amounts to a maximum of $820.0 million, of which an amount of $650.0 million was drawn down as at October 31, 2021.

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

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

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

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

The consolidated financial statements as at October 31, 2021 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 consolidated financial statements as at October 31, 2021 and for the year then ended do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

CONSOLIDATED FINANCIAL POSITION

As at October 31, 2021, cash and cash equivalents totalled $433.2 million, compared with $426.4 million as at October 31, 2020. Cash and cash equivalents in trust or otherwise reserved amounted to $170.3 million as at the end of the fourth quarter of 2021, compared with $308.6 million as at October 31, 2020. The Corporation's statement of financial position reflected $89.7 million in working capital, for a ratio of 1.14, compared with $163.2 million in negative working capital and a ratio of 0.84 as at October 31, 2020. The improvement in our working capital resulted mainly from the travel credits refunded during the year and financed partly by the drawdowns on credit facilities.

Total assets decreased by $118.4 million (5.9%) from $2,016.1 million as at October 31, 2020 to $1,897.7 million as at October 31, 2021. This decrease is explained in the financial position table provided below. Equity decreased by $381.4 million, from $66.3 million as at October 31, 2020 to negative equity of $315.1 million as at October 31, 2021. This decrease resulted primarily from the $389.6 million net loss attributable to shareholders, partially offset by a $9.4 million change in fair value of non-controlling interest liabilities.

(in thousands of dollars)	October 31, 2021 $	October 31, 2020 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**433,195**	426,433	6,762	See Cash flows section
Cash and cash equivalents otherwise reserved	**170,311**	308,647	(138,336)	Travel credits refunded during the year
Trade and other receivables	**108,857**	95,334	13,523	Increase in amounts receivable from credit card processors, partially offset by cash security deposits receivable from lessors
Income taxes receivable	**16,220**	17,477	(1,257)	Collection of income taxes recoverable
Inventories	**10,514**	10,024	490	Increase in inventory of consumable parts
Prepaid expenses	**16,465**	47,164	(30,699)	Impairment of contract balances and decrease in prepaid amounts due to the passage of time
Deposits	**122,174**	153,375	(31,201)	Decrease due to write-offs of non-recoverable deposits related to future repairs that will not take place and strengthening of the dollar against the U.S. dollar
Property, plant and equipment	**974,229**	916,382	57,847	Four new aircraft leases, partially offset by depreciation, changes to real estate leases and impairment of an aircraft
Intangible assets	**16,849**	25,509	(8,660)	Amortization for the year
Derivative financial instruments	**—**	964	(964)	Maturing of foreign exchange derivatives
Investment	**9,476**	14,509	(5,033)	Share of net loss of a joint venture
Other assets	**19,368**	253	19,115	Deferred financing costs related to the unsecured debt - LEEFF

(in thousands of dollars)	October 31, 2021 $	October 31, 2020 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**141,413**	232,243	(90,830)	Payments made during the year and repurchase of the minority interest in Trafictours
Income taxes payable	**1,354**	203	1,151	Collection of income taxes recoverable
Customer deposits and deferred revenues	**292,158**	608,890	(316,732)	Refund of travel credits, partially offset by bookings
Derivative financial instruments	**—**	10,055	(10,055)	Maturing of fuel-related and foreign exchange derivatives
Long-term debt and lease liabilities	**1,419,538**	903,886	515,652	Drawdowns on the credit facilities and four new aircraft leases, partially offset by principal repayments, the strengthening of the dollar against the U.S. dollar, changes to leases, and the early return of five aircraft
Provision for return conditions	**126,244**	143,598	(17,354)	Future repairs that will not take place, expiry of leases for two aircraft, early return of five aircraft and the strengthening of the dollar against the U.S. dollar, partially offset by the passage of time and the higher number of leased aircraft
Liability related to warrants	**36,557**	—	36,557	Issuance of warrants, partially offset by the decrease of their fair value during the year
Deferred government grant	**167,394**	—	167,394	Drawdowns on the credit facility related to travel credits
Other liabilities	**27,497**	50,215	(22,718)	Settlement of pension agreements
Deferred tax liabilities	**613**	674	(61)	No significant difference
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Deficit	**(544,881)**	(164,138)	(380,743)	Net loss
Unrealized gain (loss) on cash flow	**—**	(522)	522	No significant difference
Cumulative exchange differences	**(7,189)**	(5,993)	(1,196)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

				Difference	
	2021	**2020**	**2019**	**2021**	**2020**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Cash flows related to operating activities	**(518,444)**	(46,136)	216,021	(1,023.7)	(121.4)
Cash flows related to investing activities	**4,542**	(60,414)	(163,779)	107.5	63.1
Cash flows related to financing activities	**522,071**	(33,374)	(81,993)	1,664.3	59.3
Effect of exchange rate changes on cash	**(1,407)**	1,513	941	(193.0)	60.8
Net change in cash and cash equivalents	**6,762**	(138,411)	(28,810)	104.9	(380.4)

Operating activities

Operating activities used $518.4 million in cash flows, compared with $46.1 million in 2020. The decrease resulted from a $362.3 million decline in the net change in non-cash working capital balances related to operations combined with a $70.0 million increase in net loss before operating items not involving an outlay (receipt) of cash, a $43.9 million decrease in the net change in other assets and liabilities related to operations and a $3.9 million increase in the net change in the provision for return conditions.

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

Investing activities

Cash flows generated by investing activities amounted to $4.5 million for the current fiscal year, compared with cash outflows of $60.4 million in 2020. In 2021, cash flows generated by investing activities stemmed primarily from the $25.5 million decrease in the cash and cash equivalents reserved balance, partially offset by the $15.0 million consideration paid to acquire the 30% interest held by the minority shareholder in Trafictours Canada inc. ["Trafictours"] on May 31, 2021, in which the Corporation already held 70% of shares.

For the year ended October 31, 2021, additions to property, plant and equipment and intangible assets amounted to $5.6 million, consisting primarily in leasehold improvements to aircraft, compared with $61.4 million for the corresponding period of 2020. The decreases in additions to property, plant and equipment and intangible assets resulted primarily from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic. During the year ended October 31, 2020, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $16.6 million.

Financing activities

Cash flows generated by financing activities amounted to $522.1 million compared with cash outflows of $33.4 million in 2020. During the year ended October 31, 2021, the Corporation made drawdowns on its credit facilities amounting to $599.9 million, compared with $50.0 million in 2020. In addition, during the year ended October 31, 2021, the Corporation made repayments on its lease liabilities amounting to $74.5 million compared with $82.5 million in 2020. The $8.0 million decrease in repayments is attributable to deferred payments, as well as early returns of aircraft and leases maturing in 2021. Since March 2020, the Corporation renegotiated with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments and the early return of nine aircraft, namely five Airbus A330s and four Boeing 737-800s. Furthermore, the aircraft leases for two Airbus A330s matured during the quarter ended January 31, 2021.

FINANCING

Funding of $700.0 million from the Government of Canada

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

Secured debt – LEEFF

An amount of $78.0 million that may be drawn down up to October 29, 2022 in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of Canadian, Mexican, Caribbean and European subsidiaries of the Corporation, subject to certain exceptions. The facility bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. This credit facility becomes immediately payable in the event of a change in control. The terms of the agreement require the Corporation to comply with certain financial ratios and covenants. As at October 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and covenants by its lenders until October 31, 2022 and $44.0 million was drawn down under this credit facility, which has a carrying amount of $43.8 million.

Unsecured debt – LEEFF

An amount of $312.0 million that may be drawn down up to October 29, 2022 in the form of a non-revolving and unsecured credit facility maturing on April 29, 2026, bearing interest at a rate of 5.0% in the first year, increasing to 8.0% in the second year, and by 2.0% per annum thereafter, with the possibility of capitalization of interest in the first two years. This credit facility becomes immediately payable in the event of a change in control. As at October 31, 2021, $176.0 million was drawn down under the credit facility, which has a carrying amount of $158.0 million.

In the context of the financing arrangement related to the unsecured financing facility - LEEFF, 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. The warrants are to vest in proportion to the drawings that will be made, and 50% would be forfeited if the loan were to be repaid before April 29, 2022.

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).

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

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

Unsecured credit facility related to travel credits

An amount of $310.0 million in the form of an unsecured credit facility, which can be drawn down up to December 31, 2021, for the sole purpose of making refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at the rate of 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately payable in case of default related to the debt – LEEFF, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce them or in the event of a change of control without the consent of the lenders. As at October 31, 2021, the credit facility was fully drawn down. As at October 31, 2021, the carrying amount of the credit facility amounted to $140.6 million, and an amount of $167.4 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:

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

Renewal of existing credit facilities

In addition to the new funding of $700.0 million from the Government of Canada, the amounts already drawn on the existing facilities will remain in place.

Revolving credit facility

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

Subordinated credit facility

On April 29, 2021, the Corporation amended its subordinated credit facility for operating purposes, reducing the amount from $250.0 million to $70.0 million The amended agreement expires on April 29, 2023 and becomes immediately payable in the event of a change in control. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to interest. The terms of the agreement require the Corporation to comply with certain financial ratios and covenants. As at October 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and covenants by its lenders until October 31, 2022 and the credit facility was fully drawn down.

Off-balance sheet arrangements

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

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

- Guarantees (see notes 14 and 26 to the audited consolidated financial statements)
- 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 (see note 25 to the audited consolidated financial statements)
- Purchase obligations (see note 25 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $549.8 million as at October 31, 2021 ($872.2 million as at October 31, 2020) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**2021** **$**	**2020** **$**
Guarantees		
Irrevocable letters of credit	**6,951**	23,813
Collateral security contracts	**425**	468
Leases		
Lease obligations	**542,397**	847,872
	549,773	872,153
Agreements with suppliers	**21,344**	28,659
	571,117	900,812

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

As at June 29, 2021, the Corporation amended its annually renewable revolving credit facility agreement for issuing letters of credit, reducing the amount from $75.0 million to $74.0 million. Under this agreement, the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit. As at October 31, 2021, $38.2 million had been drawn down under the facility ($60.3 million as at October 31, 2020), $30.7 million ($56.3 million as at October 31, 2020) of which was to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down. As at October 31, 2021, the decrease reflects the payment of amounts previously guaranteed by the letter of credit for certain executives who retired during the year.

Following the Government of Canada funding and amendments to the existing revolving credit facility agreement and subordinated credit facility agreement, on May 28, 2021, the lender terminated the guarantee facility that allowed the Corporation to issue letters of credit to certain of its service providers, for a maximum term of three years and for a total amount of $13.0 million, without pledging cash for the total amount of letters of credit issued. As at October 31, 2021, an amount of $6.0 million was drawn down under this credit facility maturing on February 28, 2022.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.3 million ($3.9 million), which has been fully drawn down.

As at October 31, 2021, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $322.4 million compared with October 31, 2020. This decrease resulted primarily from the addition of four Airbus A321neoLRs to our fleet in 2021, combined with the strengthening of the dollar against the U.S. dollar.

Subject to going concern uncertainty discussed in Section 7. Financial position, liquidity and capital resources and note 2 to the 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.

CONTRACTUAL OBLIGATIONS BY YEAR	2022	2023	2024	2025	2026	2027 and up	Total
Years ending October 31	$	$	$	$	$	$	$
Contractual obligations							
Long-term debt	13,038	187,433	25,239	29,122	217,207	315,678	787,717
Lease liabilities	215,266	138,304	122,581	118,735	114,408	480,139	1,189,433
Leases (off-balance sheet)	7,516	17,630	32,198	45,198	45,198	394,657	542,397
Agreements with suppliers and other obligations	30,848	5,728	4,210	6,114	1,395	20,791	69,086
	266,668	**349,095**	**184,228**	**199,169**	**378,208**	**1,211,265**	**2,588,633**

Debt levels

The Corporation reported $463.2 million in long-term debt on the consolidated statement of financial position.

The Corporation’s total debt stood at $1,436.7 million as at October 31, 2021, up $532.8 million from October 31, 2020. This increase was mainly due to $599.9 million in drawdowns on credit facilities, combined with the addition of four Airbus A321neoLRs to our fleet in 2021. The increase was partially offset by the strengthening of the dollar against the U.S. dollar, the early return to lessors of four Airbus A330s and a Boeing 737-800 during the year, and the payment of lease liabilities.

Total net debt increased by $526.1 million, from $477.5 million as at October 31, 2020 to $1,003.5 million as at October 31, 2021. The increase in total net debt resulted primarily from an increase in total debt.

Outstanding shares

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

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

Stock options

As at December 3, 2021, there were a total of 509,542 stock options outstanding, 359,542 of which were exercisable.

Warrants

As at October 31, 2021 and as at December 3, 2021, a total of 13,000,000 warrants was issued. As at October 31, 2021 and as at December 3, 2021, a total of 7,333,333 warrants had vested following drawdowns on the credit facility and no warrants had been exercised.

8. OTHER

FLEET

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

The Corporation took delivery of four Airbus A321neoLRs during the year ended October 31, 2021, which is central to the transformation of its fleet.

LITIGATION

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

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. However, under the unsecured credit facility related to travel credits, travel credits issued as a result of flight cancellations arising from the COVID-19 pandemic are now eligible for refund. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation has defended its position in the past and will continue to do so with vigour. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have an unfavourable effect on cash. Nevertheless, during the fiscal year ended October 31, 2021, the Corporation had almost completed the process of reimbursing travel credits to customers who submitted a request, which could mitigate the impact of any unfavourable decision on cash flow and results.

9. ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Impact of COVID-19 pandemic on significant accounting estimates and judgments

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

Amortization and impairment of non-financial assets

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. The right-of-use assets of the fleet, the aircraft, their components and leasehold improvement are significant sub-categories of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal.

Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. In general, these changes are accounted for on a prospective basis and included in the depreciation expense. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment of non-financial assets

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

The 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 at October 31, 2021, the Corporation has determined that the significant declines in revenues and demand owing to the COVID-19 pandemic, and the resulting significant reductions in capacity are indications of impairment of its CGUs. Accordingly, the Corporation performed a new impairment test on its CGUs. The recoverable amount of CGUs was determined based on their useful value, applying a discounted cash flow model. This model is based on Level 3 inputs within the fair value hierarchy. Cash flows are derived from the financial forecasts for the next five fiscal years of the Corporation's 2022–2026 strategic plan, which are consistent with management's best estimates and have been approved by the Board of Directors, and take into account current and expected market conditions, including the impact of the COVID-19 pandemic, which will be felt for several more years. The Corporation has used various assumptions in the preparation of these projections, which are by their nature uncertain and may change unpredictably; accordingly, it is possible that these projections will not be achieved, particularly if demand remains at lower-than-expected levels and travel restrictions persist over time.

The significant assumptions used in the impairment test are as follows:

- An average discount rate of 14.75%, which is the Corporation's weighted average capital cost. This rate was determined taking into account a number of factors such as the risk-free interest rate, the required return on equity investments, risk factors specific to the air transportation industry and risk factors specific to the Corporation's CGUs;
- A long-term growth rate of 2.0% beyond the 5-year period, based on the Bank of Canada's target inflation rate;
- A per gallon fuel price between US$1.93 and US$2.53, based on management's best estimates.

As at October 31, 2021, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount remained higher than their carrying amount. Sensitivity analyses were performed on the significant assumptions used in the discounted cash flow model and no impairment would have resulted from a change in those assumptions.

As at October 31, 2020, the Corporation has determined that the significant declines in revenues and demand owing 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 fair value less costs to sell and using a transaction price of $5.00 per share under the arrangement with Air Canada dated October 9, 2020, which was in effect on October 31, 2020. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

Property, plant and equipment

As at October 31, 2021, a leased Airbus A330 will no longer be used until its return to the lessor. An impairment charge representing the entire carrying amount of the right-of-use assets, maintenance components and leasehold improvements for this aircraft was recognized in the consolidated statement of loss under Special items; these impairment charges totalled $9.1 million.

As at October 31, 2020, due to the significant COVID-19 pandemic-related capacity reductions, ten leased aircraft, i.e., five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, will no longer be used until they are returned to the lessors. An impairment charge representing the entire carrying amount of the right-of-use assets, maintenance components and leasehold improvements for these aircraft was recognized in the consolidated statement of loss under Special items; these impairment charges totalled $50.8 million.

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2021 and 2020, the land in Mexico did not meet the required criteria to be presented as an asset held for sale. Given the above-mentioned factors and the uncertainty surrounding future use of the land in Mexico, an assessment of its recoverable amount compared with its carrying amount was made as at October 31, 2021 and 2020. The recoverable amount of the land was determined based on fair value less costs to sell. Fair value less costs to sell was estimated using level 3 input data, according to a valuation prepared by an independent, external valuator as at October 19, 2021 and October 12, 2020, respectively. As at October 31, 2021, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly, no impairment charge was required. As at October 31, 2020, the recoverable amount of the land in Mexico was less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized a $32.8 million impairment charge related to the land in Mexico under Special items in order for the carrying amount of the land to be equal to its recoverable amount of $50.7 million as at October 31, 2020.

Intangible assets

The Corporation performed its annual impairment test as at October 31, 2021 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following this impairment test, the Corporation did not identify any impairment of its trademarks. As at October 31, 2020, after performing the test, the Corporation recognized $2.4 million in asset impairment charges in respect of its trademarks.

Investment

As at October 31, 2021, the Corporation determined that there was no objective evidence of impairment of its investment in a joint venture and that there was no increase in the value of the investment.

As at October 31, 2020, the Corporation determined that the declines in Desarrollo Transimar's revenues and demand due to the COVID-19 pandemic were objective evidence of impairment of its investment in a joint venture. Accordingly, the Corporation performed an impairment test on its investment to compare its recoverable amount with its carrying amount. The recoverable amount of the investment was determined based on the fair value less costs to sell. Fair value less costs to sell was established based on a valuation prepared by an external and independent appraiser as at October 31, 2020, using a discounted cash flow model based on Level 3 inputs. The cash flows used are management's most plausible projections given current and expected market conditions. The recoverable amount of the investment determined is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized a $3.1 million impairment charge related to its investment under Special items in order for the carrying amount of the investment to be equal to its recoverable amount as at October 31, 2020. The pre-tax discount rate used for the investment's impairment test was 7.1%.

Discount rate of lease liabilities

The Corporation uses its incremental borrowing rate to calculate lease liabilities. The Corporation estimates the incremental borrowing rate at the commencement of the lease by considering several factors, including the risk-free rate at lease inception, the Corporation's creditworthiness, the lease currency, the lease term and the nature of the leased property. Given that various assumptions are used in determining the discount rate of lease liabilities, the calculation involves some inherent measurement uncertainty.

Provision for return conditions

Aircraft- and equipment-related leases contain obligations arising from the conditions under which the assets must be returned to the lessor on expiry of the lease [the "return conditions"]. The Corporation records a provision arising from the return conditions of leased aircraft and engines upon commencement of the lease based on the degree of use until maintenance to meet the return condition or until expiry of the lease. The provision is adjusted to reflect any change in the related maintenance expenses anticipated and the significant accounting estimates and judgments used; these changes are accounted for under "Aircraft maintenance" in the consolidated statement of income (loss) in the period during which they are incurred. The provision is discounted using the risk-free pre-tax Canadian government bond rate as at the reporting date for a term equal to the average remaining term to maturity before the related cash outflow.

The Corporation makes deposits to lessors based on the use of the leased aircraft in connection with certain future maintenance work, namely maintenance deposits with lessors. Deposits made between the last maintenance performed by the Corporation and expiry of the lease, as well as certain deposits made in excess of the actual cost of maintenance work, will not be refunded to the Corporation when the maintenance is performed. These deposits are included in the provision for return conditions of leased aircraft and engines.

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

Liability related to warrants

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

Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives. Pension expense is based on actuarial calculations performed annually by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Actual results will differ from estimated results based on assumptions. Plan obligations are discounted using current market interest rates. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

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

	Cost of retirement benefits for the year ended October 31, 2021	**Pension benefit obligations as at October 31, 2021**
Increase (decrease)	**$**	**$**
Discount rate	**(6)**	**(931)**
Growth rate of eligible earnings	**18**	**109**

Taxes

Since the second quarter of the year ended October 31, 2020, due to the adverse impact of the COVID-19 pandemic on our results, the Corporation ceased to recognize deferred tax assets and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. The Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the existing deferred tax assets. As discussed in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, due to the COVID-19 pandemic, the losses generated during the years ended October 31, 2021 and 2020 and the uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the years ended October 31, 2021 and 2020, these adverse indications outweighed the historical favourable indications and the Corporation did not record any deferred tax assets for the year ended October 31, 2021 and reduced the balance of its deferred tax assets by $18.4 million in 2020. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15.1 million to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount is recognized as income taxes receivable as at October 31, 2021 and 2020.

FINANCIAL INSTRUMENTS

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

Foreign exchange risk management

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. In the three years prior to 2021, approximately 69% of the Corporation's costs were incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 17% of revenues were earned in a currency other than the measurement currency of the reporting unit making the sale. To safeguard the value of commitments and anticipated transactions, the Corporation has a foreign currency risk management policy that authorizes the use of forward exchange forward contracts and other types of derivative financial instruments for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends, expiring in generally less than 18 months. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any new foreign exchange derivatives since March 2020. The Corporation will reassess the situation from time to time.

The Corporation documents certain foreign exchange derivatives as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These foreign exchange derivatives are designated as cash flow hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. The Corporation has defined a hedging ratio of 1:1 for its hedging relationships. For the derivative financial instruments designated as cash flow hedges, changes in the fair value of the effective portion are recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive income. Any ineffective portion within a cash flow hedge is recognized in net income (loss), as incurred, under Change in fair value of fuel-related derivatives and other derivatives. Should the cash flow hedge cease to be effective, previously unrealized gains and losses remain within Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the hedged item is settled, and future changes in value of the derivative instrument are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same consolidated statement of income (loss) account in which the hedged item is recognized.

Management of fuel price risk

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 18 months. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any new fuel-related derivatives since March 2020. The Corporation will reassess the situation from time to time.

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $9.8 million as at October 31, 2021 ($5.6 million as at October 31, 2020). Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2021 and 2020. As at October 31, 2021, approximately 11% (approximately 18% as at October 31, 2020) of accounts receivable were over 90 days past due, whereas approximately 85% (approximately 77% as at October 31, 2020) were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Receivables included receivables from two credit card processors totalling $77.7 million ($19.2 million as at October 31, 2020). The credit risk for these receivables is negligible.

Pursuant to certain agreements entered into with its service providers, primarily hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $7.5 million as at October 31, 2021 ($9.3 million as at October 31, 2020). These deposits are offset by purchases of person-nights at these hotels and purchases from suppliers. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights and that the suppliers might not be able to provide the required services. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators and suppliers in its active markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $33.9 million as at October 31, 2021 ($40.5 million as at October 31, 2020) and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2021, the cash security deposits with lessors that have been claimed totalled $1.6 million ($19.0 million as at October 31, 2020) and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is negligible.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2021 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2021.

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price [refer to Section 7. Financial position, liquidity and capital resources]. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

Interest rate risk

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

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

Future change in accounting policies

Interbank Offered Rates ["IBOR"] Reform - Phase 2

In August 2020, the IASB published its Interest Rate Benchmark Reform - Phase 2 amendments to IFRS 9, *Financial Instruments*; IAS 39, *Financial Instruments - Recognition and Measurement*; IFRS 7, *Financial Instruments - Disclosures*; IFRS 4, *Insurance Contracts*; and IFRS 16, *Leases*. The amendments complement those issued in 2019 and focus on the effects on financial statements when a company replaces the old benchmark rate with an alternative as a result of the reform.

For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in contractual cash flows is a direct result of IBOR reform and occurs on an economically equivalent basis to the previous determination, the change will result in no immediate recognition of gain or loss. For hedge accounting, the practical expedient allows hedging relationships that are directly affected by the reform to continue. However, it may be necessary to account for additional inefficiencies.

Application of the standard is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2021. Implementation of these amendments is expected to have no impact on the Corporation's consolidated financial statements as of the date of adoption.

10. RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation's financial position, operating results and activities. These include risks directly related to the COVID-19 pandemic, of which several have materialized.

This section does not purport to cover all contingencies or to describe all factors that are likely to affect the Corporation or its activities. Moreover, the risks and uncertainties described may or may not materialize, and may develop differently or have consequences other than those contemplated in this MD&A. Additional risks and uncertainties not currently known to the Corporation or that are currently considered immaterial could also materialize in the future and adversely affect the Corporation.

RISK GOVERNANCE

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

- Promote a culture of risk awareness at the head office and in subsidiaries; and
- Integrate risk management into strategic, financial and operating objectives.

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which he or she is responsible, and/or limit the likelihood of these risks materializing. This owner is the first line of defence from a risk management standpoint. The Corporation's support services, namely the Finance, Legal Affairs, IT Security and Human Resources functions, constitute a second line of defence through their involvement in the design and operation of the complementary risk mitigating actions. Lastly, the Internal Audit department of the Corporation is the third line of defence to provide independent assurance on the effectiveness and efficiency of controls over these mitigating actions.

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

Managing these risks is also shared between members of the Corporation's management and the members of the Board of Directors using consistent mapping and language in order to eliminate a silo approach to risk management. As a result of the COVID-19 pandemic, all risks to which the Corporation is exposed have been re-assessed in detail by the Corporation's officers. As part of this essential process, risks were reprioritized based on their level of probability of occurrence and their quantitative and qualitative impact on the Corporation's business. The outcome of this annual exercise comprised a total of 52 risks, rated in order of importance: red for the 11 high-priority risks, orange for the 11 priority risks, yellow for the 13 moderate risks and green for the 17 low risks. These risks were then grouped according to the subject matter for ease of reference, as set out in the following paragraphs.

KEY RISKS

An overview of each of the key risk categories is provided below, along with a description of the main measures to reduce the occurrence and mitigate, where possible, the potential impact of these risks on the Corporation's business objectives. Although insurance coverage is purchased for some of these risks, and operational mitigating actions are in place, there can be no assurance that these actions would effectively reduce risks that could have an adverse impact on the Corporation's financial position, reputation and/or ability to achieve its strategic and operational objectives.

RISKS RELATING TO THE ABILITY TO CONTINUE AS A GOING CONCERN

As discussed in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, there are material uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements as at October 31, 2021 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 consolidated financial statements as at October 31, 2021 and for the year then ended do not include adjustments to the book 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.

The Corporation is making every effort and remains confident of returning to profitability under its strategic plan, based on current market conditions and the gradual resumption of its operations. However, there can be no assurance that additional funds available under the short-term and medium term credit facilities, including the LEEFF will be sufficient to finance the Corporation's operations until the maturity of the credit facilities, that the Corporation will be able to again borrow sufficient amounts to meet its needs, or that it will be able to do so on acceptable terms, or that suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

COVID-19-RELATED RISKS

This section provides an overview of the specific risks to which Transat and its subsidiaries have been and/or will be exposed as a result of the persisting COVID-19 pandemic. While the Corporation has resumed its airline operations since July 30, 2021, there are still cross-border travel restrictions imposed by domestic government authorities and the countries that the Corporation serves. This situation is still resulting in a significant decrease in cash flows from operations despite the mitigation actions taken by the Corporation and considering that Transat does not expect operations to reach pre-pandemic levels before 2023.

The crisis surrounding the COVID-19 pandemic is continuously evolving and is affecting the entire global tourism industry as well as the air transportation sector. The extent of the potential impact of COVID-19 on the Corporation and its operations will depend on the evolution of the pandemic, which remains highly uncertain and cannot be accurately predicted. The outlook for travel demand to destinations served by the Corporation for the coming years remains very difficult to determine. The Corporation is monitoring the situation very closely and continues to take appropriate measures as the COVID-19 pandemic evolves (particularly the variants and the vaccines).

The potential negative impacts of the COVID-19 pandemic include but are not limited to:

- A significant reduction in demand for the Corporation's products and services, both for its flights offered on Air Transat and for its vacation packages, resulting from, among other things, government travel and border restrictions, travellers' concerns about COVID-19, new constraints imposed on travellers at airports and on flights due to COVID-19 such as mask wearing and temperature screening, lower discretionary consumer spending, job losses or salary reductions resulting from a decline in economic activity, service disruptions resulting from COVID-19 and changes in consumer travel patterns, which could have a material adverse effect on cash flows from operations;

- Disruptions in operations related to the inability of the Corporation's employees, its subcontractors or other business partners to work in a normal manner as a result of COVID-19 restrictions, including quarantines;

- Impact of new laws, new regulations and other government interventions resulting from the COVID-19 pandemic, including travel-related measures different from those currently in place that could result in additional costs to the Corporation, a lower load factor and increases in the price of the Corporation's products and services that could adversely affect demand for such products and services;

- Tighter credit conditions proposed by the Corporation's business partners to manage their own cash flows;

- Amounts that may be withheld by credit card processors would delay the availability of these funds for the Corporation, creating additional adverse pressure on the Corporation's cash flows;

- Heightened volatility of fuel prices and exchange rates and the resulting adverse effect on operating expenses and cash flow from operations;

- Write-down of assets as well as non-recurring expenses resulting from adjustments to the Corporation's cost structure;

- Given the large number of early terminations completed to date, and the decision to pay only legal indemnities, the Corporation is more exposed to a risk of legal action by these employees;

- Refunds to clients holding travel credits were made following the receipt of funding from the Government of Canada, but delays deemed too long for some may result in new class action lawsuits, which would be added to those filed since last year, before the refunds were put in place. Accordingly, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have a very unfavourable effect on cash.

Until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position. The Corporation continues to review various options to refinance a portion of the existing debt on more advantageous terms than those currently in place. The Corporation cannot guarantee it will have access to such sources of financing or acceptable financing terms, or that such supplementary measures will enable it to mitigate the risks arising from the COVID-19 pandemic, including those mentioned above.

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

HUMAN RESOURCE RISKS

The Corporation's ability to achieve its plan to resume operations is a function of the experience of its key executives and employees, and their expertise in the tourism, travel and air carrier industries. In the current economic and tourism industry environment, it is difficult to retain the resources needed for recovery due to the limited ability to compensate employees at their fair value. As a result, the loss of key employees could adversely affect our business and operating results. Further, our recruitment program, salary structure, performance management programs, succession plan, retention plan, as well as our training plan carry risks that could have adverse effects on our ability to attract and retain the skilled resources needed to sustain the Corporation's growth and success. Retention risk is all the more likely amid the COVID-19 pandemic, which is putting strong pressure on all of the Corporation's employees, given the outlook of a very slow recovery in the tourism industry and the talent shortage in general, in Québec and in Canada.

In terms of workforce, the Corporation had a headcount of 5,100 pre-pandemic in Canada. As at October 31, 2021, it was reduced to about 4,300, including 2,100 active headcount and 2,200 still temporarily laid off. During 2022, the Corporation intends to lay off some staff due to the still reduced business volume, while ensuring that it recruits the staff necessary to handle the greater workload and a prospective full recovery in the longer term. Although Canadian employees, both active and inactive, have benefited from employee subsidy programs of the Canadian government, labour costs are a significant component of the Corporation's operating expenses. There can be no assurance that Transat will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial position.

The Corporation's Air Transat subsidiary is the only subsidiary with unionized employees, who are governed by five collective agreements, two of which have expired in 2021 and three will expire in 2022. The agreement with the International Association of Machinists and Aerospace Workers, which covers employees involved in crew planning, etc., expired on July 31, 2021. The agreement governing flight attendants, namely the Canadian Union of Public Employees (Airline Division), expired on October 31, 2021. Furthermore, it is possible that negotiations to renew these collective agreements could give rise to work stoppages or slowdowns or higher labour costs in the coming years that could unfavourably impact our operations and operating income.

CYBER ATTACK RISKS

The Corporation gathers, uses and retains over a fixed period of time large amounts of customer data for commercial, marketing and other purposes in our various computer systems. This data is stored and processed in our facilities and in third-party facilities, including, for example, in a cloud-based environment hosted by a third party. The integrity and protection of the data of our customers, employees and business, as well as the continued operation of our systems and other third-party service providers, are essential to our operations. Security and privacy regulations and contractual obligations are increasingly demanding and have onerous penalties for non-compliance.

Despite our efforts to protect against unauthorized access to our systems and sensitive information, due to the scope and complexity of their information technology structure, our reliance on third parties to support and protect our structure and data, and a constantly evolving cyber threat environment, our systems and those of third parties we rely on are subject to disruptions, failures, unauthorized access, cyber terrorism, employee errors, negligence, fraud or other misuse. In addition, given the sophistication of hackers to gain unauthorized access to our sensitive information, we may be unable to detect the violation for long periods of time, or even not at all. Such events, whether accidental or intentional, could result in the theft, unauthorized access or disclosure, loss, misuse or unlawful use of customer data that could damage our reputation, disrupt our services or result in business loss, as well as repair and other costs, fines, investigations, legal actions or proceedings. As a result, future incidents could have a material adverse effect on the Corporation, including our business, financial condition, liquidity and operating results.

FINANCIAL RISKS

Due to the COVID-19 related risks discussed previously as well as those described below under economic and general risks, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

The Corporation's current credit facilities are subject to compliance with certain financial ratios and covenants, which have been suspended up to October 31, 2022. There can be no assurance that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

In addition, in the normal course of business, the Corporation is facing a number of short-term maturities related to service contracts with credit card processors. These agreements will have to be renewed or replaced under market conditions prevailing at the time of their expiry, which could result in more onerous borrowing and operating terms and conditions for the Corporation or an inability to renew or replace such contracts.

The Corporation is negotiating with its suppliers to obtain cost reductions and changes to its payment terms, and has implemented measures to reduce expenses and investments.

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

Transat has significant non-cancellable lease liabilities relating to its aircraft fleet. If the Corporation’s operations do not return to sufficient levels, the payments to be made under our existing lease agreements could have a substantial impact on our business.

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

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

As a Corporation that processes information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. In addition, credit card processors could take mitigation measures such as withholding funds until the service is re-established. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

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

Lastly, the travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, comparisons of our operating results between quarters or between six-month periods are not necessarily meaningful and should not be relied on as indicators of future performance.

COMPETITION RISKS

Transat operates in an industry in which competition has always been intense, despite the slow resumption of operations by all industry players. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources, including government subsidies, and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. The Corporation could thus be unable to compete successfully against existing or potential competitors, and intense competition could have a material adverse effect on its operations, prospects, revenues and profit margin.

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

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

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

ECONOMIC AND GENERAL RISKS

The holiday travel industry is sensitive to global, national, regional and local economic conditions, particularly since the pandemic situation that we have been experiencing starting in March 2020. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. To date, with the pandemic still persisting at several levels, signs of recovery in the tourism industry are weak for the destinations served by the Corporation, and financial markets could continue their negative economic growth.

Despite the existence of COVID-19 vaccines, the rules for its use and requirements change over the months and are not consistent across countries. These factors are creating feelings of anxiety among the Corporation's customers, affecting demand for leisure travel. As a result, revenues might not be sufficient to cover the fixed expenses related to the resumption of operations and bring about profitability in the medium term.

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

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

REPUTATION AND ESG RISKS

The market and travelers are increasingly requiring that a public company, such as Transat, be recognized as a socially responsible company and that it adhere to environmental, social and governance ["ESG"] criteria, i.e. factors that have an impact on the environment, that are related to the social involvement of the Corporation and that are related to the way the Corporation runs its business governs itself. In this respect, over the years, the Corporation has adopted multiple measures related to these factors, especially its Travelife certification program, its agreement with SAF+ Consortium, its new fleet of more efficient, less polluting Airbus A321neoLR aircraft, its ISO and LEED certifications, its involvement with communities in Canada and where it flies, its approach to managing human resources and corporate governance, and many others. Despite these initiatives, it is possible that, in the eyes of current and future clients, certain organizations, institutions or shareholders, the Corporation may not fully meet the definition of a socially responsible company, which could also tarnish the Corporation's reputation.

In addition, the ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control, such as the COVID-19 pandemic, will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

KEY SUPPLIES AND SUPPLIER RISKS

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

Our dependence, among others, on Airbus, Rolls-Royce, General Electric, Lufthansa Technik, A.J. Walter or Pratt & Whitney means that we could be adversely affected by problems connected with Airbus aircraft and Rolls-Royce or General Electric engines, including defective material, mechanical problems or negative perceptions among travellers. The Corporation also relies on certain suppliers for its information system security and maintenance. See the Technological Risks section.

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

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

AVIATION RISKS

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

Our focus on two types of Airbus aircraft (A321 and A330) could result in significant downtime for part of our fleet if mechanical problems arise or if the regulator releases any mandatory inspection or maintenance directives applicable to our types of aircraft. If our operations are disrupted due to aircraft unavailability, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

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

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

With the privatization of airports and air navigation authorities in Canada, airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees, particularly since some of these airports are located in U.S. border towns and are not subject to such fees. If these user and navigation fees were to increase again substantially, our business, financial position and operating results could be adversely affected, which would result in certain routes being conceded to our U.S. competitors.

TECHNOLOGICAL RISKS

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

In addition to the cyber attacks discussed previously, these technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunication systems failures, power failures, computer viruses, computer hacking, unauthorized or fraudulent users, and other operational and security issues. Furthermore, the exploitation of system vulnerabilities is increasingly sophisticated and frequent and requires constant management of and developments in the measures taken. While Transat continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly or in a timely manner. Any systems failures or outages could materially and adversely affect the Corporation's operations and its customer relationships and could have an adverse effect on the Corporation's reputation, its operating results and financial position.

Furthermore, several of those information technology systems depend on third-party providers, such as Softvoyage, Datalex and Radixx. Those suppliers sell more external solutions (through partnerships or cloud services) requiring additional control measures. If these providers were to become incapable of maintaining or improving efficient technology solutions in a profitable and timely manner, the Corporation would be unable to react effectively to information security attacks, obtain new systems to meet growth in its customer base or support new products offered by the Corporation. Consequently, such situations could generate additional expenses, which would unfavourably impact the Corporation's financial position.

REGULATORY RISKS

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

In the fight against climate change, the International Civil Aviation Organization ["ICAO"] has established an international model whereby taxes would be imposed on greenhouse gas emissions to offset emissions. For domestic air travel, the federal government plans to introduce new legislation that would be accompanied by regulations to implement a carbon pricing system.

Canada's Clean Fuel Standard, which could require airlines to reduce their carbon intensity by using sustainable aviation fuel or purchasing compliance credits, is currently in the consultation phase. The Standard will be finalized in the spring of 2022 and become applicable in early 2023. The final legislation will determine the financial implications for Air Transat. If this legislation does materialize, additional costs could result, which the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

In addition, under the Greenhouse Gas Pollution Pricing Act, Canada established a minimum royalty for carbon pollution. This is in the form of a fossil fuel charge and a regulatory greenhouse gas emissions trading system called the Output-Based Pricing System. It currently applies only to interprovincial flights in certain provinces, such as British Columbia. Air Transat is currently not affected by this legislation. However, the federal government has indicated it could broaden the scope of the legislation to include interprovincial (domestic) flights. No timeline was given for this initiative, but it could have a significant financial impact on Air Transat if it is applied. Note that Air Transat is subject to the Carbon Offsetting and Reduction Scheme for International Aviation ["CORSIA"] for most of its international flights. The Corporation is required to purchase carbon offsets to cover growth on applicable routes.

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

INSURANCE COVERAGE RISKS

We hold and maintain full force insurance policies for amounts conforming to industry standards. Our liability insurance for our tour operator and travel agency activities covers the liability for bodily harm or property damage suffered by travellers or third parties. In the context of our activities as a tour operator, we use reasonable efforts to ensure that our service providers also have insurance covering bodily harm or property damage suffered by travellers. Furthermore, in collaboration with an insurer, we established a voluntary professional liability insurance (errors and omissions) plan for our franchisees.

We also hold and maintain in full force insurance policies for amounts in accordance with airline industry standards and in compliance with applicable statutory requirements and the covenants of our aircraft lease agreements. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US$1.25 billion with the exception of war risk bodily injury/property damage to third parties excluding passengers where the limit is US$250 million for any single event in the aggregate. In this latter regard, additional insurance is carried and maintained for war risk bodily injury/property damage to third parties excluding passengers covering the excess of US$250 million up to the limit of US$1.0 billion for any single event in the aggregate.

In addition, the Corporation has directors' and officers' liability insurance and professional liability insurance to pay the amounts the Corporation may be required to disburse in connection with lawsuits specifically involving directors and officers, not the Corporation.

However, there can be no assurance of all risks being covered in this manner or our ability to secure coverage providing favourable levels and conditions at an acceptable cost.

Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

11. CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2021.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2021 that materially affected the Corporation's ICFR.

12. OUTLOOK

Impact of the coronavirus on outlook – Across all of our markets, average capacity for winter 2022 is 60% of 2019 capacity, increasing from 50% to 75% over the course of the season. On the sun destinations program, the Corporation's main program for winter season, Transat's capacity in 2022 represents 55% of 2019 capacity. On the transatlantic program, where it is the low season, Transat's capacity represents 65% of 2019 capacity. In addition, the Corporation is increasing its presence in the cross-border market with capacity growth of 45% compared to 2019 winter season capacity.

The Corporation continues to apply a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation continues to monitor the situation daily to adjust these measures as it evolves.

Despite recent uncertainty related to the emergence of a new variant, the current situation shows encouraging signs such as the level of bookings observed and the increase in the vaccination rate. However, it remains impossible for the moment to predict the impact of the COVID-19 pandemic on future bookings, and on financial results. Consequently, for now the Corporation is not providing an outlook for winter 2022.

MANAGEMENT'S REPORT

The consolidated financial statements and MD&A of Transat A.T. Inc., and all other information in the financial report, are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS issued by the International Accounting Standards Board. The MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. Management's responsibility in these respects includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with IFRS and the requirements of the Canadian Securities Administrators, and which are adequate in the circumstances. The financial information presented throughout the MD&A and elsewhere in this Annual Report is consistent with that appearing in the consolidated financial statements.

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

The Board of Directors is responsible for the financial information presented in the consolidated financial statements and the MD&A, primarily through its Audit Committee. The Audit Committee, which is appointed by the Board of Directors and comprised entirely of independent and financially literate directors, reviews the annual consolidated financial statements and the MD&A and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors, the accounting methods and policies used as well as the internal control systems set up by the Corporation. These consolidated financial statements have been audited by Ernst & Young LLP. Their report on the consolidated financial statements appears on the next page.

Annick Guérard
President and Chief Executive Officer

Patrick Bui
Chief Financial Officer