# TRANSAT A.T. INC.
# THIRD QUARTERLY REPORT
**Period ended July 31, 2022**

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**Ticker symbol**
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# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2022, compared with the quarter ended July 31, 2021, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2021 and accompanying notes and the 2021 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2021 Annual Report. The risks and uncertainties set out in the MD&A of the 2021 Annual Report are herein incorporated by reference and remain substantially unchanged. Unless otherwise indicated, the information contained herein is dated as of September 7, 2022. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2022 and the Annual Information Form for the year ended October 31, 2021.

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

## 1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

As at July 31, 2022, a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. The MD&A's Section 7. Financial position, liquidity and capital resources and Note 2 to the interim condensed consolidated financial statements contain more detail on this issue.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions introduced by numerous countries, vaccination and testing requirements in Canada and in other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the summer 2022 season, the Corporation has also deployed a further reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter, the Corporation cannot yet predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of certain restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2023.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2021 Annual Report.

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

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

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.
- The outlook whereby, subject to going concern uncertainty as discussed in Section 7. Financial position, liquidity and capital resources of the MD&A and Note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

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

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

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

## 2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

| | |
|---|---|
| **Adjusted operating income (loss)** | Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring charge 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 net income (loss)** | Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on long-term debt modification, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums 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 lease liabilities, deferred government grant and liability related to warrants, net of deferred financing cost related to the unsecured debt - LEEFF. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations. |
| **Total net debt** | Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations. |

As the Corporation has ceased to recognize deferred tax assets, the presentation of the adjusted loss before tax expense has been suspended, this result being similar to the adjusted net loss, which continues to be presented.

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

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| (in thousands of Canadian dollars, except per share amounts) | **2022 $** | **2021 $** | **2022 $** | **2021 $** |
| Operating loss | **(93,218)** | (98,368) | **(254,572)** | (282,896) |
| Special items | **—** | 85 | **—** | 7,256 |
| Depreciation and amortization | **38,173** | 47,355 | **112,144** | 120,117 |
| Premiums related to fuel-related derivatives and other derivatives matured during the period | **(2,779)** | — | **(2,779)** | — |
| **Adjusted operating loss** | **(57,824)** | (50,928) | **(145,207)** | (155,523) |
| | | | | |
| Net loss attributable to shareholders | **(106,472)** | (138,125) | **(319,093)** | (268,220) |
| Special items | **—** | 85 | **—** | 7,256 |
| Change in fair value of fuel-related derivatives and other derivatives | **6,908** | (2,062) | **8,628** | (10,691) |
| Revaluation of liability related to warrants | **(14,506)** | 9,435 | **(13,697)** | 10,192 |
| Gain on long-term debt modification | **—** | — | **(22,191)** | — |
| Loss (gain) on asset disposals | **13** | (913) | **(4,005)** | (19,810) |
| Foreign exchange (gain) loss | **(1,706)** | 15,939 | **27,715** | (46,704) |
| Premiums related to fuel-related derivatives and other derivatives matured during the period | **(2,779)** | — | **(2,779)** | — |
| Tax recovery on ABCP losses | **(2,359)** | — | **(2,359)** | — |
| **Adjusted net loss** | **(120,901)** | (115,641) | **(327,781)** | (327,977) |
| | | | | |
| Adjusted net loss | **(120,901)** | (115,641) | **(327,781)** | (327,977) |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings per share | **37,795** | 37,747 | **37,795** | 37,747 |
| **Adjusted net loss per share** | **(3.20)** | (3.06) | **(8.67)** | (8.69) |

| (in thousands of dollars) | **As at July 31, 2022 $** | **As at October 31, 2021 $** |
|---|---|---|
| Long-term debt | **649,545** | 463,180 |
| Deferred government grant | **174,193** | 167,394 |
| Liability related to warrants | **32,652** | 36,557 |
| Deferred financing costs | **(12,406)** | (19,368) |
| Lease liabilities | **1,047,230** | 956,358 |
| **Total debt** | **1,891,214** | 1,604,121 |
| | | |
| Total debt | **1,891,214** | 1,604,121 |
| Cash and cash equivalents | **(411,349)** | (433,195) |
| **Total net debt** | **1,479,865** | 1,170,926 |

# 3. FINANCIAL HIGHLIGHTS

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars, except per share amounts) | 2022 $ | 2021 $ | Difference $ | Difference % | 2022 $ | 2021 $ | Difference $ | Difference % |
| **Consolidated Statements of Income (Loss)** | | | | | | | | |
| Revenues | **508,304** | 12,548 | 495,756 | 3,950.9 | **1,068,899** | 62,037 | 1,006,862 | 1,623.0 |
| Operating loss | **(93,218)** | (98,368) | 5,150 | 5.2 | **(254,572)** | (282,896) | 28,324 | 10.0 |
| Net loss attributable to shareholders | **(106,472)** | (138,125) | 31,653 | 22.9 | **(319,093)** | (268,220) | (50,873) | (19.0) |
| Basic loss per share | **(2.82)** | (3.66) | 0.84 | 23.0 | **(8.44)** | (7.11) | (1.33) | (18.7) |
| Diluted loss per share | **(2.82)** | (3.66) | 0.84 | 23.0 | **(8.44)** | (7.11) | (1.33) | (18.7) |
| Adjusted operating loss[1] | **(57,824)** | (50,928) | (6,896) | (13.5) | **(145,207)** | (155,523) | 10,316 | 6.6 |
| Adjusted net loss[1] | **(120,901)** | (115,641) | (5,260) | (4.5) | **(327,781)** | (327,977) | 196 | 0.1 |
| Adjusted net loss per share[1] | **(3.20)** | (3.06) | (0.14) | (4.6) | **(8.67)** | (8.69) | 0.02 | 0.2 |
| **Consolidated Statements of Cash Flows** | | | | | | | | |
| Operating activities | **(62,724)** | (283,257) | 220,533 | 77.9 | **(117,793)** | (490,187) | 372,394 | 76.0 |
| Investing activities | **(9,992)** | 13,095 | (23,087) | (176.3) | **(25,001)** | 6,107 | (31,108) | (509.4) |
| Financing activities | **(25,189)** | 353,029 | (378,218) | (107.1) | **124,257** | 487,998 | (363,741) | (74.5) |
| Effect of exchange rate changes on cash and cash equivalents | **(1,956)** | 369 | (2,325) | (630.1) | **(3,309)** | (974) | (2,335) | (239.7) |
| Net change in cash and cash equivalents | **(99,861)** | 83,236 | (183,097) | (220.0) | **(21,846)** | 2,944 | (24,790) | (842.1) |

| | As at July 31, 2022 $ | As at October 31, 2021 $ | Difference $ | Difference % |
|---|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | | |
| Cash and cash equivalents | **411,349** | 433,195 | (21,846) | (5.0) |
| Cash and cash equivalents in trust or otherwise reserved (current and non-current) | **244,726** | 170,311 | 74,415 | 43.7 |
| | **656,075** | 603,506 | 52,569 | 8.7 |
| Total assets | **2,310,559** | 1,897,658 | 412,901 | 21.8 |
| Debt (current and non-current) | **649,545** | 463,180 | 186,365 | 40.2 |
| Total debt [1] | **1,891,214** | 1,604,121 | 287,093 | 17.9 |
| Total net debt [1] | **1,479,865** | 1,170,926 | 308,939 | 26.4 |

[1] See Non-IFRS Financial Measures section

# 4. HIGHLIGHTS OF THE QUARTER

## IMPACT OF THE COVID-19 PANDEMIC

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions introduced by numerous countries, vaccination and testing requirements in Canada and in other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the summer 2022 season, the Corporation has also deployed a further reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter, the Corporation cannot yet predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of certain restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2023.

Preserving cash is a priority for the Corporation. During the nine-month period ended July 31, 2022, the Corporation took the following actions with respect to the COVID-19 pandemic and other opportunities are being evaluated to achieve this objective:

- On March 9, 2022, the Corporation renegotiated certain financing agreements with the Government of Canada. The financing agreement for the unsecured debt - LEEFF was amended to, among other things, defer the increase in interest rates as well as the date at which 50% of vested warrants would be forfeited if the financing were to be repaid before December 31, 2023. The unsecured credit facility related to travel credits was also amended to increase the amount that can be drawn by $43.3 million.

- On July 29, 2022, the Corporation secured an additional $100.0 million through the LEEFF on the same terms and conditions as amended on March 9, 2022. This agreement will provide the Corporation with access to an additional $100.0 million in liquidity. Of this additional liquidity, $80.0 million is in addition to the unsecured LEEFF financing and $20.0 million is in addition to the secured LEEFF financing. In connection with the arrangement of this additional financing, the Corporation has agreed with all lenders to extend the maturities originally scheduled for April 29, 2023 to April 29, 2024. The Corporation has also agreed to extend the date by which the Corporation must comply with certain financial covenants to October 29, 2023 (previously October 30, 2022). In addition, as provided for under the terms of the LEEFF financing, a total of 4,687,500 warrants to purchase an equivalent number of shares of Transat at an exercise price of $3.20 per share were also issued under the renegotiated terms on March 9, 2022.

- The changes to the LEEFF financing negotiated on July 29, 2022 also provide the Corporation with an additional credit facility of up to $50.0 million subject to certain preconditions to be satisfied on or before July 29, 2023, including obtaining additional third party financing.

- During the nine-month period ended July 31, 2022, the Corporation drew down $213.2 million under credit facilities related to the LEEFF. As described in the Financing section, the available financing therefore represents a maximum of $963.3 million, of which $863.2 million was drawn as at July 31, 2022.

- During the nine-month period, one Airbus A330 was returned to lessors early.

- The Corporation continuously adjusts its flight program as the situation evolves. The lingering effects of the Omicron variant and the restrictive measures put in place by the federal government on December 15, 2021 have impacted bookings and cancellation requests. As a result, during the first quarter, the Corporation cancelled nearly 30% of flights scheduled from January to the end of February. In addition, at the beginning of February, the Corporation cancelled more winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity. The easing of global travel restrictions has led to an increase in demand. Since then, the Corporation has begun to resume its flight schedule for the summer season to a large extent.

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

- The Corporation continues to benefit from government grants for businesses affected by COVID-19. The Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") have been replaced by the Government of Canada with two new programs, the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP"). These two programs, which ended on May 7, 2022, provided salaries and rent support.

- As at July 31, 2022, cash and cash equivalents totalled $411.3 million.

### CODESHARE AND VIRTUAL INTERLINING AGREEMENTS

- In March 2022, the Corporation entered into a codeshare agreement with Porter Airlines which is expected to be implemented in the fall of 2022.

- In April 2022, the Corporation announced the addition of virtual interlining agreements with Azores Airlines, Longanair and SKY Express to its connectair by Air Transat platform. These are in addition to those already in place with EasyJet, Vueling, Avianca and Pascan, bringing the total number of destinations available to over 240.

- In May 2022, the Corporation opened bookings under the codeshare agreement with WestJet in the transatlantic market.

### EXTENSION OF THE PILOTS' COLLECTIVE AGREEMENT

In May 2022, the Corporation entered into an agreement with the Air Line Pilots Association, International (ALPA), which represents all of its pilots, extending the term of its current collective agreement by three years.

## 5. OVERVIEW

### CORE BUSINESS

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

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

# 6. CONSOLIDATED OPERATIONS

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | Difference | Difference | 2022 | 2021 | Difference | Difference |
| (in thousands of dollars) | $ | $ | $ | % | $ | $ | $ | % |
| **Revenues** | **508,304** | 12,548 | 495,756 | 3,950.9 | **1,068,899** | 62,037 | 1,006,862 | 1,623.0 |
| **Operating expenses** | | | | | | | | |
| Aircraft fuel | **205,810** | 183 | 205,627 | 112,364.5 | **323,591** | 9,454 | 314,137 | 3,322.8 |
| Salaries and employee benefits | **91,024** | 25,775 | 65,249 | 253.1 | **197,130** | 74,965 | 122,165 | 163.0 |
| Costs of providing tourism services | **78,060** | 6,593 | 71,467 | 1,084.0 | **283,692** | 21,380 | 262,312 | 1,226.9 |
| Airport and navigation fees | **44,344** | 171 | 44,173 | 25,832.2 | **80,165** | 5,987 | 74,178 | 1,239.0 |
| Aircraft maintenance | **32,223** | 11,204 | 21,019 | 187.6 | **79,759** | 40,888 | 38,871 | 95.1 |
| Sales and distribution costs | **31,845** | 2,427 | 29,418 | 1,212.1 | **76,805** | 4,883 | 71,922 | 1,472.9 |
| Aircraft rent | **2,386** | — | 2,386 | 100.0 | **5,477** | — | 5,477 | 100.0 |
| Other airline costs | **53,715** | 2,244 | 51,471 | 2,293.7 | **100,924** | 14,412 | 86,512 | 600.3 |
| Other | **23,332** | 14,378 | 8,954 | 62.3 | **62,369** | 41,809 | 20,560 | 49.2 |
| Share of net loss of a joint venture | **610** | 501 | 109 | 21.8 | **1,415** | 3,782 | (2,367) | (62.6) |
| Depreciation and amortization | **38,173** | 47,355 | (9,182) | (19.4) | **112,144** | 120,117 | (7,973) | (6.6) |
| Special items | **—** | 85 | (85) | (100.0) | **—** | 7,256 | (7,256) | (100.0) |
| | **601,522** | 110,916 | 490,606 | 442.3 | **1,323,471** | 344,933 | 978,538 | 283.7 |
| **Operating loss** | **(93,218)** | (98,368) | 5,150 | 5.2 | **(254,572)** | (282,896) | 28,324 | 10.0 |
| Financing costs | **27,158** | 18,069 | 9,089 | 50.3 | **74,088** | 55,239 | 18,849 | 34.1 |
| Financing income | **(3,047)** | (916) | (2,131) | (232.6) | **(5,599)** | (3,472) | (2,127) | (61.3) |
| Change in fair value of fuel-related derivatives and other derivatives | **6,908** | (2,062) | 8,970 | 435.0 | **8,628** | (10,691) | 19,319 | 180.7 |
| Revaluation of liability related to warrants | **(14,506)** | 9,435 | (23,941) | (253.7) | **(13,697)** | 10,192 | (23,889) | (234.4) |
| Gain on long-term debt modification | **—** | — | — | — | **(22,191)** | — | (22,191) | 100.0 |
| Loss (gain) on asset disposals | **13** | (913) | 926 | 101.4 | **(4,005)** | (19,810) | 15,805 | 79.8 |
| Foreign exchange (gain) loss | **(1,706)** | 15,939 | (17,645) | (110.7) | **27,715** | (46,704) | 74,419 | 159.3 |
| **Loss before income tax expense** | **(108,038)** | (137,920) | 29,882 | 21.7 | **(319,511)** | (267,650) | (51,861) | (19.4) |
| **Income taxes (recovery)** | | | | | | | | |
| Current | **(1,566)** | 139 | (1,705) | (1,226.6) | **(418)** | 374 | (792) | (211.8) |
| Deferred | **—** | — | — | — | **—** | 75 | (75) | (100.0) |
| | **(1,566)** | 139 | (1,705) | (1,226.6) | **(418)** | 449 | (867) | (193.1) |
| **Net loss for the period** | **(106,472)** | (138,059) | 31,587 | 22.9 | **(319,093)** | (268,099) | (50,994) | (19.0) |
| | | | | | | | | |
| **Net income (loss) attributable to:** | | | | | | | | |
| Shareholders | **(106,472)** | (138,125) | 31,653 | 22.9 | **(319,093)** | (268,220) | (50,873) | (19.0) |
| Non-controlling interests | **—** | 66 | (66) | (100.0) | **—** | 121 | (121) | (100.0) |
| | **(106,472)** | (138,059) | 31,587 | 22.9 | **(319,093)** | (268,099) | (50,994) | (19.0) |

## REVENUES

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

Compared with 2021, revenues were up $495.8 million for the quarter ended July 31, 2022 and $1,006.9 million for the nine-month period ended July 31, 2022. Compared with the corresponding quarter and nine-month period in fiscal 2019, revenues for the current quarter were down 27.3% and 52.4%, respectively. For the quarter, capacity offered was 82% of that deployed in 2019 across all programs and 68% for Europe, the main program during this period. Overall, the number of travellers were down 24% for the third quarter compared with 2019. The gradual recovery of demand combined with higher fuel prices contributed to the increase in our average selling price compared with 2019. For our Europe program, selling prices increased by an average of 8%.

Revenue growth in winter 2022 was dampened by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant during the first quarter and the new restrictive measures put in place by the federal government on December 15, 2021. As a result, the Corporation initially cancelled nearly 30% of flights scheduled from January to the end of February. In addition, at the beginning of February, the Corporation cancelled additional winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity. For the summer 2022 season, the Corporation has also deployed a further reduced program although much more similar to pre-pandemic levels. Due to the COVID-19 pandemic, demand for the first six months of fiscal 2022 remained well below the 2019 level.

## OPERATING EXPENSES

Total operating expenses were up $490.6 million for the quarter and $978.5 million for the nine-month period, compared with 2021. These increases are attributable to the greater capacity deployed compared with the corresponding periods of 2021 due to higher demand compared with last year.

### Aircraft fuel

Aircraft fuel expense was up $205.6 million for the quarter and $314.1 million for the nine-month period. The increases were attributable to a higher capacity compared with 2021, combined with the significant rise in fuel prices, which rose 112% ($103.3 million) for the quarter and 118% ($165.9 million) for the nine-month period, compared with the corresponding periods of 2021.

### Salaries and employee benefits

Salaries and employee benefits were up $65.2 million for the quarter and $122.2 million for the nine-month period, compared with 2021. Following the gradual resumption of its airline operations since July 2021, the Corporation recalled some of its employees.

Up through April 30, 2022, the Corporation has benefited from wage subsidies for businesses affected by COVID-19 for its personnel in Canada. During the nine-month period ended July 31, 2022, the Corporation made use of the THRP and HHBRP programs, resulting in the recognition of an amount of $24.4 million under these programs. The THRP and HHBRP ended on May 7, 2022. For the quarter and nine-month period ended July 31, 2021, the Corporation made use of the CEWS; amounts of $7.2 million and $27.0 million, respectively, were recognized related to active employees. Lastly, also for the quarter and nine-month period of 2021, amounts of $26.6 million and $74.3 million, respectively, were recorded for inactive employees, which represents salaries paid to them.

### Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. Compared with 2021, these costs increased by $71.5 million for the quarter and by $262.3 million for the nine-month period. The increases primarily resulted from the rise in the number of packages sold compared with 2021.

## Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $44.2 million for the quarter and $74.2 million for the nine-month period, compared with 2021. These increases mainly resulted from the greater capacity deployed compared with the 2021 and higher prices.

## Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. These costs were up $21.0 million for the quarter and $38.9 million for the nine-month period, compared with 2021. These increases were attributable to the greater capacity deployed compared with 2021.

## Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were up $29.4 million for the quarter and $71.9 million for the nine-month period, compared with 2021. The increases were mainly driven by higher revenues. Other factors were the higher advertising expenses due to the gradual resumption of operations, higher commissions related to the increase in package sales and costs related to booking cancellations.

## Aircraft rent

Aircraft rent refers to variable aircraft rent. Aircraft rent was up $2.4 million for the quarter and $5.5 million for the nine-month period, compared with 2021. These increases were attributable to higher capacity compared with 2021.

## Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were up $51.5 million for the quarter and $86.5 million for the nine-month period, compared with 2021. These increases were attributable to higher capacity compared with 2021.

## Other

Other costs were up $9.0 million (62.3%) for the quarter and $20.6 million (49.2%) for the nine-month period, compared with 2021. These increases resulted from higher business volume compared with 2021.

## Share of net income (loss) of a joint venture

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net loss for the third quarter amounted to $0.6 million, compared with $0.5 million for the corresponding quarter of 2021. Our share of net loss for the nine-month period amounted to $1.4 million, compared with $3.8 million for 2021. Operations at our hotel joint venture were substantially scaled down compared with 2021. Moreover, certain assets were impaired during the nine-month period ended July 31, 2021.

## Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was down $9.2 million (19.4%) for the third quarter and $8.0 million (6.6%) for the nine-month period, compared with 2021. The decreases stemmed mainly from the accelerated amortization of certain right-of-use assets related to the fleet that was recorded during the third quarter of 2021. The depreciation and amortization expense also declined due to the decrease in additions to property, plant and equipment and intangible assets resulting from cost reduction measures related to the COVID-19 pandemic, partially offset by the commissioning of four Airbus A321LRs in 2021 and two more in 2022.

## Special items

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | $ | $ | $ | $ |
| **Special items related to the transaction with Air Canada** | | | | |
| Termination payment | — | — | — | (12,500) |
| Professional fees | — | — | — | 6,106 |
| Reversal of compensation expense | — | (1,843) | — | (6,223) |
| | — | (1,843) | — | (12,617) |
| **Other special items** | | | | |
| Impairment of contract costs and other assets | — | 1,928 | — | 19,873 |
| | — | 1,928 | — | 19,873 |
| | — | 85 | — | 7,256 |

### Special items related to the transaction with Air Canada

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

### Other special items

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

## OPERATING RESULTS

Given the above, we reported an operating loss of $93.2 million for the third quarter, compared with $98.4 million in 2021. For the nine-month period, we reported an operating loss of $254.6 million, compared with $282.9 million in 2021.

The improvement in operating results for the nine-month period was attributable to the gradual and partial resumption of flight operations. For both the quarter and the nine-month period, the significant increase in fuel prices greatly dampened the improvement in our results. In addition, at the beginning of February, the Corporation cancelled additional flights for the winter season, reducing the total capacity for the winter season by approximately 22% compared with initially deployed capacity. The Corporation cancelled flights due to the drop in demand and booking cancellations following the emergence of the Omicron variant and restrictive measures put in place by the federal government on December 15, 2021. Due to the COVID-19 pandemic, demand for the winter season remained low and the Corporation's deployed capacity was a fraction of 2019 capacity for the nine-month period of 2022.

For the quarter, the Corporation reported an adjusted operating loss of $57.8 million, compared with $50.9 million in 2021. For the nine-month period, the Corporation reported an adjusted operating loss of $145.2 million compared with $155.5 million in 2021.

## OTHER EXPENSES AND REVENUES

### Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $9.1 million (50.3%) for the third quarter and by $18.8 million (34.1%) for the nine-month period, compared with 2021. The increase resulted from higher debt following the new credit facilities entered into with the Government of Canada through the LEEFF. In 2021, the Corporation had incurred interest expenses, standby and arrangement fees related to the $70.0 million subordinated credit facility.

### Financing income

Financing income was up $2.1 million (232.6%) during the third quarter and $2.1 million (61.3%) for the nine-month period, compared with 2021, mainly due to the increases in average balances of cash and cash equivalents and higher interest rates compared with 2021.

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

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

During the quarter ended July 31, 2022, the Corporation resumed the use of fuel derivatives to mitigate fuel price fluctuations. The Corporation did not hold any foreign exchange derivatives as at July 31, 2022. During the quarter, the fair value of derivative financial instruments related to aircraft fuel purchases decreased by $6.8 million. This decrease is mainly due to the decrease in the fair value of fuel derivatives. During the quarter and nine-month period ended July 31, 2022, the fair value of the pre-payment option related to the LEEFF unsecured financing decreased by $0.1 million and $1.9 million, respectively. During the quarter and nine-month period ended July 31, 2021, the fair value of derivative financial instruments related to aircraft fuel purchases and other derivatives increased by $2.1 million and $10.7 million, respectively.

### Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the quarter ended July 31, 2022, the fair value of warrants decreased by $14.5 million, driven by the lower closing price of the share as at July 31, 2022 compared with the previous quarter. For the nine-month period ended July 31, 2022, the fair value of warrants decreased by $13.7 million, mainly driven by the decline in the closing price of the share from $4.39 to $3.20 between October 31, 2021 and July 31, 2022.

### Gain on long-term debt modification

On March 9, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. The Corporation concluded that the modifications related to the interest under the March 9, 2022 amended agreement were non-substantial as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEEF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The $22.2 million adjustment was recorded as a gain on long-term debt modification.

### Loss (gain) on asset disposals

For the nine-month period ended July 31, 2022, the $4.0 million gain on asset disposal was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4.1 million gain, which resulted from the reversal of lease liabilities of $4.0 million and other assets and liabilities totalling $0.1 million. The carrying amount of the right-of-use asset for this aircraft lease was fully impaired during the year ended October 31, 2021.

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

### Foreign exchange loss (gain)

During the quarter, we recognized a foreign exchange gain of $1.7 million, compared with a foreign exchange loss of $15.9 million in 2021. For the nine-month period, we posted a foreign exchange loss of $27.7 million, compared with a foreign exchange gain of $46.7 million in 2021. For the quarter, the foreign exchange gain was primarily due to the favorable impact of foreign exchange rates on lease liabilities related to aircraft as a result of the appreciation of the dollar against the U.S. dollar. For the nine-month period, the foreign exchange loss was mainly attributable to the unfavourable impact of foreign exchange rates on lease liabilities related to aircraft as a result of the weakening of the dollar against the U.S. dollar.

## INCOME TAXES

Income tax recovery for the third quarter totalled $1.6 million, compared with an income tax expense of $0.1 million for the corresponding quarter of last year. For the nine-month period, the income tax recovery amounted to $0.4 million, compared with an income tax expense of $0.4 million in 2021. Excluding the loss on asset disposals and the share of net income (loss) of a joint venture, the effective tax rate was 1,5% for the quarter and 0.1% for the nine-month period, compared with 0.1% and 0.2%, respectively, for the corresponding periods of 2021. During the quarter, following a settlement agreement with the Canada Revenue Agency on the deductibility of ABCP-related losses, the Corporation recorded an income tax recovery of $2.4 million.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances related to Canadian operations whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the uncertainty as to when the Corporation would return to profitability. Accordingly, during the quarter and the nine-month period ended July 31, 2022, no deferred tax assets of Canadian subsidiaries were recognized.

## NET LOSS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $106.5 million for the quarter ended July 31, 2022, compared with $138.1 million in 2021. For the nine-month period ended July 31, 2022, we reported a net loss of $319.1 million, compared with $268.1 million in 2021.

## NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For the third quarter of fiscal 2022, net loss attributable to shareholders amounted to $106.5 million or $2.82 per share (basic and diluted) compared with $138.1 million or $3.66 per share (basic and diluted) for the corresponding quarter of last year. For the nine-month period, net loss attributable to shareholders amounted to $319.1 million or $8.44 per share (basic and diluted) compared with $268.2 million or $7.11 per share (basic and diluted) for the corresponding period of last year. For the third quarter and nine-month period of 2022, the weighted average number of outstanding shares used to compute per share amounts was 37,795,000 (basic and diluted) compared with 37,747,000 (basic and diluted) for the corresponding periods of 2021.

For the quarter and nine-month periods ended July 31, 2022, adjusted net loss was $120.9 million ($3.20 per share) and $327.8 million ($8.67 per share), respectively, compared with an adjusted net loss of $115.6 million ($3.06 per share) and $328.0 million ($8.69 per share), respectively, for the corresponding periods of 2021.

### SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. For all the quarters reported, revenue growth was attributable to partial and gradual resumption of operations mainly following the gradual easing of health measures that sparked a recovery in demand. The full suspension of our airline operations from April 1 to July 22, 2020 and from January 29, 2021 to July 30, 2021 due to the COVID-19 pandemic, combined with a significant decline in our capacity led to a sharp drop in our revenues in 2020 and 2021, including during the partial resumption of operations. Nevertheless, the recovery in demand continues to gather strength, driving revenue growth.

The improvement in our operating results was driven by the partial and gradual resumption of operations. For the 2020 summer season (Q4), operating results were affected by the special items and the unfavourable settlement of fuel-related derivative contracts. The operating losses for winter 2021 (Q1 and Q2) and the first part of summer 2021 (Q3) were mainly attributable to the suspension of our airline operations combined with a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. For the second part of summer 2021 (Q4), the recovery of demand was stronger in 2021 than in 2020, and continues to grow, and accordingly, operating results improved for the 2021 summer season compared with 2020 and for the 2022 winter season (Q1 and Q2) and summer 2022 (Q3) compared with 2021. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

| **Selected unaudited quarterly financial information** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of dollars, except per share data) | **Q4-2020** $ | **Q1-2021** $ | **Q2-2021** $ | **Q3-2021** $ | **Q4-2021** $ | **Q1-2022** $ | **Q2-2022** $ | **Q3-2022** $ |
| Revenues | 28,426 | 41,920 | 7,569 | 12,548 | **62,781** | **202,438** | **358,157** | **508,304** |
| Operating loss | (239,332) | (98,048) | (86,480) | (98,368) | **(118,326)** | **(73,841)** | **(87,513)** | **(93,218)** |
| Net loss | (238,370) | (60,503) | (69,537) | (138,059) | **(121,339)** | **(114,345)** | **(98,276)** | **(106,472)** |
| Net loss attributable to shareholders | (238,077) | (60,534) | (69,561) | (138,125) | **(121,339)** | **(114,345)** | **(98,276)** | **(106,472)** |
| Basic loss per share | (6.31) | (1.60) | (1.84) | (3.66) | **(3.21)** | **(3.03)** | **(2.60)** | **(2.82)** |
| Diluted loss per share | (6.31) | (1.60) | (1.84) | (3.66) | **(3.21)** | **(3.03)** | **(2.60)** | **(2.82)** |
| Adjusted operating income (loss)[1] | (90,735) | (53,632) | (50,963) | (50,928) | **(58,362)** | **(36,369)** | **(51,014)** | **(57,824)** |
| Adjusted net loss[1] | (156,392) | (109,049) | (103,287) | (115,641) | **(118,400)** | **(95,317)** | **(111,563)** | **(120,901)** |
| Adjusted net loss per share[1] | (4.14) | (2.89) | (2.74) | (3.06) | **(3.14)** | **(2.53)** | **(2.95)** | **(3.20)** |

[1] See non-IFRS financial measures

## 7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

### BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from July 31, 2022. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $319.1 million and generated negative cash flows related to operations totalling $117.8 million for the nine-month period ended July 31, 2022. However, as discussed in Note 9, the Corporation renegotiated its agreement with the Government of Canada in order to borrow up to $843.3 million in additional liquidity through the Large Employer Emergency Financing Facility ("LEEFF"). The ratios applicable to the credit facilities are suspended until October 29, 2023 (previously October 31, 2022). As a result, total available credit amounts to a maximum of $963.3 million, of which $863.2 million was drawn as at July 31, 2022.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada that allows it to borrow additional cash resources up to a maximum of $843.3 million through the LEEFF, bringing total available financing to a maximum of $963.3 million. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios, which will be applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess liquidity needs and the capital structure and is not ruling out any option that could provide greater financial flexibility to the Corporation.

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

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

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

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at July 31, 2022 do not include adjustments to the carrying amount and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

## CONSOLIDATED FINANCIAL POSITION

As at July 31, 2022, cash and cash equivalents totalled $411.3 million compared with $433.2 million as at October 31, 2021. Cash and cash equivalents in trust or otherwise reserved amounted to $244.7 million at the end of the third quarter of 2022, compared with $170.3 million as at October 31, 2021. The Corporation’s statement of financial position reflected working capital of $45.5 million, for a ratio of 1.04, compared with $89.7 million and a ratio of 1.14 as at October 31, 2021.

Total assets increased by $412.9 million (21.8%), from $1,897.7 million as at October 31, 2021 to $2,310.6 million as at July 31, 2022. This increase is explained in the financial position table provided below. Equity decreased by $319.1 million, from a negative amount of $315.1 million as at October 31, 2021 to negative equity of $634.2 million as at July 31, 2022. The deterioration resulted primarily from a $319.1 million net loss attributable to shareholders.

| (in thousands of dollars) | July 31, 2022 $ | October 31, 2021 $ | Difference $ | Main reasons for significant differences |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **411,349** | 433,195 | (21,846) | See Cash flows section |
| Cash and cash equivalents otherwise reserved | **244,726** | 170,311 | 74,415 | Seasonal nature of operations combined with higher business volume |
| Trade and other receivables | **340,912** | 108,857 | 232,055 | Increase in amounts receivable from credit card processors |
| Income taxes receivable | **17,744** | 16,220 | 1,524 | No significant difference |
| Inventories | **19,503** | 10,514 | 8,989 | Increase in inventory of fuel and consumable parts |
| Prepaid expenses | **31,140** | 16,465 | 14,675 | Seasonal nature of operations combined with higher business volume |
| Deposits | **176,898** | 122,174 | 54,724 | Increase in deposits for aircraft maintenance |
| Property, plant and equipment | **1,032,035** | 974,229 | 57,806 | Delivery of two Airbus A321LRs and capitalization of eligible aircraft maintenance partially offset by depreciation for the period |
| Intangible assets | **13,939** | 16,849 | (2,910) | Amortization for the period, partially offset by the acquisitions |
| Derivative financial instruments | **1,320** | — | 1,320 | Purchase of fuel-related derivatives |
| Investment | **8,587** | 9,476 | (889) | Share of net loss of a joint venture |
| Deferred financing costs | **12,406** | 19,368 | (6,962) | Deferred financing costs related to the recent amendments to the LEEFF credit facilities, offset by the full utilization of deferred financing costs related to the initial LEEFF financing |

| (in thousands of dollars) | July 31, 2022 $ | October 31, 2021 $ | Difference $ | Main reasons for significant differences |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Trade and other payables | **281,544** | 141,413 | 140,131 | Seasonal nature of operations combined with higher business volume |
| Income taxes payable | **1,803** | 1,354 | 449 | Increase in amounts due by certain foreign subsidiaries |
| Customer deposits and deferred revenues | **585,641** | 292,158 | 293,483 | Seasonal nature of operations combined with higher business volume |
| Long-term debt and lease liabilities | **1,696,775** | 1,419,538 | 277,237 | Drawdowns on the credit facilities, addition of two new aircraft leases, and weakening of the dollar against the U.S. dollar, partially offset by principal repayments, the gain on long-term debt modification and the early return of an aircraft |
| Provision for return conditions | **143,817** | 126,244 | 17,573 | Increase mainly related to the passage of time |
| Liability related to warrants | **32,652** | 36,557 | (3,905) | Decrease in fair value of warrants during the period, partially offset by the issuance of warrants |
| Deferred government grant | **174,193** | 167,394 | 6,799 | Drawdowns on the credit facility related to travel credits, partially offset by proceeds from government grants during the period |
| Other liabilities | **27,724** | 27,497 | 227 | No significant difference |
| Deferred tax liabilities | **628** | 613 | 15 | No significant difference |
| **Equity** | | | | |
| Share capital | **221,610** | 221,012 | 598 | Shares issued from treasury |
| Share-based payment reserve | **16,036** | 15,948 | 88 | Share-based payment expense |
| Deficit | **(863,974)** | (544,881) | (319,093) | Net loss |
| Cumulative exchange differences | **(7,890)** | (7,189) | (701) | Foreign exchange loss on translation of financial statements of foreign subsidiaries |

## CASH FLOWS

| | Quarters ended July 31 | | | Nine-month periods ended July 31 | | |
|---|---|---|---|---|---|---|
| (in thousands of dollars) | 2022 $ | 2021 $ | Difference $ | 2022 $ | 2021 $ | Difference $ |
| Cash flows related to operating activities | **(62,724)** | (283,257) | 220,533 | **(117,793)** | (490,187) | 372,394 |
| Cash flows related to investing activities | **(9,992)** | 13,095 | (23,087) | **(25,001)** | 6,107 | (31,108) |
| Cash flows related to financing activities | **(25,189)** | 353,029 | (378,218) | **124,257** | 487,998 | (363,741) |
| Effect of exchange rate changes on cash | **(1,956)** | 369 | (2,325) | **(3,309)** | (974) | (2,335) |
| **Net change in cash and cash equivalents** | **(99,861)** | 83,236 | (183,097) | **(21,846)** | 2,944 | (24,790) |

### Operating activities

Operating activities used cash flows of $62.7 million during the third quarter, compared with $283.3 million in 2021. The $220.5 million decrease resulted from the $233.6 million increase in cash flows generated by the net change in non-cash working capital balances related to operations and the $5.8 million increase in the net change in other assets and liabilities related to operations, partially offset by the $11.9 million increase in net loss before operating items not involving an outlay (receipt) of cash and the $6.9 million decrease in the net change in the provision for return conditions.

Cash flows used in operating activities amounted to $117.8 million for the nine-month period compared with $490.2 million in 2021. The decrease resulted mainly from the $393.0 million increase in cash flows generated by the net change in non-cash working capital balances related to operations and the $17.8 million increase in the net change in the provision for return conditions, partially offset by the $27.2 million decrease in the net change in other assets and liabilities related to operations and the $11.3 million increase in net loss before operating items not involving an outlay (receipt) of cash.

In 2021, for both the quarter and the nine-month period, cash flows related to operating activities deteriorated due, among other things, to travel credit refunds made by the Corporation during these periods.

### Investing activities

Cash flows used in investing activities amounted to $10.0 million for the third quarter, compared with cash flows generated of $13.1 million in 2021, representing a decrease of $23.1 million. For the nine-month period, cash flows used in investing activities amounted to $25.0 million compared with cash flows generated of $6.1 million in 2021, representing a decrease of $31.1 million. For the quarter and the nine-month period ended July 31, 2022, additions to property, plant and equipment and intangible assets amounted to $10.0 million and $24.5 million, respectively, and consisted primarily in aircraft maintenance and spare parts, compared with $0.3 million and $4.0 million, respectively, for the corresponding periods of 2021. During the quarter and the nine-month period ended July 31, 2021, cash flows were generated by the decrease in the cash and cash equivalents reserved balance of $28.4 million and $25.5 million, respectively, partially offset by the $15.0 million consideration paid to acquire the 30% interest held by the minority shareholder in TraficTours Canada inc.

### Financing activities

For the third quarter, cash flows used by financing activities amounted to $25.2 million compared with $353.0 million in cash flows generated in 2021, representing a decrease of $378.2 million. During the quarter ended July 31, 2022, the Corporation drew down a total amount of $4.6 million from its credit facilities compared with $365.1 million in 2021. In addition, the Corporation made repayments on its lease liabilities amounting to $24.2 million compared with $12.1 million in 2021.

For the nine-month period, financing activities generated cash flows of $124.3 million, compared with $488.0 million in 2021. During the nine-month ended July 31, 2022, the Corporation made drawdowns on its credit facilities amounting to $213.2 million, compared with $535.0 million in 2021. In addition, the Corporation made repayments on its lease liabilities amounting to $83.6 million compared with $43.7 million in 2021. In 2021, the Corporation was able to negotiate rent deferral with certain lessors.

## FINANCING

### Funding from the Government of Canada

On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada. The new agreement allows it to borrow up to $843.3 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF), an increase of $100.0 million from the original agreement. Under the new agreement, Transat also has access to an additional credit facility of up to $50.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only on an as-needed basis, are as follows:

**Secured debt – LEEFF**

On July 29, 2022, the Corporation renegotiated its secured LEEFF financing agreement in order to borrow additional liquidity of $20.0 million, bringing the total amount of the credit facility to $98.0 million. The maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms of the agreement remain unchanged. The non-revolving facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and continues to bear interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the nine-month period ended July 31, 2022, the Corporation drew down a total amount of $34.0 million. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, an amount of $78.0 million was drawn down [$44.0 million as at October 31, 2021] with a carrying amount of $77.2 million.

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

**Unsecured debt – LEEFF**

On March 9, 2022 and July 29, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Accordingly, on July 29, 2022, the Corporation obtained additional liquidity of $80.0 million, bringing the total unsecured, non-revolving credit facility to $392.0 million. Under the agreement amended on March 9, 2022, the credit facility now bears interest at a rate of 5.0% until December 31, 2023 (previously until April 29, 2022), increasing to 8.0% until December 31, 2024 (previously until April 29, 2023), and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024 (previously until April 29, 2023). The maturity date for the initial amount of $312.0 million of the credit facility remains April 29,2026 while the additional amount of $80.0 million will mature on July 29, 2027. In the event of a change of control, this credit facility becomes immediately due and payable. As at July 31, 2022, the amount drawn down was $312.0 million with a carrying amount of $276.0 million. During the nine-month period ended July 31, 2022, the Corporation drew down a total amount of $136.0 million.

The Corporation concluded that the modifications related to interest under the agreement amended on March 9, 2022 were non-substantial as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEFF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The $22.2 million adjustment was recorded as a gain on long-term debt modification.

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

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

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

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was to be repaid prior to December 31, 2023 (previously April 29, 2022), 50% of the vested warrants would be forfeited.

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

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

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

- a maximum of 9,474,770 warrants could be exercised through the issuance of shares;
- 8,212,730 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

**Unsecured credit facility related to travel credits**

On March 9, 2022, the Corporation renegotiated its agreement with the Government of Canada under the unsecured credit facility related to travel credits in order to borrow additional funds up to a maximum of $43.3 million, bringing the total amount to $353.3 million. The unsecured credit facility was granted to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at July 31, 2022, the credit facility was fully drawn down and its carrying amount stood at $177.3 million. An amount of $174.2 million was also recognized as deferred government grant related to these drawdowns.

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

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

## Other credit facilities

**Revolving credit facility**

On July 29, 2022, the Corporation renegotiated its $50.0 million revolving credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. This agreement can be extended for one year on each anniversary date subject to lender approval. The balance becomes immediately due and payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR (London Interbank Offered Rate) in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and conditions from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, the credit facility was fully drawn.

**Subordinated credit facility**

On July 29, 2022, the Corporation renegotiated its $70.0 million subordinated credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. In the event of a change in control, the agreement becomes immediately due and payable. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or at the financial institution's prime rate, plus a 5.0% premium. Until October 29, 2023 (previously October 31, 2022), an additional compounding premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and conditions from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, the credit facility was fully drawn.

## Off-balance sheet arrangements

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $749.2 million as at July 31, 2022 ($549.8 million as at October 31, 2021) and are detailed as follows:

| **OFF-BALANCE SHEET ARRANGEMENTS**<br>(in thousands of dollars) | **As at July 31, 2022**<br>**$** | **As at October 31, 2021**<br>**$** |
|---|---|---|
| **Guarantees** | | |
| Irrevocable letters of credit | **932** | 6,951 |
| Collateral security contracts | **440** | 425 |
| **Leases** | | |
| Lease obligations | **747,796** | 542,397 |
| | **749,168** | 549,773 |

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

The Corporation has a $74.0 million annually renewable revolving credit facility for issuing letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at July 31, 2022, $54.9 million of the facility was drawn ($38.2 million as at October 31, 2021), including $31.3 million ($30.7 million as at October 31, 2021) to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.4 million ($3.8 million), which has been fully drawn down.

As at July 31, 2022, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $199.4 million compared with October 31, 2021. This increase is primarily due to the signing of an agreement for the lease of three Airbus A321XLRs (the agreement includes an option for the Corporation to lease an additional Airbus A321XLR), the impact of higher interest rates on future rents and the weakening of the dollar against the U.S. dollar.

Subject to going concern uncertainty discussed in Section 7. Financial position, liquidity and capital resources and Note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

### Debt levels

The Corporation reported $649.5 million in long-term debt and $1,047.2 million in lease liabilities on the consolidated statement of financial position.

The Corporation's total debt stood at $1,891.2 million as at July 31, 2022, up $287.1 million from October 31, 2021. The increase was primarily due to a drawdown of $213.2 million from its credit facilities, the addition of two Airbus A321LRs to the fleet and the strengthening of the U.S. dollar against the dollar, partially offset by the repayment of long-term debt and lease liabilities, and the $22.2 million gain on long-term debt modification related to the modification of the LEEFF financing facility.

Total net debt increased by $308.9 million from $1,170.9 million as at October 31, 2021 to $1,479.9 million as at July 31, 2022. The increase in total net debt resulted from the increase in total debt and the decrease in cash and cash equivalent balances.

### Outstanding shares

As at July 31, 2022, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at September 2, 2022, there were 37,935,870 total voting shares outstanding.

### Stock options

As at September 2, 2022, a total of 480,847 stock options was outstanding, 180,847 of which were exercisable.

### Warrants

As at July 31, 2022 and as at September 2, 2022, a total of 17,687,500 warrants was issued. As at July 31, 2022 and as at September 2, 2022, a total of 13,000,000 warrants had vested following drawdowns on the credit facility and no warrants had been exercised. Under the terms of the unsecured debt – LEEFF financing agreement amended on March 9, 2022, if the loan were to be repaid prior to December 31, 2023 (previously before April 29, 2022), 50% of the vested warrants would be forfeited.

## 8. OTHER

### FLEET

As at July 31, 2022, Air Transat's fleet consisted of twelve Airbus A330s (332 or 345 seats), twelve Airbus A321LRs (199 seats), seven Airbus A321ceos (199 seats) and one Boeing 737-800 (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, one Airbus A330 was returned to the lessor early during the nine-month period ended July 31, 2022. In addition, a leased Boeing 737-800 will no longer be used until its return to the lessor; the carrying amount of this leased aircraft is fully written down.

### LITIGATION

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

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of petitions for class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. However, under the unsecured credit facility related to travel credits, travel credits issued as a result of flight cancellations arising from the COVID-19 pandemic were eligible for refund. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation has defended its position in the past and will continue to do so with vigour. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income (loss) and could have an unfavourable effect on cash. Nevertheless, the Corporation completed the process of reimbursing travel credits to customers who submitted a request, which could mitigate the impact of any unfavourable decision on cash flow and results.

# 9. ACCOUNTING

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, 2021. There have been no significant changes to the Corporation's accounting policies since that date.

## SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

### Impairment of non-financial assets

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

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

As mentioned in the financial statements for the year ended October 31, 2021, the Corporation determined at that date that the declines in revenues and demand due to the COVID-19 pandemic, and the resulting significant reductions in capacity were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on their value in use, using a discounted cash flow model. As at October 31, 2021, no impairment was recognized on the carrying amount of the Corporation's two CGUs as their recoverable amount was higher than their carrying amount.

As at July 31, 2022, the Corporation reviewed and updated certain assumptions used in the most recent impairment test performed as at October 31, 2021. The Corporation determined that these adjustments did not give rise to any changes to the results of the impairment testing of its CGUs performed as at October 31, 2021.

## Provision for return conditions

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

## Liability related to warrants

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

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

## Changes in accounting policies

### Interbank Offered Rates ["IBOR"] Reform – Phase 2

In August 2020, the IASB published amendments to the following standards: IFRS 9, *Financial Instruments;* IAS 39*, Financial Instruments - Recognition and Measurement; IFRS 7, Financial Instruments - Disclosures; IFRS 4, Insurance Contracts*; and IFRS 16, *Leases*. The amendments focus on the effects on financial statements when a company replaces the old benchmark rate with an alternative as a result of the reform.

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

The Corporation adopted these amendments on November 1, 2021 by applying the practical expedient. The adoption of these amendments did not have any impact on the Corporation's consolidated financial statements as of the date of first application or for the comparative periods.

### Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7, Statement of Cash Flows)

In April 2022, the IFRS Interpretations Committee finalized the agenda decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (*IAS 7, *Statement of Cash Flows)*, which clarified that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash. Accordingly, such demand deposits should be presented as a component of cash and cash equivalents in the statements of cash flows and financial position, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7, *Statement of Cash Flows*.

The application of this agenda decision did not have any impact on the Corporation's consolidated financial statements.

## 10. CONTROLS AND PROCEDURES

In accordance with the National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer who, among other things, deem adequate as at July 31, 2022 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;

- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2022 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

## 11. OUTLOOK

***Fourth quarter 2022*** – The current situation is showing very encouraging signs in terms of bookings as the last-minute booking trend persists. After the low reached during the Omicron wave, load factors have largely improved in recent months. Selling prices of bookings for the summer season have been steadily increasing since the start of spring across all our programs.

Across all our markets, the planned capacity for summer 2022 represents 92% of the 2019 capacity. For the transatlantic program, the Corporation's main market for the summer season, the planned capacity in 2022 is 81% of the 2019 level. In the sun destinations program, the Corporation's planned capacity is slightly higher than in 2019. Lastly, the Corporation tripled its capacity in the transborder market and deployed a slightly higher capacity for its domestic program, compared with 2019.

Fuel prices, if they remain at the current level, are creating strong pressure on the Corporation's operating costs and profitability.

It remains difficult at this time to forecast the evolution of the health and economic situations or their impact on bookings and future financial results with sufficient precision for the Corporation to present a more comprehensive outlook for the fourth quarter of 2022.

***Winter 2023*** – In the sun destinations program, the Corporation's main program for the period, Transat's capacity is the same as that deployed in 2019 and 75% higher compared with 2022. To-date, and overall, the load factors are comparable to 2019 levels while prices are higher.

The Corporation believes it is still too early to draw any conclusions regarding winter season results.

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

*[Note 2, Uncertainty related to going concern]*

| Unaudited<br>(in thousands of Canadian dollars) | Notes | As at<br>July 31, 2022<br>$ | As at<br>October 31, 2021<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **411,349** | 433,195 |
| Cash and cash equivalents in trust or otherwise reserved | *4* | **213,453** | 139,583 |
| Trade and other receivables | *5* | **340,912** | 108,857 |
| Income taxes receivable | | **12,816** | 1,120 |
| Inventories | | **19,503** | 10,514 |
| Prepaid expenses | | **31,140** | 16,465 |
| Derivative financial instruments | | **1,320** | — |
| Current portion of deposits | *6* | **28,419** | 10,130 |
| **Current assets** | | **1,058,912** | 719,864 |
| Cash and cash equivalents reserved | *4* | **31,273** | 30,728 |
| Deposits | *6* | **148,479** | 112,044 |
| Income taxes receivable | *17* | **4,928** | 15,100 |
| Property, plant and equipment | *7* | **1,032,035** | 974,229 |
| Intangible assets | | **13,939** | 16,849 |
| Investment | *8* | **8,587** | 9,476 |
| Deferred financing costs | | **12,406** | 19,368 |
| **Non-current assets** | | **1,251,647** | 1,177,794 |
| | | **2,310,559** | 1,897,658 |
| **LIABILITIES** | | | |
| Trade and other payables | | **281,544** | 141,413 |
| Income taxes payable | | **1,803** | 1,354 |
| Customer deposits and deferred revenues | | **585,641** | 292,158 |
| Current portion of lease liabilities | *9* | **120,284** | 171,557 |
| Current portion of liability related to warrants | *10* | **22,860** | 20,622 |
| Current portion of provision for return conditions | *11* | **1,280** | 3,065 |
| **Current liabilities** | | **1,013,412** | 630,169 |
| Long-term debt and lease liabilities | *9* | **1,576,491** | 1,247,981 |
| Liability related to warrants | *10* | **9,792** | 15,935 |
| Deferred government grant | *9* | **174,193** | 167,394 |
| Provision for return conditions | *11* | **142,537** | 123,179 |
| Other liabilities | *12* | **27,724** | 27,497 |
| Deferred tax liabilities | | **628** | 613 |
| **Non-current liabilities** | | **1,931,365** | 1,582,599 |
| **NEGATIVE EQUITY** | | | |
| Share capital | *13* | **221,610** | 221,012 |
| Share-based payment reserve | | **16,036** | 15,948 |
| Deficit | | **(863,974)** | (544,881) |
| Cumulative exchange differences | | **(7,890)** | (7,189) |
| | | **(634,218)** | (315,110) |
| | | **2,310,559** | 1,897,658 |

See accompanying notes to the interim unaudited condensed consolidated financial statements

On behalf of the Board,

Director

Director

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

*[Note 2, Uncertainty related to going concern]*

| | | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|---|
| Unaudited | | **2022** | **2021** | **2022** | **2021** |
| (in thousands of Canadian dollars, except per share amounts) | *Notes* | **$** | **$** | **$** | **$** |
| **Revenues** | *14* | **508,304** | 12,548 | **1,068,899** | 62,037 |
| **Operating expenses** | | | | | |
| Aircraft fuel | | **205,810** | 183 | **323,591** | 9,454 |
| Salaries and employee benefits | *14* | **91,024** | 25,775 | **197,130** | 74,965 |
| Costs of providing tourism services | | **78,060** | 6,593 | **283,692** | 21,380 |
| Airport and navigation fees | | **44,344** | 171 | **80,165** | 5,987 |
| Aircraft maintenance | | **32,223** | 11,204 | **79,759** | 40,888 |
| Sales and distribution costs | | **31,845** | 2,427 | **76,805** | 4,883 |
| Aircraft rent | *9* | **2,386** | — | **5,477** | — |
| Other airline costs | | **53,715** | 2,244 | **100,924** | 14,412 |
| Other | | **23,332** | 14,378 | **62,369** | 41,809 |
| Share of net loss of a joint venture | *8* | **610** | 501 | **1,415** | 3,782 |
| Depreciation and amortization | | **38,173** | 47,355 | **112,144** | 120,117 |
| Special items | *15* | **—** | 85 | **—** | 7,256 |
| | | **601,522** | 110,916 | **1,323,471** | 344,933 |
| **Operating loss** | | **(93,218)** | (98,368) | **(254,572)** | (282,896) |
| Financing costs | *9* | **27,158** | 18,069 | **74,088** | 55,239 |
| Financing income | | **(3,047)** | (916) | **(5,599)** | (3,472) |
| Change in fair value of fuel-related derivatives and other derivatives | | **6,908** | (2,062) | **8,628** | (10,691) |
| Revaluation of liability related to warrants | *10* | **(14,506)** | 9,435 | **(13,697)** | 10,192 |
| Gain on long-term debt modification | *9* | **—** | — | **(22,191)** | — |
| Loss (gain) on asset disposals | *16* | **13** | (913) | **(4,005)** | (19,810) |
| Foreign exchange (gain) loss | | **(1,706)** | 15,939 | **27,715** | (46,704) |
| **Loss before income tax expense** | | **(108,038)** | (137,920) | **(319,511)** | (267,650) |
| **Income taxes (recovery)** | | | | | |
| Current | *17* | **(1,566)** | 139 | **(418)** | 374 |
| Deferred | | **—** | — | **—** | 75 |
| | | **(1,566)** | 139 | **(418)** | 449 |
| **Net loss for the period** | | **(106,472)** | (138,059) | **(319,093)** | (268,099) |
| | | | | | |
| **Net income (loss) attributable to:** | | | | | |
| Shareholders | | **(106,472)** | (138,125) | **(319,093)** | (268,220) |
| Non-controlling interests | | **—** | 66 | **—** | 121 |
| | | **(106,472)** | (138,059) | **(319,093)** | (268,099) |
| Loss per share | *13* | | | | |
| Basic | | **(2.82)** | (3.66) | **(8.44)** | (7.11) |
| Diluted | | **(2.82)** | (3.66) | **(8.44)** | (7.11) |

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

*[Note 2, Uncertainty related to going concern]*

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| Unaudited | **2022** | **2021** | **2022** | **2021** |
| (in thousands of Canadian dollars) | **$** | **$** | **$** | **$** |
| **Net loss for the period** | **(106,472)** | (138,059) | **(319,093)** | (268,099) |
| | | | | |
| **Other comprehensive income (loss)** | | | | |
| **Items that will be reclassified to net income (loss)** | | | | |
| Change in fair value of derivatives designated as cash flow hedges | **—** | — | **—** | — |
| Reclassification to net income (loss) | **—** | — | **—** | 447 |
| Deferred taxes | **—** | — | **—** | 75 |
| | **—** | — | **—** | 522 |
| Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries for the period | **1,224** | 3,149 | **(341)** | 756 |
| Reclassification to net income (loss) | **—** | — | **(360)** | — |
| | **1,224** | 3,149 | **(701)** | 756 |
| Total other comprehensive income (loss) | **1,224** | 3,149 | **(701)** | 1,278 |
| **Comprehensive loss for the period** | **(105,248)** | (134,910) | **(319,794)** | (266,821) |
| | | | | |
| **Comprehensive income (loss) attributable to:** | | | | |
| Shareholders | **(105,248)** | (135,521) | **(319,794)** | (264,187) |
| Non-controlling interests | **—** | 611 | **—** | (2,634) |
| | **(105,248)** | (134,910) | **(319,794)** | (266,821) |

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

*[Note 2, Uncertainty related to going concern]*

| Unaudited (in thousands of Canadian dollars) | Share capital $ | Share-based payment reserve $ | Retained earnings (deficit) $ | Accumulated other comprehensive income (loss) Unrealized gain (loss) on cash flow hedges $ | Accumulated other comprehensive income (loss) Cumulative exchange differences $ | Total $ | Non-controlling interests $ | Total equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance as at October 31, 2020** | 221,012 | 15,948 | (164,138) | (522) | (5,993) | 66,307 | — | 66,307 |
| Net income (loss) for the period | — | — | (268,220) | — | — | (268,220) | 121 | (268,099) |
| Other comprehensive income (loss) | — | — | — | 522 | 3,511 | 4,033 | (2,755) | 1,278 |
| Comprehensive income (loss) for the period | — | — | (268,220) | 522 | 3,511 | (264,187) | (2,634) | (266,821) |
| Fair value changes of non-controlling interest liabilities | — | — | 9,413 | — | — | 9,413 | (9,413) | — |
| Reclassification of non-controlling interest liabilities | — | — | — | — | — | — | 9,292 | 9,292 |
| Reclassification of non-controlling interest exchange difference | — | — | — | — | (2,755) | (2,755) | 2,755 | — |
| | — | — | 9,413 | — | (2,755) | 6,658 | 2,634 | 9,292 |
| **Balance as at July 31, 2021** | **221,012** | **15,948** | **(422,945)** | **—** | **(5,237)** | **(191,222)** | **—** | **(191,222)** |
| Net loss for the period | — | — | (121,339) | — | — | (121,339) | — | (121,339) |
| Other comprehensive loss | — | — | (597) | — | (699) | (1,296) | (1,253) | (2,549) |
| Comprehensive loss for the period | — | — | (121,936) | — | (699) | (122,635) | (1,253) | (123,888) |
| Reclassification of non-controlling interest exchange difference | — | — | — | — | (1,253) | (1,253) | 1,253 | — |
| | — | — | — | — | (1,253) | (1,253) | 1,253 | — |
| **Balance as at October 31, 2021** | 221,012 | 15,948 | (544,881) | — | (7,189) | (315,110) | — | (315,110) |
| Net loss for the period | — | — | (319,093) | — | — | (319,093) | — | (319,093) |
| Other comprehensive loss | — | — | — | — | (701) | (701) | — | (701) |
| Comprehensive loss for the period | — | — | (319,093) | — | (701) | (319,794) | — | (319,794) |
| Issued from treasury | 598 | — | — | — | — | 598 | — | 598 |
| Share-based payment expense | — | 88 | — | — | — | 88 | — | 88 |
| | 598 | 88 | — | — | — | 686 | — | 686 |
| **Balance as at July 31, 2022** | **221,610** | **16,036** | **(863,974)** | **—** | **(7,890)** | **(634,218)** | **—** | **(634,218)** |

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

*[Note 2, Uncertainty related to going concern]*

| | | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|---|
| Unaudited | | **2022** | 2021 | **2022** | 2021 |
| (in thousands of Canadian dollars) | *Notes* | **$** | $ | **$** | $ |
| **OPERATING ACTIVITIES** | | | | | |
| Net loss for the period | | **(106,472)** | (138,059) | **(319,093)** | (268,099) |
| Operating items not involving an outlay (receipt) of cash: | | | | | |
| Depreciation and amortization | | **38,173** | 47,355 | **112,144** | 120,117 |
| Change in fair value of fuel-related derivatives and other derivatives | | **6,908** | (2,062) | **8,628** | (10,691) |
| Revaluation of liability related to warrants | | **(14,506)** | 9,435 | **(13,697)** | 10,192 |
| Gain on long-term debt modification | *9* | **—** | — | **(22,191)** | — |
| Loss (gain) on asset disposals | *16* | **13** | (913) | **(4,005)** | (19,810) |
| Foreign exchange (gain) loss | | **(1,706)** | 15,939 | **27,715** | (46,704) |
| Share of net loss of a joint venture | *8* | **610** | 501 | **1,415** | 3,782 |
| Capitalized interest on long term debt and lease liabilities | | **11,714** | 12,540 | **34,016** | 26,926 |
| Asset impairment | | **—** | 1,928 | **—** | 19,873 |
| Deferred taxes | *15* | **—** | — | **—** | 75 |
| Employee benefits | | **480** | 516 | **1,440** | 2,053 |
| Share-based payment expense | | **30** | — | **88** | — |
| | | **(64,756)** | (52,820) | **(173,540)** | (162,286) |
| Net change in non-cash working capital balances related to operations | | **19,595** | (214,035) | **77,271** | (315,697) |
| Net change in provision for return conditions | | **1,722** | 8,639 | **13,098** | (4,736) |
| Net change in other assets and liabilities related to operations | | **(19,285)** | (25,041) | **(34,622)** | (7,468) |
| **Cash flows related to operating activities** | | **(62,724)** | (283,257) | **(117,793)** | (490,187) |
| **INVESTING ACTIVITIES** | | | | | |
| Additions to property, plant and equipment and other intangible assets | | **(9,992)** | (277) | **(24,456)** | (4,034) |
| Decrease (increase) in cash and cash equivalents reserved | | **—** | 28,372 | **(545)** | 25,540 |
| Proceeds from sale of assets | *16* | **—** | — | **—** | 422 |
| Consideration paid for the buyback of a non-controlling interest | | **—** | (15,000) | **—** | (15,000) |
| Capital contribution to a joint venture | *8* | **—** | — | **—** | (821) |
| **Cash flows related to investing activities** | | **(9,992)** | 13,095 | **(25,001)** | 6,107 |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from borrowings | *9* | **4,623** | 365,122 | **213,217** | 534,973 |
| Transaction costs | | **(2,614)** | — | **(2,614)** | (3,242) |
| Proceeds from issuance of shares | | **337** | — | **598** | — |
| Repayment of long-term debt | | **(3,344)** | — | **(3,344)** | — |
| Repayment of lease liabilities | *9* | **(24,191)** | (12,093) | **(83,600)** | (43,733) |
| **Cash flows related to financing activities** | | **(25,189)** | 353,029 | **124,257** | 487,998 |
| Effect of exchange rate changes on cash and cash equivalents | | **(1,956)** | 369 | **(3,309)** | (974) |
| **Net change in cash and cash equivalents** | | **(99,861)** | 83,236 | **(21,846)** | 2,944 |
| Cash and cash equivalents, beginning of period | | **511,210** | 346,141 | **433,195** | 426,433 |
| **Cash and cash equivalents, end of period** | | **411,349** | 429,377 | **411,349** | 429,377 |
| **Supplementary information (as reported in operating activities)** | | | | | |
| Net income taxes paid (recovered) | | **350** | (1,209) | **821** | (2,506) |
| Interest paid | | **3,900** | 2,836 | **11,549** | 14,758 |

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

## Note 1 Corporate information

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2022 were approved by the Corporation's Board of Directors on September 7, 2022.

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

## Note 2 Uncertainty related to going concern

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from July 31, 2022. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $319,093 and generated negative cash flow related to operations totalling $117,793 for the nine-month period ended July 31, 2022. However, as discussed in Note 9, the Corporation renegotiated its agreement with the Government of Canada in order to borrow up to $843,300 in additional liquidity through the Large Enterprise Emergency Financing Facility ("LEEFF"). The ratios applicable to the credit facilities are suspended until October 29, 2023, (previously October 30, 2022). In total, the available financing amounts to a maximum of $963,300, of which $862,216 was drawn down as at July 31, 2022.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions introduced by numerous countries, vaccination and testing requirements in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the summer 2022 season, the Corporation has also deployed a reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter, the Corporation still cannot predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of certain restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2023.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada to borrow additional liquidity up to $843,300 through the LEEFF, bringing the total available financing to a maximum of $963,300. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess its liquidity needs and the capital structure and is not ruling out any options that could provide greater financial flexibility to the Corporation.

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

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

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

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at July 31, 2022 do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

## Note 3 Significant accounting policies

### Basis of preparation

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2021.

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

## Significant accounting estimates and judgments

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

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

### Impairment of non-financial assets

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

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

As mentioned in the financial statements for the year ended October 31, 2021, the Corporation determined at that date that the declines in revenues and demand due to the COVID-19 pandemic, and the resulting significant reductions in capacity were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of CGUs was determined based on their value in use, applying a discounted cash flow model. As at October 31, 2021, no impairment was recognized on the carrying amount of the Corporation's two CGUs as their recoverable amount was higher than their carrying amount.

As at July 31, 2022, the Corporation reviewed and updated certain assumptions used in the most recent impairment test performed as at October 31, 2021. The Corporation determined that these adjustments did not give rise to any changes to the results of the impairment testing of its CGUs performed as at October 31, 2021.

### Provision for return conditions

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

### Liability related to warrants

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

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

## Changes in accounting method

### Reform of interbank offered rates ("IBOR") - Phase 2

In August 2020, the IASB published amendments to the following standards: IFRS 9, *Financial Instruments*; IAS 39, *Financial Instruments - Recognition and Measurement*; IFRS 7, *Financial Instruments - Disclosures*; IFRS 4, *Insurance Contracts*; and IFRS 16, *Leases*. The amendments focus on the effects on financial statements when a company replaces the old benchmark rate with an alternative as a result of the reform.

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

The Corporation adopted these amendments on November 1, 2021 by applying the practical expedient. The adoption of these amendments did not have any impact on the Corporation's consolidated financial statements as of the date of first application or for the comparative periods.

### Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7, Statement of Cash Flows)

In April 2022, the IFRS Interpretations Committee finalized the agenda decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party* (IAS 7, *Statement of Cash Flows)*, which clarified that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash. Accordingly, such demand deposits should be presented as a component of cash and cash equivalents in the statements of cash flows and financial position, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7, *Statement of Cash Flows*.

The application of this agenda decision did not have any impact on the Corporation's consolidated financial statements.

## Note 4 Cash and cash equivalents in trust or otherwise reserved

As at July 31, 2022, cash and cash equivalents in trust or otherwise reserved included $185,966 [$128,154 as at October 31, 2021] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation’s business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $58,760, $31,273 of which was recorded as non-current assets [$42,157 as at October 31, 2021, $30,728 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

## Note 5 Trade and other receivables

| | As at July 31, 2022 $ | As at October 31, 2021 $ |
|---|---|---|
| Credit card processors receivables | **292,374** | 77,733 |
| Government receivables | **20,301** | 13,111 |
| Trade receivables | **14,834** | 9,775 |
| Cash receivable from lessors | **3,259** | 1,610 |
| Other receivables | **10,144** | 6,628 |
| | **340,912** | 108,857 |

Government receivables as at July 31, 2022 did not include any wage subsidy amounts related to the Tourism and Hospitality Recovery Program ("THRP") or the Hardest-Hit Business Recovery Program ("HHBRP") [Government receivables as at October 31, 2021 included a wage subsidy of $1,296 related to the Canada Emergency Wage Subsidy ("CEWS")]. The THRP and the HHBRP *[Note 14]* expired on May 7, 2022.

## Note 6 Deposits

| | As at July 31, 2022 $ | As at October 31, 2021 $ |
|---|---|---|
| Maintenance deposits with lessors | **114,569** | 80,777 |
| Deposits on leased aircraft and engines | **34,753** | 33,926 |
| Deposits with suppliers | **27,576** | 7,471 |
| | **176,898** | 122,174 |
| Less current portion | **28,419** | 10,130 |
| | **148,479** | 112,044 |

## Note 7 Property, plant and equipment

| | Fleet $ | Aircraft equipment $ | Office furniture and equipment $ | Land, building and leasehold improvements $ | Right of use Fleet $ | Right of use Real estate and other $ | Total $ |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| **Balance as at October 31, 2021** | **117,118** | **135,486** | **57,193** | **78,684** | **1,300,068** | **122,450** | **1,810,999** |
| Additions | **537** | **5,208** | **2,256** | **5** | **158,198** | **691** | **166,895** |
| Disposals | **(4,585)** | **(36)** | **(144)** | **—** | **(32,140)** | **(712)** | **(37,617)** |
| Write-offs | **—** | **—** | **(658)** | **(1,330)** | **(8,874)** | **(7,085)** | **(17,947)** |
| Exchange difference | **—** | **—** | **—** | **1,609** | **—** | **(153)** | **1,456** |
| **Balance as at July 31, 2022** | **113,070** | **140,658** | **58,647** | **78,968** | **1,417,252** | **115,191** | **1,923,786** |
| ***Accumulated depreciation*** | | | | | | | |
| **Balance as at October 31, 2021** | **67,277** | **78,803** | **43,180** | **30,168** | **539,787** | **77,555** | **836,770** |
| Depreciation | **6,093** | **5,941** | **3,423** | **1,420** | **85,018** | **4,964** | **106,859** |
| Disposals | **(4,585)** | **(36)** | **(136)** | **—** | **(28,809)** | **(301)** | **(33,867)** |
| Write-offs | **—** | **—** | **(658)** | **(1,330)** | **(8,874)** | **(7,085)** | **(17,947)** |
| Exchange difference | **—** | **—** | **14** | **32** | **—** | **(110)** | **(64)** |
| **Balance as at July 31, 2022** | **68,785** | **84,708** | **45,823** | **30,290** | **587,122** | **75,023** | **891,751** |
| **Net book value as at July 31, 2022** | **44,285** | **55,950** | **12,824** | **48,678** | **830,130** | **40,168** | **1,032,035** |

| | Fleet<br>$ | Aircraft equipment<br>$ | Office furniture and equipment<br>$ | Land, building and leasehold improvements<br>$ | Right of use Fleet<br>$ | Right of use Real estate and other<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| **Balance as at October 31, 2020** | 162,773 | 136,183 | 58,649 | 82,966 | 1,457,559 | 148,971 | 2,047,101 |
| Additions | 3,160 | 713 | 580 | — | 241,754 | 432 | 246,639 |
| Disposals | (46,562) | (790) | (174) | — | (379,552) | (19,453) | (446,531) |
| Write-offs | (69) | (620) | (1,741) | (773) | (12,760) | (7,095) | (23,058) |
| Depreciation | (2,184) | — | — | — | (6,933) | — | (9,117) |
| Exchange difference | — | — | (121) | (3,509) | — | (405) | (4,035) |
| **Balance as at October 31, 2021** | 117,118 | 135,486 | 57,193 | 78,684 | 1,300,068 | 122,450 | 1,810,999 |
| | | | | | | | |
| ***Accumulated depreciation*** | | | | | | | |
| **Balance as at October 31, 2020** | 102,260 | 71,272 | 39,844 | 29,591 | 806,496 | 81,256 | 1,130,719 |
| Depreciation | 10,808 | 8,850 | 5,225 | 1,394 | 117,268 | 7,045 | 150,590 |
| Disposals | (45,722) | (699) | (60) | — | (371,217) | (3,367) | (421,065) |
| Write-offs | (69) | (620) | (1,741) | (773) | (12,760) | (7,095) | (23,058) |
| Exchange difference | — | — | (88) | (44) | — | (284) | (416) |
| **Balance as at October 31, 2021** | 67,277 | 78,803 | 43,180 | 30,168 | 539,787 | 77,555 | 836,770 |
| **Net book value as at October 31, 2021** | 49,841 | 56,683 | 14,013 | 48,516 | 760,281 | 44,895 | 974,229 |

During the nine-month period ended July 31, 2022, the Corporation early returned to the lessor a leased aircraft, namely an Airbus A330. This return resulted in disposals of property, plant and equipment and accumulated amortization of $21,457. In addition, the Corporation took delivery of two Airbus A321LR aircraft.

## Note 8 Investment

As at July 31, 2022, the change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, was detailed as follows:

| | $ |
|---|---|
| Balance as at October 31, 2021 | **9,476** |
| Share of net loss | **(1,415)** |
| Translation adjustment | **526** |
| **Balance as at July 31, 2022** | **8,587** |

The investment was translated at the USD/CAD closing rate of 1.2802 as at July 31, 2022 [1.2397 as at October 31, 2021].

## Note 9 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at July 31, 2022 and October 31, 2021. The current portion of lease liabilities included deferred rent payments related to aircraft leases and real estate leases of $9,034 and $592, respectively [$80,989 and $2,340 in 2021, respectively]:

| | Final maturity | Weighted average effective interest rate | As at July 31, 2022 | As at October 31, 2021 |
|---|---|---|---|---|
| | | % | $ | $ |
| **Long-term debt** | | | | |
| Secured debt - LEEFF | **2024** | **5.55** | **77,241** | 43,827 |
| Unsecured debt - LEEFF | **2026** | **13.26** | **275,986** | 157,985 |
| Unsecured credit facility - Travel credits | **2028** | **13.82** | **177,290** | 140,590 |
| Revolving credit facility | **2024** | **7.40** | **49,666** | 49,805 |
| Subordinated credit facility | **2024** | **12.69** | **69,362** | 70,973 |
| **Long-term debt** | | **11.99** | **649,545** | 463,180 |
| **Lease liabilities** | | | | |
| Fleet | **2022-2034** | **5.81** | **1,002,926** | 904,922 |
| Real estate and other | **2022-2037** | **5.42** | **44,304** | 51,436 |
| **Lease liabilities** | | **5.79** | **1,047,230** | 956,358 |
| **Total long-term debt and lease liabilities** | | **8.16** | **1,696,775** | 1,419,538 |
| Current portion of lease liabilities | | | **(120,284)** | (171,557) |
| **Long-term debt and lease liabilities** | | | **1,576,491** | 1,247,981 |

### Funding from the Government of Canada

On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada. The new agreement allows the Corporation to borrow up to $843,300 in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF), an increase of $100,000 from the original agreement. Under the new agreement, Transat also has access to an additional credit facility of up to $50,000 subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses on an as-needed basis, are as follows:

**Secured debt - LEEFF**

On July 29, 2022, the Corporation renegotiated its secured LEEFF financing agreement in order to borrow additional liquidity of $20,000, bringing the total amount of the credit facility to $98,000. The maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms of the agreement remain unchanged. The non-revolving facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions, and continues to bear interest at bankers' acceptance rate plus a premium of 4.5%, or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the nine-month period ended July 31, 2022, the Corporation drew down a total amount of $34,000. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, an amount of $78,000 was drawn down [$44,000 as at October 31, 2021] with a carrying value of $77,241.

The Corporation concluded that the change related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded as at July 31, 2022 related to this amendment.

In addition, the additional liquidity granted under the secured LEEFF financing agreement amended on July 29, 2022 has been treated as a new tranche of existing long-term debt. Future draw downs will be accounted for in the same manner as previous draw downs.

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

## Unsecured debt – LEEFF

On March 9, 2022 and July 29, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Accordingly, on July 29, 2022, the Corporation obtained additional liquidity of $80,000, bringing the total unsecured, non-revolving credit facility to $392,000. Under the agreement amended on March 9, 2022, the credit facility now bears interest at 5.0% until December 31, 2023 (previously until April 29, 2022), increasing to 8.0% until December 31, 2024 (previously until April 29, 2023) and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024 (previously until April 29, 2023). The maturity date for the initial amount of $312,000 of the credit facility remains April 29, 2026 while the additional amount of $80,000 will mature on July 29, 2027. In the event of a change in control, this credit facility becomes immediately due and payable.

The Corporation concluded that the modifications related to the LEEFF unsecured financing were non-substantial, as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEFF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The $22,191 adjustment was recorded as a gain on long-term debt modification and was calculated as follows:

| | $ |
|---|---|
| Financial liability carrying amount before the modification as at March 9, 2022 | 265,906 |
| Financial liability carrying amount under the new terms as at March 9, 2022 | 243,715 |
| **Gain on long-term debt modification** | **(22,191)** |

The additional liquidity granted under the agreement related to the LEEFF unsecured financing amended on July 29, 2022 will be treated as a new tranche of existing long-term debt. Future drawdowns will be accounted for in the same manner as previous drawdowns.

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

As of July 31, 2022, $312,000 was drawn with a carrying amount of $275,986. During the nine-month period ended July 31, 2022, the Corporation drew down a total of $136,000. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a deduction from the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of operations under Change in fair value of fuel and other derivatives. As at July 31, 2022, the fair value of the prepayment option is $67 [$1,377 as at October 31, 2021] and was determined using a trinomial interest rate tree based on the Hull-White model.

As part of the amended financing package, the Corporation issued an additional 4,687,500 warrants, bringing the total warrants to 17,687,500 *[Note 10]* in connection with the unsecured financing - LEEFF.

## Unsecured credit facility related to travel credits

On March 9, 2022, the Corporation renegotiated its agreement with the Government of Canada under the unsecured credit facility related to travel credits in order to borrow additional funds up to a maximum of $43,300. The Corporation has now access to an amount of $353,300 under the unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID-19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

Additional liquidity obtained under the unsecured credit facility related to travel credits was treated as a new tranche of existing long-term debt and was accounted for in the same way as previous tranches.

As at July 31, 2022, the credit facility was fully drawn and its carry amount stood at $177,290. An amount of $174,193 was also recognized as deferred government grant related to these drawdowns. During the nine-month period ended July 31, 2022, an amount of $13,635 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

## Other credit facilities

### Revolving credit facility

On July 29, 2022, the Corporation renegotiated its $50,000 revolving term credit agreement for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. This agreement can be extended for one year on each anniversary date subject to lender approval and becomes immediately due and payable in the event of a change of control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian and U.S. dollars. The agreement is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR (London Interbank Offered Rate) in U.S. dollars, plus a premium of 4.5% or at the financial institution's prime rate, plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and conditions from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, the credit facility was fully drawn.

The Corporation concluded that the change related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instrumen*ts. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded as at July 31, 2022 related to this amendment.

### Subordinated credit facility

On July 29, 2022, the Corporation renegotiated its $70,000 subordinated credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. In the event of a change of control, the agreement becomes immediately due and payable. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate plus a premium of 6.0% or at the financial institution's prime rate, plus a premium of 5.0%. Until October 29, 2023 (previously October 31, 2022), an additional compounding premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and conditions from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, the credit facility was fully drawn.

The Corporation concluded that the change related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded as at July 31, 2022 related to this amendment.

### Revolving credit facility agreement – Letters of credit

The Corporation has a $74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at July 31, 2022, $54,895 of the facility was drawn [$38,161 as at October 31, 2021], of which $31,273 was to secure the obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure the obligations under senior executive defined benefit pension agreements will be drawn.

## Financing costs

Interest expense for the periods ended July 31, 2022 and 2021 is detailed as follows:

| | | Quarters ended July 31 | | Nine-month periods ended July 31 |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | **$** | **$** | **$** | **$** |
| Interest on lease liabilities | **11,288** | 11,117 | **33,751** | 33,531 |
| Interest on long-term debt | **13,818** | 6,466 | **35,374** | 8,272 |
| Accretion on provision for return conditions | **983** | 347 | **2,034** | 684 |
| Other interest | **1,069** | 139 | **2,929** | 12,752 |
| **Financing costs** | **27,158** | 18,069 | **74,088** | 55,239 |

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

## Rent expense

Rent expense for the periods ended July 31, 2022 and 2021 is detailed as follows:

| | | Quarters ended July 31 | | Nine-month periods ended July 31 |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | **$** | **$** | **$** | **$** |
| Variable lease payments | **2,386** | — | **5,477** | — |
| **Aircraft rent** | **2,386** | — | **5,477** | — |
| Variable lease payments | **383** | — | **791** | — |
| Short-term leases | **1,005** | 412 | **2,592** | 1,307 |
| Low value leases | **81** | 190 | **255** | 419 |
| | **3,855** | 602 | **9,115** | 1,726 |

## Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the nine-month period ended July 31, 2022:

| | **Cash flows** | **Non-cash changes** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Balance as at October 31, 2021** | | | **956,358** |
| Repayments | **(83,600)** | **—** | **(83,600)** |
| New lease liabilities (new contracts and amendments) | **—** | **147,163** | **147,163** |
| Interest portion of deferred rent payments | **—** | **9,892** | **9,892** |
| Offset of rent payments and lease terminations | **—** | **(9,653)** | **(9,653)** |
| Exchange difference | **—** | **27,070** | **27,070** |
| **Balance as at July 31, 2022** | **(83,600)** | **174,472** | **1,047,230** |

## Maturity analysis

Principal and interest payments on long-term debt and lease liabilities as at July 31, 2022 are detailed as follows. Interest on long-term debt only includes interest payable as at July 31, 2022. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.2802 as at July 31, 2022:

| Year ending October 31 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 and up | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Long-term debt obligations** | **—** | **—** | **196,269** | **—** | **275,986** | **177,290** | **649,545** |
| Fleet | 44,858 | 165,674 | 167,390 | 151,111 | 141,930 | 595,457 | **1,266,420** |
| Real estate and other | 2,314 | 3,830 | 3,220 | 5,701 | 5,352 | 41,001 | **61,418** |
| **Lease liabilities** | **47,172** | **169,504** | **170,610** | **156,812** | **147,282** | **636,458** | **1,327,838** |
| **Total** | **47,172** | **169,504** | **366,879** | **156,812** | **423,268** | **813,748** | **1,977,383** |

Note 7 provides the information required for right-of-use assets and depreciation. Note 17 details the information required with respect to aircraft leases that will be delivered in the coming years.

## Note 10 Liability related to warrants

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

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

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was repaid prior to December 31, 2023 (previously April 29, 2022), 50% of the vested warrants would be forfeited.

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

As at July 31, 2022, a total of 13,000,000 warrants had vested following drawdowns on the unsecured debt – LEEFF and no warrants had been exercised.

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

- a maximum of 9,474,770 warrants could be exercised through the issuance of shares;
- 8,212,730 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,474,770 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,474,770 warrants on a net share basis, that is, by issuing shares based on the difference between Transat’s share market price and the exercise price of warrants.

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

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

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

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

The change in the liability related to warrants for the nine-month period ended July 31, 2022 is detailed as follows:

| | As at July 31, 2022 $ | As at October 31, 2021 $ |
|---|---|---|
| **Opening balance** | **36,557** | – |
| Issuance | **9,792** | 41,491 |
| Revaluation of liability related to warrants | **(13,697)** | (4,934) |
| **Closing balance** | **32,652** | 36,557 |
| Current liability | **22,860** | 20,622 |
| Non-current liability | **9,792** | 15,935 |
| **Closing balance** | **32,652** | 36,557 |

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at July 31, 2022, the primary unobservable input used in the model is expected volatility, which is estimated at 53.8%. A 5.0% increase in the expected volatility used in the pricing model would result in a total increase of $2,386 in the liability related to the warrants as at July 31, 2022.

## Note 11 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the nine-month period ended July 31, 2022 is detailed as follows:

| | As at July 31, 2022 $ | As at October 31, 2021 $ |
|---|---|---|
| **Opening balance** | **126,244** | 143,598 |
| Additional provisions | **31,076** | 28,574 |
| Change in estimate | **(8,393)** | (18,527) |
| Utilization of provision | **(4,794)** | – |
| Unused amounts reversed | **(2,350)** | (28,384) |
| Accretion | **2,034** | 983 |
| **Closing balance** | **143,817** | 126,244 |
| Current provisions | **1,280** | 3,065 |
| Non-current provisions | **142,537** | 123,179 |
| **Closing balance** | **143,817** | 126,244 |

Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at July 31, 2022, the unused amounts reversed correspond to the reversals of the provision for return conditions for three aircraft, including one aircraft whose lease was terminated and two aircraft that were returned early in 2021.

As at October 31, 2021, the unused amounts recovered included $7,521 related to future repairs to aircraft that will not be made, $6,610 related to the leases that matured during the year and $14,253 related to reversals of provisions for return conditions for aircraft whose leases were terminated.

## Note 12 Other liabilities

| | As at<br>July 31, 2022<br>$ | As at<br>October 31, 2021<br>$ |
|---|---|---|
| Employee benefits | **27,724** | 27,120 |
| Other liabilities | **—** | 377 |
| | **27,724** | 27,497 |

## Note 13 Equity

### Authorized share capital

**CLASS A VARIABLE VOTING SHARES**

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

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

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

**Class B Voting Shares**

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

**Preferred shares**

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

## Issued and outstanding share capital

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

| | Number of shares | $ |
|---|---|---|
| **Balance as at October 31, 2020** | 37,747,090 | 221,012 |
| **Balance as at October 31, 2021** | 37,747,090 | 221,012 |
| Issued from treasury | 151,990 | 598 |
| **Balance as at July 31, 2022** | **37,899,080** | **221,610** |

As at July 31, 2022, the number of Class A Shares and Class B Shares stood at 1,323,937 and 36,575,143, respectively [1,694,125 and 36,052,965, respectively, as at October 31, 2021].

## Stock option plan

| | Number of options | Weighted average price ($) |
|---|---|---|
| Balance as at October 31, 2021 | 1,108,262 | 7.55 |
| Granted | 150,000 | 4.18 |
| Cancelled | (672,898) | 7.77 |
| Expired | (104,517) | 7.86 |
| **Balance as at July 31, 2022** | **480,847** | **6.13** |
| **Options exercisable as at July 31, 2022** | **180,847** | **9.01** |

## Warrants

No warrants were exercised during the quarter and nine-month period ended July 31, 2022. Accordingly, the Corporation issued no shares related to the exercise of warrants *[Note 10]*.

## Loss per share

Basic and diluted loss per share were calculated as follows:

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| (in thousands of dollars, except per share data) | **$** | **$** | **$** | **$** |
| **NUMERATOR** | | | | |
| Net loss attributable to shareholders used in computing basic loss per share | **(106,472)** | (138,125) | **(319,093)** | (268,220) |
| Effect of deemed conversion of warrants | **(14,506)** | 9,435 | **(13,697)** | 10,192 |
| Less anti-dilutive impact | **14,506** | (9,435) | **13,697** | (10,192) |
| Net loss attributable to shareholders used in computing diluted loss per share | **(106,472)** | (138,125) | **(319,093)** | (268,220) |
| **DENOMINATOR** | | | | |
| Adjusted weighted average number of outstanding shares | **37,795** | 37,747 | **37,795** | 37,747 |
| **Effect of potential dilutive securities** | | | | |
| Stock options | **—** | — | **9** | — |
| Warrants | **—** | 2,629 | **—** | 2,087 |
| Less anti-dilutive impact | **—** | (2,629) | **(9)** | (2,087) |
| Adjusted weighted average number of outstanding shares used in computing diluted loss per share | **37,795** | 37,747 | **37,795** | 37,747 |
| **Loss per share** | | | | |
| Basic | **(2.82)** | (3.66) | **(8.44)** | (7.11) |
| Diluted | **(2.82)** | (3.66) | **(8.44)** | (7.11) |

During the quarter and nine-month period ended July 31, 2022, 480,847 and 330,847 outstanding stock options, respectively, were excluded from the calculation since the exercise price exceeded the average share price for the period [958,262 stock options for the quarter and nine-month period ended July 31, 2021].

# Note 14 Additional disclosure on revenue and expenses

## Breakdown of revenue from contracts with customers

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

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | **$** | **$** | **$** | **$** |
| **Customers** | | | | |
| Transatlantic | **297,705** | 487 | **365,182** | 6,775 |
| Americas | **205,488** | 11,269 | **690,964** | 48,697 |
| **Other** | **5,111** | 792 | **12,753** | 6,565 |
| **Total revenues** | **508,304** | 12,548 | **1,068,899** | 62,037 |

## Government grants

During the nine-month period ended July 31, 2022, the Corporation recognized a deduction of $24,403 from Salaries and employee benefits related to the new subsidy programs (THRP and HHBRP). During the quarter and nine-month period ended July 31, 2021, the Corporation had recognized deductions of $33,766 and $101,282, respectively, from Salaries and employee benefits related to the CEWS program, including $7,184 and $26,975, respectively, for active employees.

## Note 15 Special items

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | 2022 $ | 2021 $ | 2022 $ | 2021 $ |
| **Special items related to the transaction with Air Canada** | | | | |
| Termination payment | – | – | – | (12,500) |
| Professional fees | – | – | – | 6,106 |
| Reversal of compensation expense | – | (1,843) | – | (6,223) |
| | – | (1,843) | – | (12,617) |
| **Other special items** | | | | |
| Impairment of contract costs and other assets | – | 1,928 | – | 19,873 |
| | – | 1,928 | – | 19,873 |
| | – | 85 | – | 7,256 |

## Special items related to the Air Canada transaction

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. For the nine-month period ended July 31, 2021, the agreed upon amount of $12,500 in termination fees for the arrangement agreement settled by Air Canada, $6,106 in professional fees as well as $6,223 in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada. The compensation expenses were mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of compensation expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

## Other special items

For the nine-month period ended July 31, 2021, special items included $19,873 for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers.

## Note 16 Loss (gain) on asset disposals

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

During the nine-month period ended July 31, 2022, the $4,005 gain on asset disposals was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4,085 gain, which resulted from the reversal of lease liabilities of $3,976 and other assets and liabilities totalling $109. The carrying amount of the right-of-use asset for this aircraft lease was fully impaired during the year ended October 31, 2021.

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

## Note 17 Commitments and contingencies

### Leases and other commitments

As at July 31, 2022, the Corporation was party to agreements to lease five Airbus A321neos for delivery up to 2024. The Corporation also has leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, particularly in connection with information technology service contracts, undertaken in the normal course of business. The following table sets out the minimum payments due under aircraft leases to be delivered over the next few years and under leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations:

| Year ending October 31 | 2022<br>$ | 2023<br>$ | 2024<br>$ | 2025<br>$ | 2026<br>$ | 2027 and up<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| Leases (aircraft and other) | 155 | 16,505 | 36,742 | 38,595 | 57,578 | 598,221 | **747,796** |
| Purchase obligations | 2,296 | 4,627 | 2,950 | 4,750 | — | — | **14,623** |
| | **2,451** | **21,132** | **39,692** | **43,345** | **57,578** | **598,221** | **762,419** |

### Litigation

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

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of petitions for class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. However, under the unsecured credit facility related to travel credits, travel credits issued as a result of flight cancellations arising from the COVID-19 pandemic were eligible for refund. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation has defended its position in the past and will continue to do so with vigour. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income (loss) and could have an unfavourable effect on cash. Nevertheless, the Corporation completed the process of reimbursing travel credits to customers who submitted a request, which could mitigate the impact of any unfavourable decision on cash flow and results.

### Other

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

The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. The Corporation had paid in this respect a total amount of $15,100 to the tax authorities while challenging the notices assessment received. On August 23, 2022, the Corporation and the Canada Revenue Agency (CRA) came to an agreement on the tax treatment of the deductibility of ABCP-related tax losses. Under this settlement agreement, the Corporation recorded an income tax recovery of $2,359 during the quarter ended July 31, 2022. The Corporation also expects to receive an amount of $11,823 of which $9,464 was already recorded as income taxes receivable. In addition, with respect to the settlement agreement, the Corporation expects to receive accrued interest, which will be recognized in the fourth quarter of the current year. Typically, a settlement agreement with the CRA leads to similar agreements with provincial tax authorities. However, no agreement with provincial tax authorities has been confirmed to date. If such agreements are entered into, the Corporation expects to receive from provincial tax authorities the balance of income taxes receivable of $4,928 plus accrued interest receivable according to applicable prescribed tax rates. If not, the Corporation intends to defend itself vigorously and firmly believes that it has sufficient facts and arguments to ensure the final decision will be favourable.

## Note 18 Guarantees

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

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

Notes 5, 7, 14, 24 and 25 to the consolidated financial statements for the year ended October 31, 2021 provide information about some of these agreements. The following constitutes additional disclosure.

### Leases

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

### Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2022, the total amount of these guarantees unsecured by deposits amounted to $440. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2022, no amounts had been accrued with respect to the above-mentioned agreements.

## Note 19 Segment disclosures

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

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