TRANSAT A.T INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2020

Investor Relations
Denis Pétrin
Chief Financial Officer
investorrelations@transat.com

Ticker symbol
TSX: TRZ

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended January 31, 2020, compared with the quarter ended January 31, 2019, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2019 and the accompanying notes and the 2019 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first-quarter update to the information contained in the MD&A section of our 2019 Annual Report. The risks and uncertainties set out in the MD&A of the 2019 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of March 11, 2020. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended January 31, 2020 and the Annual Information Form for the year ended October 31, 2019.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2019 Annual Report.

This MD&A also contains certain forward-looking statements about the Corporation concerning a transaction involving the acquisition of all the shares of the Corporation by Air Canada [the "transaction with Air Canada"]. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of transaction with Air Canada will be subject to customary closing conditions, including regulatory approvals, particularly authorities in Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada. As part of this assessment process, the Commissioner of Competition will provide Transport Canada with its assessment of the impacts on competition. If the required regulatory approvals are obtained and conditions are met, it is expected that the transaction will close by the second quarter of the 2020 calendar year.

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

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 Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is expected that the transaction with Air Canada will be completed by the second quarter of the 2020 calendar year.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Adjusted operating income (loss)	Operating income (loss) before depreciation and amortization 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, gain (loss) on business 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, gain (loss) on business disposal, 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, 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. 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 (Cash and cash equivalents, net of total debt)	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended January 31	
	2020 $	2019 Restated(1) $
Operating income (loss)	**(25,066)**	(48,620)
Special items	**4,174**	—
Depreciation and amortization	**48,285**	41,160
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	(90)
Adjusted operating income (loss)	**27,393**	(7,550)
Income (loss) before income tax expense	**(43,964)**	(70,785)
Special items	**4,174**	—
Change in fair value of fuel-related derivatives and other derivatives	**10,784**	18,692
Foreign exchange loss	**3,488**	174
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	(90)
Adjusted pre-tax income (loss)	**(25,518)**	(52,009)
Net income (loss) attributable to shareholders	**(33,805)**	(52,952)
Special items	**4,174**	—
Change in fair value of fuel-related derivatives and other derivatives	**10,784**	18,692
Foreign exchange loss	**3,488**	174
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	(90)
Tax impact	**(4,944)**	(5,032)
Adjusted net income (loss)	**(20,303)**	(39,208)
Adjusted net income (loss)	**(20,303)**	(39,208)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,747**	37,572
Adjusted net income (loss) per share	**(0.54)**	(1.04)

	As at January 31, 2020 $	As at October 31, 2019 Restated(1) $
Long-term debt	**—**	—
Lease liabilities	**689,564**	665,929
Total debt	**689,564**	665,929
Total debt	**689,564**	665,929
Cash and cash equivalents	**(682,181)**	(564,844)
Total net debt	**7,383**	101,085

1 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2020 $	2019 Restated[(2)] $	Difference $	Difference %
				Quarters ended January 31
Consolidated Statements of Income (Loss)				
Revenues	**692,799**	647,566	45,233	7.0
Operating income (loss)	**(25,066)**	(48,620)	23,554	48.4
Net income (loss) attributable to shareholders	**(33,805)**	(52,952)	19,147	36.2
Basic earnings (loss) per share	**(0.90)**	(1.41)	0.51	36.1
Diluted earnings (loss) per share	**(0.90)**	(1.41)	0.51	36.1
Adjusted operating income (loss)[(1)]	**27,393**	(7,550)	34,943	462.8
Adjusted net income (loss)[(1)]	**(20,303)**	(39,208)	18,905	48.2
Adjusted net income (loss) per share[(1)]	**(0.54)**	(1.04)	0.50	48.1
Consolidated Statements of Cash Flows				
Operating activities	**173,207**	82,911	90,296	108.9
Investing activities	**(33,098)**	(38,159)	5,061	13.3
Financing activities	**(24,066)**	(19,301)	(4,765)	(24.7)
Effect of exchange rate changes on cash and cash equivalents	**1,294**	1,340	(46)	(3.4)
Net change in cash and cash equivalents	**117,337**	26,791	90,546	338.0

	As at January 31, 2020 $	As at October 31, 2019 Restated[(2)] $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**682,181**	564,844	117,337	20.8
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**461,729**	352,771	108,958	30.9
	1,143,910	917,615	226,295	24.7
Total assets	**2,634,064**	2,324,490	309,574	13.3
Debt (current and non-current)	**—**	—	—	—
Total debt[(1)]	**689,564**	665,929	23,635	3.5
Total net debt[(1)]	**7,383**	101,085	(93,702)	(92.7)

[1] See Non-IFRS Financial Measures section.

[2] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

OVERVIEW

CORE BUSINESS

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

VISION

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

STRATEGY

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

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

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

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

On August 23, 2019, Transat's shareholders approved an arrangement agreement with Air Canada, under which it is provided that Air Canada will acquire all issued and outstanding shares of Transat. If regulatory approvals are obtained and the transaction occurs, Transat's business will be incorporated into Air Canada's strategic plan. Meanwhile, the Corporation continues to implement its plan, but has slowed down investment in hotel development. The Corporation continues its cost reduction and service enhancement efforts, as well as to maintain its ability to fully implement its plan should the transaction not close.

For fiscal 2020, Transat has set the following objectives at the beginning of the reporting period:

1. Obtain the regulatory authorizations necessary to complete the transaction with Air Canada, while maintaining its capacity to operate independently;

2. Improve financial performance;

3. Optimize flight programs in order to maximize revenues and profitability, including increased network density, fleet utilization and connectivity;

4. Continue the transformation of revenue management practices and increase the revenue per unit;

5. Continue cost control and cost reduction initiatives;

6. Continue to increase our share of direct distribution;

7. Continue to improve customer satisfaction and maintain a favourable brand perception; and

8. Maintain the satisfaction and engagement of our teams and encourage retention.

Our key performance drivers are adjusted operating income (loss), capacity and revenue growth, which are essential to successfully implement our strategy and meet 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 consist primarily of cash not held in trust or otherwise reserved and the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

REVISITING OUR DECEMBER 11, 2019 OUTLOOK

According to the MD&A for the period ended October 31, 2019, the Corporation expected its results for the winter season to be slightly higher than those of last year. Adjusted operating income amounted to $27.4 million for the first quarter of 2020, up $34.9 million from the same period last year, driven by higher profitability across our programs, primarily the sun destinations program, as well as a lower-than-expected increase in operating expenses.

DEFINITIVE ARRANGEMENT AGREEMENT

On August 23, 2019, Transat's shareholders approved the arrangement agreement with Air Canada, under which it is provided that Air Canada will acquire all issued and outstanding shares of Transat [the "arrangement"]. The arrangement remains subject to certain customary closing conditions, including regulatory approvals, particularly authorities in Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada. As part of this assessment process, the Commissioner of Competition will provide Transport Canada with its assessment of the impacts on competition. If the required regulatory approvals are obtained and conditions are met, it is expected that the arrangement will close by the second quarter of the 2020 calendar year.

The hotel development strategy and related objectives are affected by the arrangement as the Corporation has agreed to limit its commitments and expenses related to the execution of its hotel strategy in the period leading up to the closing of the arrangement.

CONSOLIDATED OPERATIONS

	Quarters ended January 31			
	2020	2019 Restated[(1)]	Difference	Difference
(in thousands of dollars)	$	$	$	%
Revenues	**692,799**	647,566	45,233	7.0
Operating expenses				
Costs of providing tourism services	**235,463**	241,120	(5,657)	(2.3)
Aircraft fuel	**103,539**	92,569	10,970	11.9
Salaries and employee benefits	**103,003**	97,985	5,018	5.1
Sales and distribution costs	**51,894**	51,456	438	0.9
Aircraft maintenance	**50,354**	50,330	24	0.0
Airport and navigation fees	**37,996**	33,849	4,147	12.3
Aircraft rent	**9,072**	18,613	(9,541)	(51.3)
Other airline costs	**50,238**	47,883	2,355	4.9
Other	**23,916**	21,395	2,521	11.8
Share of net income of a joint venture	**(69)**	(174)	105	(60.3)
Depreciation and amortization	**48,285**	41,160	7,125	17.3
Special items	**4,174**	—	4,174	100.0
	717,865	696,186	21,679	3.1
Operating income (loss)	**(25,066)**	(48,620)	23,554	48.4
Financing costs	**10,087**	8,555	1,532	17.9
Financing income	**(5,461)**	(5,256)	(205)	3.9
Change in fair value of fuel-related derivatives and other derivatives	**10,784**	18,692	(7,908)	(42.3)
Foreign exchange loss	**3,488**	174	3,314	1,904.6
Income (loss) before income tax expense	**(43,964)**	(70,785)	26,821	37.9
Income taxes (recovery)				
Current	**(1,890)**	(3,531)	1,641	46.5
Deferred	**(9,112)**	(15,284)	6,172	40.4
	(11,002)	(18,815)	7,813	41.5
Net income (loss) for the period	**(32,962)**	(51,970)	19,008	36.6
Net income (loss) attributable to:				
Shareholders	**(33,805)**	(52,952)	19,147	36.2
Non-controlling interests	**843**	982	(139)	(14.2)
	(32,962)	(51,970)	19,008	36.6

1 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

RESTATEMENT OF COMPARATIVE FIGURES

IFRS 16, *Leases*, was adopted retrospectively on November 1, 2019 with restatement for each prior reporting period presented. Accordingly, the consolidated statement of loss for the period ended January 31, 2019 has been restated. Aircraft maintenance costs, aircraft rent, rent included in other costs, depreciation and amortization, financing costs and foreign exchange effect for the quarter ended January 31, 2019 were restated to reflect the new accounting policies. The main changes resulting from the adoption of IFRS 16 are described in note 3 to the interim condensed consolidated financial statements for the period ended January 31, 2020.

REVENUES

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

Compared with 2019, revenues for the quarter ended January 31, 2020 were up $45.2 million (7.0%). The higher revenues recorded during the quarter were mainly attributable to the 10.8% increase in the number of travellers in the sun destinations program, our main program for the winter season, resulting from our decision to increase capacity. The increase was partially offset by slight decreases in the program's average selling prices and load factors.

OPERATING EXPENSES

Total operating expenses were up $21.7 million (3.1%) for the quarter, compared with 2019. The increase resulted from higher capacity compared with 2019, partially offset by lower hotel room costs.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2019, these costs were down $5.7 million (2.3%) for the quarter. This decrease was mainly due to the lower hotel room cost per person-night, partially offset by the higher number of packages sold compared with 2019.

AIRCRAFT FUEL

Aircraft fuel expense was up $11.0 million (11.9%) for the quarter. The increase mainly results from the higher capacity compared with 2019.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $5.0 million (5.1%) for the quarter, compared with 2019. The growth resulted primarily from annual salary reviews and the hiring of flight attendants and pilots following the increase in capacity in 2020.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were up $0.4 million (0.9%) during the quarter, compared with 2019. The increase was mainly due to the higher capacity compared with 2019, partially offset by lower commissions and marketing fees, resulting from our cost reduction efforts.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. These expenses for the quarter were stable compared with 2019.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $4.1 million (12.3%) for the quarter, compared with 2019. The increase was due to higher capacity, compared with 2019.

AIRCRAFT RENT

Aircraft rent was down $9.5 million (51.3%) for the quarter. The decrease was due to the reduction in the number of aircraft in our seasonal fleet compared with 2019.

OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were up $2.4 million (4.9%) for the quarter, compared with 2019. The increase was due to higher capacity, compared with 2019.

OTHER

Other costs were up $2.5 million (11.8%) for the quarter, compared with 2019. The increase was attributable, among other things, to higher professional fees and IT-related costs.

SHARE OF NET INCOME (LOSS) OF A JOINT VENTURE

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net income for the first quarter totalled $0.1 million, compared with $0.2 million for the corresponding quarter of 2019.

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 subject to amortization. Depreciation and amortization expense rose $7.1 million (17.3%) in the first quarter, compared with 2019. The increase was mainly attributable to right-of-use assets related to the fleet, following the commissioning of two Airbus A321neo LRs in 2019 and three Airbus A321ceos in the first quarter of 2020, as well as recent maintenance costs capitalized under aircraft engines.

SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items. For the quarter ended January 31, 2020, professional fees of $1.2 million and compensation expenses of $3.0 million were recorded in connection with the transaction with Air Canada. 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 subsequent to the rise in the share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period. The share closing price of $16.16 as at January 31, 2020 was used to calculate expenses related to the stock-based compensation plans, when applicable.

Total arrangement costs incurred until January 31, 2020 in connection with the transaction with Air Canada is $11.5 million compared to the estimate of $12.0 million as planned in the Management Proxy Circular of July 19, 2019. The arrangement costs will be greater than those initially estimated. The increase in costs is partially due to the transaction price set at $18.00 per share, compared to $13.00 per share when the circular was published, as well as expenses higher than those initially planned to meet the requirements of regulatory approvals necessary for the completion of the transaction, including those of Canada and the European Union. The arrangement costs include legal and accounting fees and financial advisory fees, some of which are conditional on the closing of the transaction.

OPERATING RESULTS

Given the above, we recorded an operating loss of $25.1 million (3.6%) for the first quarter, compared with $48.6 million (7.5%) in 2019. The decrease was mainly attributable to higher profitability of the sun destinations program, our main program for the winter season.

For the quarter, the Corporation recorded adjusted operating income of $27.4 million (4.0%), compared with an adjusted operating loss of $7.6 million (1.2%) in 2019.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, as well as financial expenses. Financing costs rose $1.5 million (17.9%) during the quarter, compared with 2019. The increase was mainly attributable to the interest expense on lease liabilities related to aircraft, following the commissioning of two Airbus A321neo LRs in 2019.

FINANCING INCOME

Financing income increased by $0.2 million (3.9%) during the quarter, compared with 2019, as a result of higher cash and cash equivalents compared with 2019.

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. During the quarter, the fair value of fuel-related derivatives and other derivatives decreased by $10.8 million compared with $18.7 million in 2019. The decrease was primarily attributable to the decline in fair value of fuel-related derivatives, partially offset by the increase in fair value of foreign exchange derivatives.

FOREIGN EXCHANGE LOSS

During the quarter, we recognized a $3.5 million foreign exchange loss, compared with $0.2 million in 2019. Foreign exchange losses resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar, during the first quarter.

INCOME TAXES

Income tax recovery for the first quarter totalled $11.0 million, compared with $18.8 million for the corresponding quarter of last year. Excluding the share of net income of a joint venture, the effective tax rate was 25.0% for the quarter, compared with 26.5% for the corresponding period of 2019. The changes in tax rates for the quarter were due to non-deductible expenses and the differences in statutory tax rates by country applicable to the foreign subsidiaries' results.

NET INCOME (LOSS)

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $33.0 million for the quarter ended January 31, 2020, compared with $52.0 million in 2019.

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

Net loss attributable to shareholders amounted to $33.8 million or $0.90 per share (basic and diluted) compared with $53.0 million or $1.41 per share (basic and diluted) for the corresponding quarter of last year. For the first quarter of 2020, the weighted average number of outstanding shares used to compute per share amounts was 37,747,000 (basic and diluted), compared with 37,572,000 (basic and diluted) for the corresponding quarter of 2019.

For the first quarter, adjusted net loss was $20.3 million ($0.54 per share) compared with $39.2 million ($1.04 per share) in 2019.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the quarterly financial information shown in the table below for 2019. However, the analysis of the quarterly financial information for 2019 compared with 2018 was carried out on the results before restatement to ensure comparability.

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues increased compared with the corresponding quarters. For the first part of winter (Q1), the higher revenues were mainly attributable to the 10.8% increase in the number of travellers in the sun destinations program, our main program for the winter season. For the second part of winter (Q2), the higher revenues were mainly due to the increase in average selling prices across all our programs, combined with a 2.3% rise in the number of travellers in the sun destinations program, our main program for the period. For the summer season (Q3 and Q4), growth in revenues was driven primarily by higher average selling prices and load factors across all our programs, as well as growth in ancillary revenues.

In terms of operating results, for the first part of winter (Q1), the decrease in our operating loss was primarily due to higher profitability of the sun destinations program, our main program for the winter season. For the second part of winter (Q2), the increase in our operating loss resulted primarily from higher fuel prices, combined with the weakening of the Canadian dollar against the U.S. dollar, and the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total were higher than the increase in the average selling prices of packages. For the summer season (Q3 and Q4), the improvement in our operating income was driven by higher average selling prices and load factors across all our programs, and growth in ancillary revenues. The increase in operating income was partially offset by the costs associated with the transaction with Air Canada and higher aircraft maintenance costs. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information

(in thousands of dollars, except per share data)	Q2-2018	Q3-2018	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	Q1-2020
				Restated[(2)]				
	$	$	$	$	$	$	$	$
Revenues	867,154	664,569	668,843	647,566	897,413	698,916	693,235	692,799
Operating income (loss)	(3,179)	(10,736)	6,851	(48,620)	(3,768)	1,728	37,072	(25,066)
Net income (loss)	9,743	(4,693)	6,784	(51,970)	631	(1,197)	22,820	(32,962)
Net income (loss) attributable to shareholders	7,939	(5,046)	6,754	(52,952)	(939)	(1,505)	23,049	(33,805)
Basic earnings (loss) per share	0.21	(0.13)	0.18	(1.41)	(0.02)	(0.04)	0.61	(0.90)
Diluted earnings (loss) per share	0.21	(0.13)	0.18	(1.41)	(0.02)	(0.04)	0.62	(0.90)
Adjusted operating income (loss)[(1)]	12,130	2,350	31,474	(7,550)	40,356	62,098	97,537	27,393
Adjusted net income (loss)[(1)]	(456)	(5,040)	13,659	(39,208)	(6,421)	6,166	29,991	(20,303)
Adjusted net income (loss) per share[(1)]	(0.01)	(0.13)	0.36	(1.04)	(0.17)	0.16	0.79	(0.54)

1 See Non-IFRS Financial Measures section.

2 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2020, cash and cash equivalents totalled $682.2 million compared with $564.8 million as at October 31, 2019. Cash and cash equivalents in trust or otherwise reserved amounted to $461.7 million at the end of the first quarter of 2020, compared with $352.8 million as at October 31, 2019. The Corporation's statement of financial position reflected $54.9 million in working capital, for a ratio of 1.04, compared with $131.8 million and a ratio of 1.13 as at October 31, 2019.

Total assets increased by $309.6 million (13.3%), from $2,324.5 million as at October 31, 2019 to $2,634.1 million as at January 31, 2020. This increase is explained in the financial position table provided below. Equity decreased by $31.5 million, from $557.5 million as at October 31, 2019 to $526.0 million as at January 31, 2020. The decrease resulted primarily from a $33.8 million net loss attributable to shareholders.

CASH FLOWS

	Quarters ended January 31		
	2020	**2019 Restated(1)**	**Difference**
(in thousands of dollars)	**$**	**$**	**$**
Cash flows related to operating activities	**173,207**	82,911	90,296
Cash flows related to investing activities	**(33,098)**	(38,159)	5,061
Cash flows related to financing activities	**(24,066)**	(19,301)	(4,765)
Effect of exchange rate changes on cash	**1,294**	1,340	(46)
Net change in cash and cash equivalents	**117,337**	26,791	90,546

1 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

OPERATING ACTIVITIES

Operating activities generated cash flows of $173.2 million during the first quarter, compared with $82.9 million in 2019. The $90.3 million increase resulted from an $75.5 million increase in the net change in non-cash working capital balances related to operations combined with a $27.3 million increase in net income before operating items not involving an outlay (receipt) of cash, partially offset by an $11.6 million decrease in the net change in other assets and liabilities related to operations.

INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $33.1 million for the first quarter compared with $38.2 million in 2019, representing a decrease of $5.1 million. Additions to property, plant and equipment and intangible assets amounted to $33.1 million during the quarter, compared with $39.3 million in 2019. The $6.2 million decrease resulted primarily from lower capitalized maintenance costs compared with 2019. In 2020, the Corporation purchased a spare engine for an Airbus A321neo LR in the amount of $16.6 million. In 2019, the Corporation acquired a second land in Puerto Morelos, Mexico, for an amount of $15.8 million adjacent to the first land acquired in 2018.

FINANCING ACTIVITIES

Cash flows used in financing activities increased from $19.3 million for the first quarter of 2019 to $24.1 million in 2020, representing an increase of $4.8 million. The payments on lease liabilities increased by $4.4 million in 2020 following the commissioning of two Airbus A321neo LRs in 2019 and three Airbus A321ceos in the first quarter of 2020.

CONSOLIDATED FINANCIAL POSITION

	January 31, 2020 $	October 31, 2019 Restated(1) $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**682,181**	564,844	117,337	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**461,729**	352,771	108,958	Seasonal nature of operations
Trade and other receivables	**147,164**	137,944	9,220	Increase in business volume, partially offset by the receipt of cash security deposits receivable from lessors
Income taxes receivable	**16,803**	16,523	280	No significant difference
Inventories	**14,045**	15,847	(1,802)	Decrease in fuel inventories
Prepaid expenses	**96,759**	74,489	22,270	Increase in prepayments made to hotel operators due to the seasonal nature of operations
Deposits	**196,575**	183,902	12,673	Increase in deposits for aircraft maintenance
Deferred tax assets	**38,413**	28,148	10,265	Increase related to deductible losses and derivative financial instruments
Property, plant and equipment	**922,620**	891,445	31,175	New aircraft and real estate leases, partially offset by depreciation
Intangible assets	**35,250**	36,852	(1,602)	Amortization for the period, partially offset by additions
Derivative financial instruments	**5,579**	4,870	709	Impact of the strengthening of the dollar against the U.S. dollar on contracted derivatives
Investment	**16,691**	16,533	158	No significant difference
Other assets	**255**	322	(67)	No significant difference
Liabilities				
Trade and other payables	**365,780**	311,065	54,715	Seasonal nature of operations
Provision for return conditions	**159,370**	155,120	4,250	Increase due to the passage of time
Lease liabilities	**689,564**	665,929	23,635	New aircraft and real estate leases, partially offset by principal repayments
Income taxes payable	**1,660**	4,244	(2,584)	Increase in deductible losses
Derivative financial instruments	**23,963**	12,081	11,882	Unfavourable change in fuel prices related to contracted derivatives
Customer deposits and deferred revenues	**809,059**	561,404	247,655	Seasonal nature of operations combined with higher business volume
Other liabilities	**47,939**	47,444	495	No significant difference
Deferred tax liabilities	**10,758**	9,752	1,006	Increase in temporary differences related to lease liabilities
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Retained earnings	**303,291**	336,993	(33,702)	Net loss
Unrealized gain (loss) on cash flow hedges	**(9,671)**	(9,176)	(495)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(4,609)**	(7,326)	2,717	Foreign exchange gain on translation of financial statements of foreign subsidiaries

1 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

FINANCING

As at March 11, 2020, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50 million revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement 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, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial ratios and conditions. As at January 31, 2020, all financial ratios and conditions were met and the credit facility was undrawn.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $1,284.0 million as at January 31, 2020 ($1,286.4 million as at October 31, 2019) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at January 31, 2020** **$**	**As at October 31, 2019 Restated[(1)]** **$**
Guarantees		
Irrevocable letters of credit	**24,534**	25,375
Collateral security contracts	**474**	472
Leases		
Obligations under leases	**1,258,984**	1,260,579
	1,283,992	1,286,426

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at January 31, 2020, $55.5 million had been drawn down under the facility, of which $51.2 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at January 31, 2020, $23.5 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.7 million ($4.8 million), which has been fully drawn down.

As at January 31, 2020, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, decreased by $2.4 million compared with October 31, 2019. This decrease resulted primarily from the payments made in connection with our seasonal fleet during the period, partially offset by the weakening of the dollar against the U.S. dollar.

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

DEBT LEVELS

The Corporation's total debt, which corresponds to the balance of lease liabilities, stood at $689.6 million as at January 31, 2020, up $23.6 million from October 31, 2019. The increase was mainly due to the addition of aircraft to our fleet during the past twelve months.

Total net debt decreased $93.7 million from $101.1 million as at October 31, 2019 to $7.4 million as at January 31, 2020. The decrease in total net debt resulted from higher cash and cash equivalent balances than as at October 31, 2019, partially offset by the increase in total debt.

OUTSTANDING SHARES

As at January 31, 2020, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at March 6, 2020, there were 37,747,090 total voting shares outstanding.

STOCK OPTIONS

As at March 6, 2020, there were a total of 1,746,570 stock options outstanding, 1,522,170 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), four Airbus A310s (250 seats), five Boeing 737-800s (189 seats), four Airbus A321ceos (199 seats) and two Airbus A321neo LRs (199 seats).

During winter 2020, the Corporation also had seasonal rentals for eight Airbus A321ceos (190 seats) and five Boeing 737-800s (189 seats).

In February 2020, the Corporation took delivery of its third Airbus A321neo LR out of 17 new aircraft to be added to its fleet by 2022.

CHANGES IN ACCOUNTING POLICIES

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2019. There have been no significant changes to the Corporation's accounting policies since that date, except for the adoption of IFRS 16, *Leases*, and IFRIC 23, *Uncertainty over Income Tax Treatments*.

IFRS 16, *LEASES*

IFRS 16, *Leases*, supersedes IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

Considering that the Corporation is committed under numerous leases, the adoption of IFRS 16 has a significant impact on its consolidated financial statements. For its leases, the Corporation recognizes a right-of-use asset and a liability at the present value of future lease payments. Depreciation and amortization of the right-of-use asset and interest expense on the lease liability replaces rent expense related to leases.

IFRS 16 was applied retrospectively on November 1, 2019 with an adjustment to the opening consolidated statement of financial position as at November 1, 2018 and the consolidated statement of loss for the quarter ended January 31, 2019. The accounting policies and the main changes related to the adoption of IFRS 16 are explained in notes 2 and 3, respectively to the interim condensed consolidated financial statements for the quarter ended January 31, 2020.

IFRIC 23, UNCERTAINTY OVER INCOME TAX TREATMENTS

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to be considered in assessing an uncertain tax treatment and determining whether it is probable that a taxation authority will accept the treatment. Application of IFRIC 23 is effective for the Corporation's annual reporting period beginning on November 1, 2019. The adoption of this new IFRIC interpretation has no significant impact on the Corporation's consolidated financial statements.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at January 31, 2020 the design of:

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2020 that have materially affected, or are reasonably likely to materially affect, the ICFR. Management has implemented new internal controls following the adoption of IFRS 16, *Leases*, to ensure that the right-of-use assets and lease liabilities are recorded and reported in accordance with the new standard.

OUTLOOK

Status of second quarter bookings **-** To date, in the sun destinations market, the Corporation's main market for the period, Transat's capacity is higher than the previous year by 5%. 83% of this capacity has been sold and load factors are 1.7% lower than those of 2019. The impact of fluctuations in the Canadian dollar, combined with lower fuel costs, will result in a 0.3% decrease in operating expenses if the Canadian dollar relative to the U.S. dollar and fuel prices remain stable. Unit margins are currently higher by 0.8% compared with the same date last year.

To date, in the transatlantic market, where it is low season, load factors are lower by 1.6% compared to last winter. Prices are comparable to those at the same date last year.

Status of summer bookings - To date, in the transatlantic market, the Corporation's main market during the summer, Transat's capacity is up 3% compared with 2019. Currently, 34% of seats have been sold. Load factors are 1.7% lower and selling prices are down 5.7% compared with the same date last year. Fuel costs, net of fluctuations in the Canadian dollar against the U.S. dollar, the euro and the pound, have triggered a 4.0% decrease in operating expenses to date.

Impact of the coronavirus on outlook - Since February 24, daily bookings are lower than last year's and the difference has increased significantly in recent days. In the current situation, it is impossible to predict the effect on future bookings.

The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed both at ensuring the security and peace of mind of its customers and at preserving its cash flow. The Corporation monitors the situation day by day in order to adjust these measures according to its development.

Consequently, the Corporation will not provide an outlook for the second quarter or for the summer.

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

(in thousands of Canadian dollars)	Notes	As at January 31, 2020 $	As at October 31, 2019 Restated [note 3] $	As at November 1, 2018 Restated [note 3] $
ASSETS				
Cash and cash equivalents		**682,181**	564,844	593,654
Cash and cash equivalents in trust or otherwise reserved	4	**410,505**	301,547	287,735
Trade and other receivables		**147,164**	137,944	133,626
Income taxes receivable		**1,703**	1,423	11,405
Inventories		**14,045**	15,847	14,464
Prepaid expenses		**96,759**	74,489	63,706
Derivative financial instruments		**5,579**	4,870	20,413
Current portion of deposits	5	**17,653**	17,765	20,250
Current assets		**1,375,589**	1,118,729	1,145,253
Cash and cash equivalents reserved	4	**51,224**	51,224	51,184
Deposits	5	**178,922**	166,137	166,026
Income taxes receivable		**15,100**	15,100	15,100
Deferred tax assets		**38,413**	28,148	16,105
Property, plant and equipment	6	**922,620**	891,445	721,504
Intangible assets		**35,250**	36,852	42,689
Derivative financial instruments		**—**	—	84
Investment	7	**16,691**	16,533	16,084
Other assets		**255**	322	186
Non-current assets		**1,258,475**	1,205,761	1,028,962
		2,634,064	2,324,490	2,174,215
LIABILITIES				
Trade and other payables		**365,780**	311,065	312,273
Current portion of provision for return conditions	8	**8,445**	—	—
Current portion of lease liabilities	9	**112,001**	99,814	71,250
Income taxes payable		**1,660**	4,244	1,117
Customer deposits and deferred revenues		**809,059**	561,404	517,352
Derivative financial instruments		**23,787**	10,431	2,766
Current liabilities		**1,320,732**	986,958	904,758
Provision for return conditions	8	**150,925**	155,120	128,528
Lease liabilities	9	**577,563**	566,115	493,920
Other liabilities	10	**47,939**	47,444	41,128
Derivative financial instruments		**176**	1,650	679
Deferred tax liabilities		**10,758**	9,752	11,739
Non-current liabilities		**787,361**	780,081	675,994
EQUITY				
Share capital	11	**221,012**	221,012	219,684
Share-based payment reserve		**15,948**	15,948	18,017
Retained earnings		**303,291**	336,993	362,590
Unrealized gain (loss) on cash flow hedges		**(9,671)**	(9,176)	1,971
Cumulative exchange differences		**(4,609)**	(7,326)	(8,799)
		525,971	557,451	593,463
		2,634,064	2,324,490	2,174,215

See accompanying notes to unaudited interim condensed consolidated financial statements

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

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

(in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended January 31 2020 $	 2019 Restated *[note 3]* $
Revenues		**692,799**	647,566
Operating expenses			
Costs of providing tourism services		**235,463**	241,120
Aircraft fuel		**103,539**	92,569
Salaries and employee benefits		**103,003**	97,985
Sales and distribution costs		**51,894**	51,456
Aircraft maintenance		**50,354**	50,330
Airport and navigation fees		**37,996**	33,849
Aircraft rent		**9,072**	18,613
Other airline costs		**50,238**	47,883
Other		**23,916**	21,395
Share of net income of a joint venture		**(69)**	(174)
Depreciation and amortization		**48,285**	41,160
Special items	*12*	**4,174**	—
		717,865	696,186
Operating income (loss)		**(25,066)**	(48,620)
Financing costs		**10,087**	8,555
Financing income		**(5,461)**	(5,256)
Change in fair value of fuel-related derivatives and other derivatives		**10,784**	18,692
Foreign exchange loss		**3,488**	174
Income (loss) before income tax expense		**(43,964)**	(70,785)
Income taxes (recovery)			
Current		**(1,890)**	(3,531)
Deferred		**(9,112)**	(15,284)
		(11,002)	(18,815)
Net income (loss) for the period		**(32,962)**	(51,970)
Net income (loss) attributable to:			
Shareholders		**(33,805)**	(52,952)
Non-controlling interests		**843**	982
		(32,962)	(51,970)
Earnings (loss) per share	*11*		
Basic		**(0.90)**	(1.41)
Diluted		**(0.90)**	(1.41)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended January 31	
	2020	**2019**
		Restated
		[note 3]
(in thousands of Canadian dollars)	**$**	**$**
Net income (loss) for the period	**(32,962)**	(51,970)
Other comprehensive income (loss)		
Items that will be reclassified to net income (loss)		
Change in fair value of derivatives designated as cash flow hedges	**(1,792)**	(7,848)
Reclassification to net income (loss)	**1,133**	3,977
Deferred taxes	**164**	1,061
	(495)	(2,810)
Foreign exchange gain on translation of financial statements of foreign subsidiaries	**2,717**	1,581
Total other comprehensive income (loss)	**2,222**	(1,229)
Comprehensive income (loss) for the period	**(30,740)**	(53,199)
Comprehensive income (loss) for the period attributable to:		
Shareholders	**(31,842)**	(54,203)
Non-controlling interests	**1,102**	1,004
	(30,740)	(53,199)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings (deficit) Restated *[note 3]*	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Total Restated *[note 3]*	Non-controlling interests Restated *[note 3]*	Total equity Restated *[note 3]*
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2018	219,684	18,017	362,590	1,971	(8,799)	593,463	—	593,463
Net income (loss) for the period	—	—	(52,952)	—	—	(52,952)	982	(51,970)
Other comprehensive income (loss)	—	—	—	(2,810)	1,559	(1,251)	22	(1,229)
Comprehensive income (loss) for the period	—	—	(52,952)	(2,810)	1,559	(54,203)	1,004	(53,199)
Issued from treasury	341	—	—	—	—	341	—	341
Vesting of PSUs	—	(19)	—	—	—	(19)	—	(19)
Share-based payment expense	—	544	—	—	—	544	—	544
Fair value changes in non-controlling interest liabilities	—	—	2,610	—	—	2,610	(2,610)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,628	1,628
Reclassification of non-controlling interest exchange difference	—	—	—	—	22	22	(22)	—
	341	525	2,610	—	22	3,498	(1,004)	2,494
Balance as at January 31, 2019	220,025	18,542	312,248	(839)	(7,218)	542,758	—	542,758
Net income for the period	—	—	20,605	—	—	20,605	1,649	22,254
Other comprehensive income (loss)	—	—	(3,406)	(8,337)	(87)	(11,830)	(21)	(11,851)
Comprehensive income (loss) for the period	—	—	17,199	(8,337)	(87)	8,775	1,628	10,403
Issued from treasury	599	—	—	—	—	599	—	599
Exercise of options	388	(120)	—	—	—	268	—	268
Share-based payment expense	—	1,068	—	—	—	1,068	—	1,068
Reclassification of PSUs as financial liability	—	(3,542)	—	—	—	(3,542)	—	(3,542)
Dividends	—	—	—	—	—	—	(2,892)	(2,892)
Fair value changes in non-controlling interest liabilities	—	—	7,546	—	—	7,546	(7,546)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	8,789	8,789
Reclassification of non-controlling interest exchange difference	—	—	—	—	(21)	(21)	21	—
	987	(2,594)	7,546	—	(21)	5,918	(1,628)	4,290
Balance as at October 31, 2019	221,012	15,948	336,993	(9,176)	(7,326)	557,451	—	557,451
Net income (loss) for the period	—	—	(33,805)	—	—	(33,805)	843	(32,962)
Other comprehensive income (loss)	—	—	—	(495)	2,458	1,963	259	2,222
Comprehensive income (loss) for the period	—	—	(33,805)	(495)	2,458	(31,842)	1,102	(30,740)
Fair value changes in non-controlling interest liabilities	—	—	103	—	—	103	(103)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(740)	(740)
Reclassification of non-controlling interest exchange difference	—	—	—	—	259	259	(259)	—
	—	—	103	—	259	362	(1,102)	(740)
Balance as at January 31, 2020	**221,012**	**15,948**	**303,291**	**(9,671)**	**(4,609)**	**525,971**	**—**	**525,971**

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended January 31	
	2020	2019 Restated *[note 3]*
(in thousands of Canadian dollars)	$	$
OPERATING ACTIVITIES		
Net income (loss) for the period	**(32,962)**	(51,970)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	**48,285**	41,160
Change in fair value of fuel-related derivatives and other derivatives	**10,784**	18,692
Foreign exchange loss	**3,488**	174
Share of net income of a joint venture	**(69)**	(174)
Deferred taxes	**(9,112)**	(15,284)
Employee benefits	**754**	734
Share-based payment expense	**—**	544
	21,168	(6,124)
Net change in non-cash working capital balances related to operations	**160,410**	84,901
Net change in provision for return conditions	**4,250**	5,132
Net change in other assets and liabilities related to operations	**(12,621)**	(998)
Cash flows related to operating activities	**173,207**	82,911
INVESTING ACTIVITIES		
Additions to property, plant and equipment and other intangible assets	**(33,098)**	(39,259)
Proceeds from the disposal of a business, net of cash disposed of	**—**	1,100
Cash flows related to investing activities	**(33,098)**	(38,159)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	**—**	341
Repayment of lease liabilities	**(24,066)**	(19,642)
Cash flows related to financing activities	**(24,066)**	(19,301)
Effect of exchange rate changes on cash and cash equivalents	**1,294**	1,340
Net change in cash and cash equivalents	**117,337**	26,791
Cash and cash equivalents, beginning of period	**564,844**	593,654
Cash and cash equivalents, end of period	**682,181**	620,445
Supplementary information (as reported in operating activities)		
Net income taxes paid (recovered)	**1,009**	344
Interest paid	**221**	186

See accompanying notes to unaudited interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2020 were approved by the Corporation's Board of Directors on March 11, 2020.

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

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements with the exception of the adoption of IFRS 16, *Leases*, and IFRIC 23, *Uncertainty over Income Tax Treatments*, for which the effects are described in note 3. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2019.

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

LEASES

The Corporation is party to leases, primarily for aircraft, aircraft engines, real estate and automotive equipment. Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as leases. At the commencement date of the lease, the Corporation recognizes a right-of-use asset and a lease liability at the present value of future lease payments, using the Corporation's incremental borrowing rate. The Corporation has elected to separate lease and non-lease components of lease agreements.

Initial measurement of lease liabilities includes fixed lease payments and variable lease payments that depend on an index or a rate, during the non-cancellable period of the lease and for extension options reasonably certain to be exercised by the Corporation. The initial value of lease liabilities is reduced by lease incentives receivable.

The initial value of right-of-use assets is obtained through the calculation of lease liabilities. Right-of-use assets are recognized in accordance with IAS 16, *Property, Plant and Equipment* and depreciated over the term of the lease. For the permanent fleet, on initial recognition, right-of-use assets are broken down and eligible maintenance costs are capitalized and depreciated over the shorter of the lease term or expected useful life. Subsequently, eligible maintenance costs over the lease term are capitalized and depreciated over the shorter of the lease term or expected useful life.

The Corporation presents right-of-use assets under Property, plant and equipment and lease liabilities under Lease liabilities in the consolidated statement of financial position. The current portion of lease liabilities is reported under Current liabilities.

Variable lease payments that do not depend on an index or a rate are recognized as a lease expense in the consolidated statement of income (loss). Expenses associated with lease payments under leases with terms of less than 12 months and low-value leases are recognized as lease expenses in the consolidated statement of income (loss) on a straight-line basis over the term of the lease.

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. 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.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

DISCOUNT RATE OF LEASE LIABILITIES

The Corporation uses its incremental borrowing rate to calculate lease liabilities. The Corporation estimates the incremental borrowing rate at 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

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

Note 3 CHANGES IN ACCOUNTING POLICIES

IFRS 16, *LEASES*

IFRS 16, *Leases* supersedes IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

Considering that the Corporation is committed under numerous leases, the adoption of IFRS 16 has a significant impact on its consolidated financial statements. Under its leases, the Corporation recognizes a right-of-use asset and a liability at the present value of future lease payments. Depreciation and amortization of the right-of-use asset and interest expense on the lease liability replaces rent expense related to leases.

IFRS 16 was applied retrospectively on November 1, 2019 with restatement for each prior reporting period presented. The opening consolidated statement of financial position as at November 1, 2018 and the consolidated statement of loss for the period ended on January 31, 2019 have been restated. The Corporation has elected to apply the permitted capitalization exemptions for leases with terms of less than 12 months and leases of low value assets. The accounting policies resulting from the adoption of IFRS 16 are discussed below.

FLEET

As at January 31, 2020, the Corporation operated 31 aircraft under leases [31 and 27 as at October 31, 2019 and 2018, respectively] for which right-of-use assets and lease liabilities will be recognized upon application of IFRS 16; these aircraft are part of the permanent fleet. During the winter season, the Corporation also has aircraft under leases for a period of approximately six months; these aircraft are part of the seasonal fleet. The Corporation has elected to apply the provisions of IFRS 16 for the seasonal fleet to continue to recognize the expenses associated with these leases under Aircraft rent on a straight-line basis over the lease term.

For the permanent fleet, on initial recognition, right-of-use assets are broken down and eligible maintenance costs are capitalized and depreciated over the shorter of the lease term or expected useful life. Subsequently, eligible maintenance costs over the lease term are capitalized and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft decreased and the depreciation expense increased following the adoption of IFRS 16.

All aircraft-related operating leases are denominated in U.S. dollars. The lease obligation in respect of leased aircraft and the provision for return conditions are denominated in U.S. dollars and must be revalued at the prevailing exchange rate as at the reporting date. Accordingly, the volatility of the foreign exchange gain (loss) recognized in the consolidated statement of income (loss) was higher upon application of IFRS 16.

The Corporation is party to leases for aircraft engines. Right-of-use assets and lease liabilities are recognized under IFRS 16 in respect of such leases, except for leases with terms of less than 12 months and leases of low value assets.

REAL ESTATE AND OTHER LEASES

The Corporation is party to real estate leases, in particular for spaces in airports, offices and travel agencies. Right-of-use assets and lease liabilities are recognized under IFRS 16 in respect of such leases, except for leases with terms of less than 12 months and leases with substantial substitution rights.

The Corporation is party to equipment leases, including automotive equipment. Right-of-use assets and lease liabilities are recognized under IFRS 16 in respect of such leases, except for short-term leases and leases of low value assets.

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 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. 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. 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.

STATEMENT OF INCOME (LOSS) PRESENTATION

Statement of income (loss) presentation was also amended to better reflect the nature of operating expenses. Certain operating expenses formerly reported under Other air costs are now reported under Airport and navigation fees. This change in consolidated statement of income (loss) presentation had no impact on operating results.

IMPACT ON PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The cumulative effect of the adoption of IFRS 16 on the consolidated statement of financial position, the consolidated statement of income (loss) and the consolidated statement of cash flows is detailed in the following tables.

Consolidated statements of financial position (in thousands of Canadian dollars)	**As at November 1, 2018** **$**	**Fleet** **$**	**Real estate and other** **$**	**As at November 1, 2018 After adjustments** **$**
ASSETS				
Trade and other receivables	139,979	(7,339)	986	133,626
Prepaid expenses	68,890	(5,165)	(19)	63,706
Current assets	1,156,790	(12,504)	967	1,145,253
Deposits	41,742	124,284	—	166,026
Deferred tax assets	14,954	(270)	1,421	16,105
Property, plant and equipment	201,478	481,745	38,281	721,504
Other assets	26,685	(26,310)	(189)	186
Non-current assets	410,000	579,449	39,513	1,028,962
	1,566,790	566,945	40,480	2,174,215
LIABILITIES				
Trade and other payables	320,732	(7,710)	(749)	312,273
Current portion of provision for overhaul of leased aircraft	27,313	(27,313)	—	—
Current portion of lease liabilities	—	58,570	12,680	71,250
Current liabilities	869,280	23,547	11,931	904,758
Provision for overhaul of leased aircraft	29,915	(29,915)	—	—
Provision for return conditions	—	128,528	—	128,528
Lease liabilities	—	454,499	39,421	493,920
Other liabilities	92,025	(41,429)	(9,468)	41,128
Deferred tax liabilities	3,252	8,220	267	11,739
Non-current liabilities	125,871	519,903	30,220	675,994
EQUITY				
Retained earnings	340,766	23,495	(1,671)	362,590
	571,639	23,495	(1,671)	593,463
	1,566,790	566,945	40,480	2,174,215

Consolidated statements of financial position

(in thousands of Canadian dollars)	As at October 31, 2019 $	Fleet $	Real estate and other $	As at October 31, 2019 After adjustments $
ASSETS				
Trade and other receivables	137,449	283	212	137,944
Prepaid expenses	83,822	(9,333)	—	74,489
Current assets	1,127,567	(9,050)	212	1,118,729
Deposits	41,226	124,911	—	166,137
Deferred tax assets	27,209	(270)	1,209	28,148
Property, plant and equipment	235,161	603,288	52,996	891,445
Other assets	34,055	(33,599)	(134)	322
Non-current assets	457,360	694,330	54,071	1,205,761
	1,584,927	685,280	54,283	2,324,490
LIABILITIES				
Trade and other payables	315,395	(3,304)	(1,026)	311,065
Current portion of provision for overhaul of leased aircraft	27,151	(27,151)	—	—
Current portion of lease liabilities	—	88,214	11,600	99,814
Current liabilities	918,625	57,759	10,574	986,958
Provision for overhaul of leased aircraft	31,097	(31,097)	—	—
Provision for return conditions	—	155,120	—	155,120
Lease liabilities	—	514,235	51,880	566,115
Other liabilities	97,498	(42,206)	(7,848)	47,444
Deferred tax liabilities	1,274	8,172	306	9,752
Non-current liabilities	131,519	604,224	44,338	780,081
EQUITY				
Retained earnings	314,325	23,297	(629)	336,993
	534,783	23,297	(629)	557,451
	1,584,927	685,280	54,283	2,324,490

Consolidated statements of income Quarter ended January 31 (in thousands of Canadian dollars, except per share amounts)	2019	Fleet $	Real estate and other $	Presentation $	2019 After adjustments $
Revenues	647,566	—	—	—	647,566
Operating expenses					
Aircraft maintenance	58,496	(8,166)	—	—	50,330
Airport and navigation fees	29,324	—	—	4,525	33,849
Aircraft rent	38,596	(19,983)	—	—	18,613
Other airline costs	50,897	1,511	—	(4,525)	47,883
Other	24,935	—	(3,540)	—	21,395
Depreciation and amortization	14,917	23,899	2,344	—	41,160
	700,121	(2,739)	(1,196)	—	696,186
Operating income (loss)	(52,555)	2,739	1,196	—	(48,620)
Financing costs	395	7,451	709	—	8,555
Foreign exchange (gain) loss	(32)	205	1	—	174
Income (loss) before income tax expense	(66,354)	(4,917)	486	—	(70,785)
Income taxes (recovery)					
Deferred	(14,164)	(1,243)	123	—	(15,284)
	(17,695)	(1,243)	123	—	(18,815)
Net income (loss) for the period	(48,659)	(3,674)	363	—	(51,970)
Net income (loss) attributable to:					
Shareholders	(49,646)	(3,674)	368	—	(52,952)
Non-controlling interests	987	—	(5)	—	982
	(48,659)	(3,674)	363	—	(51,970)
Earnings (loss) per share					
Basic	(1.32)	(0.10)	0.01	—	(1.41)
Diluted	(1.32)	(0.10)	0.01	—	(1.41)

Consolidated statements of income Year ended October 31 (in thousands of Canadian dollars, except per share amounts)	2019 $	Fleet $	Real estate and other $	Presentation $	2019 After adjustments $
Revenues	2,937,130	—	—	—	2,937,130
Operating expenses					
Aircraft maintenance	279,283	(49,374)	—	—	229,909
Airport and navigation fees	158,618	—	—	17,215	175,833
Aircraft rent	143,784	(96,981)	—	—	46,803
Other airline costs	262,477	6,298	—	(17,215)	251,560
Other	105,304	—	(14,381)	—	90,923
Depreciation and amortization	64,078	108,054	10,189	—	182,321
	2,986,913	(32,003)	(4,192)	—	2,950,718
Operating income (loss)	(49,783)	32,003	4,192	—	(13,588)
Financing costs	1,520	33,501	2,914	—	37,935
Foreign exchange (gain) loss	140	(1,252)	2	—	(1,110)
Income (loss) before income tax expense	(38,766)	(246)	1,276	—	(37,736)
Income taxes (recovery)					
Deferred	(9,250)	(48)	250	—	(9,048)
	(8,222)	(48)	250	—	(8,020)
Net income (loss) for the year	(30,544)	(198)	1,026	—	(29,716)
Net income (loss) attributable to:					
Shareholders	(33,191)	(198)	1,042	—	(32,347)
Non-controlling interests	2,647	—	(16)	—	2,631
	(30,544)	(198)	1,026	—	(29,716)
Earnings (loss) per share					
Basic	(0.88)	(0.01)	0.03	—	(0.86)
Diluted	(0.88)	(0.01)	0.03	—	(0.86)

Consolidated Statements of Cash Flows Quarter ended January 31 (in thousands of Canadian dollars)	2019 $	Fleet $	Real estate and other $	2019 After adjustments $
OPERATING ACTIVITIES				
Net income (loss) for the period	(48,659)	(3,674)	363	(51,970)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	14,917	23,899	2,344	41,160
Foreign exchange (gain) loss	(32)	205	1	174
Deferred taxes	(14,164)	(1,243)	123	(15,284)
	(28,142)	19,187	2,831	(6,124)
Net change in non-cash working capital balances related to operations	93,440	(12,003)	3,464	84,901
Net change in provision for overhaul of leased aircraft	(3,895)	3,895	—	—
Net change in provision for return conditions	—	5,132	—	5,132
Net change in other assets and liabilities related to operations	(6,900)	9,038	(3,136)	(998)
Cash flows related to operating activities	54,503	25,249	3,159	82,911
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	(30,493)	(8,766)	—	(39,259)
Cash flows related to investing activities	(29,393)	(8,766)	—	(38,159)
FINANCING ACTIVITIES				
Repayment of lease liabilities	—	(16,483)	(3,159)	(19,642)
Cash flows related to financing activities	341	(16,483)	(3,159)	(19,301)
Effect of exchange rate changes on cash and cash equivalents	1,340	—	—	1,340
Net change in cash and cash equivalents	26,791	—	—	26,791
Cash and cash equivalents, beginning of period	593,654	—	—	593,654
Cash and cash equivalents, end of period	620,445	—	—	620,445

Consolidated Statements of Cash Flows Year ended October 31 (en milliers de dollars canadiens)	2019 $	Fleet $	Real estate and other $	2019 After adjustments $
OPERATING ACTIVITIES				
Net income (loss) for the year	(30,544)	(198)	1,026	(29,716)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	64,078	108,054	10,189	182,321
Foreign exchange (gain) loss	140	(1,252)	2	(1,110)
Deferred taxes	(9,250)	(48)	250	(9,048)
	38,868	106,556	11,467	156,891
Net change in non-cash working capital balances related to operations	33,105	712	189	34,006
Net change in provision for overhaul of leased aircraft	1,020	(1,020)	—	—
Net change in provision for return conditions	—	26,592	—	26,592
Net change in other assets and liabilities related to operations	(8,918)	5,885	1,565	(1,468)
Cash flows related to operating activities	64,075	138,725	13,221	216,021
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	(92,277)	(71,656)	—	(163,933)
Cash flows related to investing activities	(92,123)	(71,656)	—	(163,779)
FINANCING ACTIVITIES				
Repayment of lease liabilities	—	(67,069)	(13,221)	(80,290)
Cash flows related to financing activities	(1,703)	(67,069)	(13,221)	(81,993)
Effect of exchange rate changes on cash and cash equivalents	941	—	—	941
Net change in cash and cash equivalents	(28,810)	—	—	(28,810)
Cash and cash equivalents, beginning of year	593,654	—	—	593,654
Cash and cash equivalents, end of year	564,844	—	—	564,844

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to be considered in assessing an uncertain tax treatment and determining whether it is probable that a taxation authority will accept the treatment. Application of IFRIC 23 became effective for the Corporation's annual reporting period beginning on November 1, 2019. Adoption of this new IFRIC interpretation had no material impact on the Corporation's consolidated financial statements.

Note 4 Cash and cash equivalents in trust or otherwise reserved

As at January 31, 2020, cash and cash equivalents in trust or otherwise reserved included $401,326 [$292,134 as at October 31, 2019] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $60,403, $51,224 of which was recorded as non-current assets [$60,637 as at October 31, 2019, $51,224 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 5 DEPOSITS

	As at January 31, 2020 $	As at October 31, 2019 Restated *[note 3]* $
Deposits for maintenance to lessors	**135,616**	124,911
Deposits on leased aircraft and engines	**40,599**	38,415
Deposits with suppliers	**20,360**	20,576
	196,575	183,902
Less current portion	**17,653**	17,765
	178,922	166,137

Note 6 PROPERTY, PLANT AND EQUIPMENT

	Fleet	Aircraft equipment	Office furniture and equipment	building and leasehold improvements	Right of use Fleet	Right of use Real estate and other	Total
	$	$	$	$	$	$	$
Cost							
Balance as at October 31, 2019	**328,737**	**125,102**	**60,037**	**115,558**	**1,344,885**	**130,256**	**2,104,575**
Additions	**4,413**	**18,144**	**1,816**	**587**	**26,911**	**23,953**	**75,824**
Write-offs	**(40,177)**	**(3,018)**	**(67)**	**(138)**	**—**	**—**	**(43,400)**
Exchange difference	**—**	**—**	**60**	**468**	**—**	**95**	**623**
Balance as at January 31, 2020	**292,973**	**140,228**	**61,846**	**116,475**	**1,371,796**	**154,304**	**2,137,622**
Accumulated depreciation							
Balance as at October 31, 2019	**250,001**	**74,717**	**40,388**	**29,167**	**741,597**	**77,260**	**1,213,130**
Depreciation	**5,554**	**2,369**	**1,093**	**872**	**32,756**	**2,559**	**45,203**
Write-offs	**(40,177)**	**(3,018)**	**(67)**	**(138)**	**—**	**—**	**(43,400)**
Exchange difference	**—**	**—**	**9**	**—**	**—**	**60**	**69**
Balance as at January 31, 2020	**215,378**	**74,068**	**41,423**	**29,901**	**774,353**	**79,879**	**1,215,002**
Net book value as at January 31, 2020	**77,595**	**66,160**	**20,423**	**86,574**	**597,443**	**74,425**	**922,620**

	Fleet	Aircraft equipment	Office furniture and equipment	Land, building and leasehold improvements	Right of use Fleet Restated *[note 3]*	Right of use Real estate and other Restated *[note 3]*	Total Restated *[note 3]*
	$	$	$	$	$	$	$
Cost							
Balance as at October 31, 2018	339,093	118,679	53,102	96,123	1,152,517	105,460	1,864,974
Additions	24,807	27,730	10,634	19,926	229,595	24,999	337,691
Write-offs	(35,163)	(21,307)	(3,601)	(352)	(37,227)	(136)	(97,786)
Exchange difference	—	—	(98)	(139)	—	(67)	(304)
Balance as at October 31, 2019	328,737	125,102	60,037	115,558	1,344,885	130,256	2,104,575
Accumulated depreciation							
Balance as at October 31, 2018	251,348	88,238	38,335	27,598	670,770	67,181	1,143,470
Depreciation	33,816	7,786	5,711	1,930	108,054	10,189	167,486
Write-offs	(35,163)	(21,307)	(3,601)	(352)	(37,227)	(136)	(97,786)
Exchange difference	—	—	(57)	(9)	—	26	(40)
Balance as at October 31, 2019	250,001	74,717	40,388	29,167	741,597	77,260	1,213,130
Net book value as at October 31, 2019	78,736	50,385	19,649	86,391	603,288	52,996	891,445

Note 7 INVESTMENT

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

	$
Balance as at October 31, 2019	**16,533**
Share of net income	**69**
Translation adjustment	**89**
Balance as at January 31, 2020	**16,691**

The investment was translated at the USD/CAD closing rate of 1.3222 as at January 31, 2020 [1.3142 as at October 31, 2019].

Note 8 PROVISION FOR RETURN CONDITIONS

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

	As at January 31, 2020 $	**As at October 31, 2019 Restated** *[note 3]* $
Opening balance	**155,120**	128,528
Additional provisions	**3,620**	16,127
Change in estimate	**—**	7,085
Accretion	**630**	3,380
Closing balance	**159,370**	155,120
Current provisions	**8,445**	—
Non-current provisions	**150,925**	155,120
Closing balance	**159,370**	155,120

Note 9 LONG-TERM DEBT AND LEASE LIABILITIES

LONG-TERM DEBT

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement 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, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial ratios and conditions. As at January 31, 2020, all financial ratios and conditions were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at January 31, 2020, $55,491 had been drawn down under the facility [$55,848 as at October 31, 2019], $51,224 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

LEASE LIABILITIES

The following table details the maturities and discount rates related to lease liabilities as at January 31, 2020 and October 31, 2019:

	Final Maturity	Weighted Average Interest Rate	As at January 31, 2020	As at October 31, 2019 Restated *[note 3]*
		%	$	$
Fleet	2020-2031	5.44	**731,632**	602,449
Real estate and other	2020-2037	5.55	**120,802**	63,480
Lease liabilities		5.46	**852,434**	665,929

Interest expense as at January 31, 2020 and 2019 is detailed as follows:

	Quarters ended January 31, 2020	
	2020	2019 Restated *[note 3]*
	$	$
Interest on lease liabilities	**8,939**	7,315
Accretion on provision for return conditions	**630**	845
Other interest	**518**	395
Financing costs	**10,087**	8,555

Lease expense as at January 31, 2020 and 2019 is detailed as follows:

	Quarters ended January 31, 2020	
	2020	2019 Restated *[note 3]*
	$	$
Variable lease payments	**2,640**	3,301
Short-term leases	**6,432**	15,312
Aircraft rent	**9,072**	18,613
Variable lease payments	**1,127**	1,132
Short-term leases	**1,276**	1,081
Low value leases	**162**	55
	11,637	20,881

CASH FLOWS RELATED TO LEASE LIABILITIES-

The following table details cash flows related to repayment of lease liabilities for the quarter ended January 31, 2020:

	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2019	—	—	**665,929**
Repayments	(24,066)	—	**(24,066)**
New lease liabilities (new contracts and amendments)	—	44,083	**44,083**
Exchange difference	—	3,618	**3,618**
Balance as at January 31, 2020	**(24,066)**	**47,701**	**689,564**

MATURITIES OF LEASE LIABILITIES

Repayment of principal and interest on lease liabilities as at January 31, 2020 is detailed as follows: Lease liabilities denominated in U.S. dollars are translated at the USD/CAD closing rate of 1.3222 as at January 31, 2020:

Year ended October 31	2020 $	2021 $	2022 $	2023 $	2024 $	2025 and up $	Total $
Fleet	102,475	126,494	105,231	93,730	73,174	230,528	**731,632**
Real estate and other	10,792	12,636	8,656	8,589	7,984	72,145	**120,802**
Lease liabilities	**113,267**	**139,130**	**113,887**	**102,319**	**81,158**	**302,673**	**852,434**

Note 6 provides the information required for right-of-use assets and depreciation. Note 14 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 10 OTHER LIABILITIES

	As at January 31, 2020 $	As at October 31, 2019 Restated *[note 3]* $
Employee benefits	**47,495**	46,986
Other liabilities	**444**	458
	47,939	47,444

Note 11 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled only by Canadians as defined by the CTA and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation. Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	$
Balance as at October 31, 2018	37,545,335	219,684
Issued from treasury	59,816	341
Balance as at January 31, 2019	37,605,151	220,025
Issued from treasury	110,046	599
Exercise of options	31,893	388
Balance as at October 31, 2019	37,747,090	221,012
Balance as at January 31, 2020	**37,747,090**	**221,012**

As at January 31, 2020, the number of Class A Shares and Class B Shares stood at 4,828,337 and 32,918,753, respectively [4,243,821 and 33,503,269, respectively, as at October 31, 2019].

STOCK OPTION PLAN

	Number of options	Weighted average price ($)
Balance as at October 31, 2019	1,748,570	10.15
Cancelled	(2,000)	19.24
Balance as at January 31, 2020	**1,746,570**	**10.14**
Options exercisable as at January 31, 2020	**1,522,170**	**10.07**

EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Quarters ended January 31	
	2020	2019
		Restated *[note 3]*
(in thousands, except per share data)	$	$
NUMERATOR		
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	**(33,805)**	(52,952)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,747**	37,572
Effect of dilutive securities		
Stock options	**—**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,572
Earnings (loss) per share		
Basic	**(0.90)**	(1.41)
Diluted	**(0.90)**	(1.41)

Given the net losses recognized for the quarters ended January 31, 2020 and 2019, all 1,746,570 and 1,784,547 outstanding stock options, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 12 REVENUES

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

	Quarters ended January 31	
	2020	**2019**
	$	**$**
Customers		
Transatlantic	**87,449**	68,847
Americas	**589,100**	560,387
Other	**16,250**	18,332
Total revenues	**692,799**	647,566

Note 13 SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items. For the quarter ended January 31, 2020, professional fees of $1,206 and compensation expenses of $2,968 were recorded in connection with the transaction with Air Canada. 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 subsequent to the significant rise in the share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period.

Note 14 COMMITMENTS

As at January 31, 2020, the Corporation was party to agreements to lease 15 Airbus A321neos for delivery from 2020 to 2022. The Corporation also had purchase obligations under various contracts with suppliers, in particular related to hotel rooms and information technology service contracts entered into in the normal course of business. The following table presents the minimum payments due under leases for aircraft to be delivered over the next few years as well as the purchase obligations:

Year ended October 31	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and up**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Leases (aircraft)	32,907	80,439	100,727	103,645	103,645	837,621	**1,258,984**
Purchase obligations	19,343	8,231	7,291	4,280	2,722	4,825	**46,692**
	52,250	**88,670**	**108,018**	**107,925**	**106,367**	**842,446**	**1,305,676**

Note 15 GUARANTEES

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

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

Notes 7, 9, 17, 24 and 25 to the consolidated financial statements for the year ended October 31, 2019 provide information about some of these agreements. The following constitutes additional disclosure.

LEASES

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases expire at various dates through 2037. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance coverage in such circumstances.

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2020, the total amount of these guarantees unsecured by deposits amounted to $474. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2020, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

In addition, the Corporation has a guarantee facility that is renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50,000. As at January 31, 2020, an amount of $23,507 had been drawn down under the facility.

Note 16 SEGMENTED DISCLOSURE

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

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