TRANSAT A.T. INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2022

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Ticker symbol
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TABLE OF CONTENTS

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 April 30, 2022, compared with the quarter ended April 30, 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 second-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 June 8, 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 April 30, 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 April 30, 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 during the 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) 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 April 30		Six-month periods ended April 30	
(in thousands of Canadian dollars, except per share amounts)	**2022** **$**	2021 $	**2022** **$**	2021 $
Operating loss	**(87,513)**	(86,480)	**(161,354)**	(184,528)
Special items	**—**	245	**—**	7,171
Depreciation and amortization	**36,499**	35,272	**73,971**	72,762
Adjusted operating loss	**(51,014)**	(50,963)	**(87,383)**	(104,595)
Net loss attributable to shareholders	**(98,276)**	(69,561)	**(212,621)**	(130,095)
Special items	**—**	245	**—**	7,171
Change in fair value of fuel-related derivatives and other derivatives	**1,192**	(3,433)	**1,720**	(8,629)
Revaluation of liability related to warrants	**353**	757	**809**	757
Gain on long-term debt modification	**(22,191)**	—	**(22,191)**	—
Gain on asset disposals	**(66)**	(1,525)	**(4,018)**	(18,897)
Foreign exchange (gain) loss	**7,425**	(29,770)	**29,421**	(62,643)
Adjusted net loss	**(111,563)**	(103,287)	**(206,880)**	(212,336)
Adjusted net loss	**(111,563)**	(103,287)	**(206,880)**	(212,336)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,783**	37,747	**37,765**	37,747
Adjusted net loss per share	**(2.95)**	(2.74)	**(5.48)**	(5.63)

(in thousands of dollars)	**As at April 30, 2022** **$**	As at October 31, 2021 $
Long-term debt	**636,205**	463,180
Deferred government grant	**177,035**	167,394
Liability related to warrants	**37,366**	36,557
Deferred financing costs	**—**	(19,368)
Lease liabilities	**930,891**	956,358
Total debt	**1,781,497**	1,604,121
Total debt	**1,781,497**	1,604,121
Cash and cash equivalents	**(511,210)**	(433,195)
Total net debt	**1,270,287**	1,170,926

3. FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30 2022 $	2021 $	Difference $	Difference %	Six-month periods ended April 30 2022 $	2021 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**358,157**	7,569	350,588	4,631.9	**560,595**	49,489	511,106	1,032.8
Operating loss	**(87,513)**	(86,480)	(1,033)	(1.2)	**(161,354)**	(184,528)	23,174	12.6
Net loss attributable to shareholders	**(98,276)**	(69,561)	(28,715)	(41.3)	**(212,621)**	(130,095)	(82,526)	(63.4)
Basic loss per share	**(2.60)**	(1.84)	(0.76)	(41.3)	**(5.63)**	(3.45)	(2.18)	(63.2)
Diluted loss per share	**(2.60)**	(1.84)	(0.76)	(41.3)	**(5.63)**	(3.45)	(2.18)	(63.2)
Adjusted operating loss[1]	**(51,014)**	(50,963)	(51)	(0.1)	**(87,383)**	(104,595)	17,212	16.5
Adjusted net loss[1]	**(111,563)**	(103,287)	(8,276)	(8.0)	**(206,880)**	(212,336)	5,456	2.6
Adjusted net loss per share[1]	**(2.95)**	(2.74)	(0.21)	(7.7)	**(5.48)**	(5.63)	0.15	2.7
Consolidated Statements of Cash Flows								
Operating activities	**24,640**	(100,635)	125,275	124.5	**(55,069)**	(206,930)	151,861	73.4
Investing activities	**(10,846)**	(5,114)	(5,732)	(112.1)	**(15,009)**	(6,988)	(8,021)	(114.8)
Financing activities	**156,013**	150,112	5,901	3.9	**149,446**	134,969	14,477	10.7
Effect of exchange rate changes on cash and cash equivalents	**(1,728)**	(1,068)	(660)	(61.8)	**(1,353)**	(1,343)	(10)	(0.7)
Net change in cash and cash equivalents	**168,079**	43,295	124,784	288.2	**78,015**	(80,292)	158,307	197.2

	As at April 30, 2022 $	As at October 31, 2021 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**511,210**	433,195	78,015	18.0
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**223,194**	170,311	52,883	31.1
	734,404	603,506	130,898	21.7
Total assets	**2,162,416**	1,897,658	264,758	14.0
Debt (current and non-current)	**636,205**	463,180	173,025	37.4
Total debt [1]	**1,781,497**	1,604,121	177,376	11.1
Total net debt [1]	**1,270,287**	1,170,926	99,361	8.5

[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 during the 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 six-month period ended April 30, 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.

- During the six-month period ended April 30, 2022, the Corporation drew down $208.6 million under credit facilities related to the LEEFF. As described in the Financing section, the available financing therefore represents a maximum of $863.3 million, of which $858.6 million was drawn as at April 30, 2022.

- During the six-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, continued to offer support for salaries and rent during the six-month period.

- As at April 30, 2022, cash and cash equivalents totalled $511.2 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 the integrity of its operations and the destinations it serves.

6. CONSOLIDATED OPERATIONS

	Quarters ended April 30				Six-month periods ended April 30			
	2022	2021	Difference	Difference	2022	2021	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**358,157**	7,569	350,588	4,631.9	**560,595**	49,489	511,106	1,032.8
Operating expenses								
Costs of providing tourism services	**139,414**	4,768	134,646	2,824.0	**205,632**	14,787	190,845	1,290.6
Aircraft fuel	**81,468**	1,723	79,745	4,628.3	**117,781**	9,271	108,510	1,170.4
Salaries and employee benefits	**59,786**	20,978	38,808	185.0	**106,106**	49,190	56,916	115.7
Aircraft maintenance	**29,307**	13,236	16,071	121.4	**47,536**	29,684	17,852	60.1
Sales and distribution costs	**28,804**	508	28,296	5,570.1	**44,960**	2,456	42,504	1,730.6
Airport and navigation fees	**19,907**	1,026	18,881	1,840.3	**35,821**	5,816	30,005	515.9
Aircraft rent	**2,315**	—	2,315	100.0	**3,091**	—	3,091	100.0
Other airline costs	**26,621**	3,838	22,783	593.6	**47,209**	12,168	35,041	288.0
Other	**21,123**	11,754	9,369	79.7	**39,037**	27,431	11,606	42.3
Share of net loss of a joint venture	**426**	701	(275)	(39.2)	**805**	3,281	(2,476)	(75.5)
Depreciation and amortization	**36,499**	35,272	1,227	3.5	**73,971**	72,762	1,209	1.7
Special items	**—**	245	(245)	(100.0)	**—**	7,171	(7,171)	(100.0)
	445,670	94,049	351,621	373.9	**721,949**	234,017	487,932	208.5
Operating loss	**(87,513)**	(86,480)	(1,033)	(1.2)	**(161,354)**	(184,528)	23,174	12.6
Financing costs	**24,962**	18,025	6,937	38.5	**46,930**	37,170	9,760	26.3
Financing income	**(1,563)**	(1,109)	(454)	(40.9)	**(2,552)**	(2,556)	4	0.2
Change in fair value of fuel-related derivatives and other derivatives	**1,192**	(3,433)	4,625	134.7	**1,720**	(8,629)	10,349	119.9
Revaluation of liability related to warrants	**353**	757	(404)	(53.4)	**809**	757	52	6.9
Gain on long-term debt modification	**(22,191)**	—	(22,191)	100.0	**(22,191)**	—	(22,191)	100.0
Gain on asset disposals	**(66)**	(1,525)	1,459	95.7	**(4,018)**	(18,897)	14,879	78.7
Foreign exchange (gain) loss	**7,425**	(29,770)	37,195	124.9	**29,421**	(62,643)	92,064	147.0
Loss before income tax expense	**(97,625)**	(69,425)	(28,200)	(40.6)	**(211,473)**	(129,730)	(81,743)	(63.0)
Income taxes								
Current	**651**	112	539	481.3	**1,148**	235	913	388.5
Deferred	**—**	—	—	—	**—**	75	(75)	(100.0)
	651	112	539	481.3	**1,148**	310	838	270.3
Net loss for the period	**(98,276)**	(69,537)	(28,739)	(41.3)	**(212,621)**	(130,040)	(82,581)	(63.5)
Net income (loss) attributable to:								
Shareholders	**(98,276)**	(69,561)	(28,715)	(41.3)	**(212,621)**	(130,095)	(82,526)	(63.4)
Non-controlling interests	**—**	24	(24)	(100.0)	**—**	55	(55)	(100.0)
	(98,276)	(69,537)	(28,739)	(41.3)	**(212,621)**	(130,040)	(82,581)	(63.5)

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 $350.6 million for the quarter ended April 30, 2022 and $511.1 million for the six-month period ended April 30, 2022. Compared with the same quarter and six-month period of fiscal 2019, revenues for the current quarter were down 60.1% and 63.7%, respectively. Since mid-March of 2020, restrictions on international travel and government-imposed quarantine measures have made travel sales very difficult. 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 capacity of the winter season by approximately 22% of the initially deployed capacity. Due to the COVID-19 pandemic, demand for the first six months of fiscal 2022 remained well below the 2019 level. For the quarter and six-month period, the increase in revenues is mainly attributable to higher demand and number of travellers combined with a slight increase in average selling prices.

OPERATING EXPENSES

Total operating expenses were up $351.6 million for the quarter and $487.9 million for the six-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.

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 $134.6 million for the quarter and by $190.8 million for the six-month period. The increases primarily resulted from the rise in the number of packages sold compared with 2021.

Aircraft fuel

Aircraft fuel expense was up $79.7 million for the quarter and $108.5 million for the six-month period. The increases were attributable to a higher capacity compared with 2021, combined with the rise in fuel prices, which rose 75.5% for the quarter and 98.7% for the six-month period, compared with the corresponding periods of 2021.

Salaries and employee benefits

Salaries and employee benefits were up $38.8 million for the quarter and $56.9 million for the six-month period, compared with 2021. Following the gradual resumption of its airline operations since July 2021, the Corporation recalled some of its employees. Also, the Corporation continues to benefit from wage subsidies for businesses affected by COVID-19 for its personnel in Canada. During the quarter and six-month period ended April 30, 2022, the Corporation made use of the THRP and the HHBRP; amounts of $10.2 million and $25.3 million, respectively, were recognized under these programs. During the quarter and six-month period ended April 30, 2021, the Corporation made use of the CEWS; amounts of $8.1 million and $19.8 million, respectively. were recognized related to the active employees. Lastly, amounts of $26.1 million and $47.7 million, respectively, were recorded during the quarter and six-month period for inactive employees, which corresponds to the salaries paid to them.

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 $16.1 million (121.4%) for the quarter and $17.9 million (60.1%) for the six-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 $28.3 million for the quarter and $42.5 million for the six-month period, compared with 2021. The increases were mainly driven by higher revenues and costs related to booking cancellations. Other factors were the higher advertising expenses due to the gradual resumption of operations and the increase in sales of packages, which have higher commissions.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $18.9 million for the quarter and $30.0 million for the six-month period, compared with 2021. These increases mainly resulted from the greater capacity deployed compared with the 2021 and higher prices.

Aircraft rent

Aircraft rent refers to variable aircraft rent. Aircraft rent was up $2.3 million for the quarter and $3.1 million for the six-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 $22.8 million for the quarter and $35.0 million for the six-month period, compared with 2021. These increases were attributable to higher capacity compared with 2021.

Other

Other costs were up $9.4 million (79,7%) for the quarter and $11.6 million (42.3%) for the six-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 second quarter amounted to $0.4 million, compared with $0.7 million for the corresponding quarter of 2021. Our share of net loss for the six-month period amounted to $0.8 million, compared with $3.3 million for 2021. Operations at our hotel joint venture were substantially scaled down compared with 2021. Moreover, certain assets were impaired during the first six months of 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 up $1.2 million (3.5%) for the second quarter and $1.2 million (1.7%) for the six-month period, compared with 2021. This expense increased slightly during the quarter and the six-month period, compared with 2021. The impact on the depreciation and amortization expense resulting from the commissioning of four Airbus A321neoLRs in 2021 was partially offset by the decrease in additions to property, plant and equipment and intangible assets due to cost reduction measures related to the COVID-19 pandemic.

Special items

	Quarters ended April 30		Six-month periods ended April 30	
	2022	2021	2022	2021
	$	$	$	$
Special items related to the transaction with Air Canada				
Termination payment	—	(12,500)	—	(12,500)
Professional fees	—	963	—	6,106
Reversal of compensation expense	—	(6,163)	—	(4,380)
	—	(17,700)	—	(10,774)
Other special items				
Impairment of contract costs and other assets	—	17,945	—	17,945
	—	17,945	—	17,945
	—	245	—	7,171

Special items related to the transaction with Air Canada

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. During the quarter ended April 30, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, $1.0 million in professional fees as well as $6.2 million in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada. For the six-month period ended April 30, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, $6.1 million in professional fees as well as $4.4 million 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 quarter and six-month period ended April 30, 2021, special items included $17.9 million for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers.

OPERATING RESULTS

Given the above, we reported an operating loss of $87.5 million for the second quarter, compared with $86.5 million in 2021. For the six-month period, we reported an operating loss of $161.4 million, compared with $184.5 million in 2021.

The improvement in operating results for the six-month period was attributable to the gradual and partial resumption of airline operations. This improvement in operating results was however reined in by the cancellation of 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 capacity of the winter season by 22% compared with the initially deployed capacity. The Corporation cancelled the flights due to the sharp decline in demand and booking cancellations following the emergence of the Omicron variant and new restrictive measures put in place by the federal government on December 15, 2021. Demand remained weak due to the COVID-19 pandemic with the Corporation's capacity in the second quarter and first six months of 2022 representing a fraction of the 2019 level for the same periods.

For the quarter, the Corporation reported an adjusted operating loss of $51.0 million, compared with $51.0 million in 2021. For the six-month period, the Corporation reported an adjusted operating loss of $87.4 million compared with $104.6 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 $6.9 million (38.5%) for the second quarter and by $9.8 million (26.3%) for the six-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 $0.5 million (40.9%) during the second quarter but remained stable for the six-month period, compared with 2021, due mainly to the increases in average balances of cash and cash equivalents and higher interest rates for the second quarter 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.

Since April 30, 2021, all the fuel-related derivatives and foreign exchange derivatives held by the Corporation have matured and the Corporation did not hold any fuel-related derivatives and foreign exchange derivatives as at April 30, 2022. During the quarter and six-month period ended April 30, 2022, the fair value of the pre-payment option related to the unsecured debt – LEEFF decreased by $1.2 million and $1.7 million, respectively. During the quarter and six-month period ended April 30, 2021, the fair value of fuel-related derivatives and other derivatives increased by $3.4 million and $8.6 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 April 30, 2022, the fair value of warrants increased by $0.4 million, driven by the increase in the risk-free interest rate, partially offset by the lower closing price as at April 30, 2022 compared with the previous quarter. For the six-month period ended April 30, 2022, the fair value of warrants increased by $0.8 million, mainly driven by the increase in the closing price of the share from $4.39 to $4.50 between October 31, 2021 and April 30, 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 LEEFF unsecured financing 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.

Gain on asset disposals

For the six-month period ended April 30, 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 April 30, 2021, the Corporation partially terminated a real estate lease, giving rise to a gain on lease termination of $1.6 million. For the six-month period ended April 30, 2021, the $18.9 million gain was primarily attributable to the termination of three aircraft leases 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.

Foreign exchange loss (gain)

During the quarter, the Corporation recognized a $7.4 million foreign exchange loss, compared with a foreign exchange gain of $29.8 million in 2021. For the six-month period, the Corporation recognized a $29.4 million foreign exchange loss, compared with a foreign exchange gain of $62.6 million in 2021. For the quarter and the six-month period of 2022, the foreign exchange loss resulted mainly from the unfavourable impact of foreign exchange rates on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar.

INCOME TAXES

Income tax expense for the second quarter totalled $0.7 million, compared with $0.1 million for the corresponding quarter of last year. For the six-month period, the income tax expense amounted to $1.1 million, compared with $0.3 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 0.7% for the quarter and 0.5% for the six-month period, compared with 0.2% and 0.2%, respectively, for the corresponding periods of 2021.

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 six-month period ended April 30, 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 $98.3 million for the quarter ended April 30, 2022, compared with $69.5 million in 2021. For the six-month period ended April 30, 2022, we reported a net loss of $212.6 million, compared with $130.0 million in 2021.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For the second quarter of fiscal 2022, net loss attributable to shareholders amounted to $98.3 million or $2.60 per share (basic and diluted) compared with $69.6 million or $1.84 per share (basic and diluted) for the corresponding quarter of last year. For the six-month period, net loss attributable to shareholders amounted to $212.6 million or $5.63 per share (basic and diluted) compared with $130.1 million or $3.45 per share (basic and diluted) for the corresponding period of last year. For the second quarter and first half of 2022, the weighted average number of outstanding shares used to compute per share amounts was 37,783,000 (basic and diluted) and 37,765,000 (basic and diluted), respectively, compared with 37,747,000 (basic and diluted) for the corresponding periods of 2021.

For the quarter and six-month period ended April 30, 2022, adjusted net loss was $111.6 million ($2.95 per share) and $206.9 million ($5.48 per share), respectively, compared with an adjusted net loss of $103.3 million ($2.74 per share) and $212.3 million ($5.63 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 (Q3 and 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) 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) 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)	**Q3-2020** $	**Q4-2020** $	**Q1-2021** $	**Q2-2021** $	**Q3-2021** $	**Q4-2021** $	**Q1-2022** $	**Q2-2022** $
Revenues	9,546	28,426	41,920	7,569	**12,548**	**62,781**	**202,438**	**358,157**
Operating loss	(132,013)	(239,332)	(98,048)	(86,480)	**(98,368)**	**(118,326)**	**(73,841)**	**(87,513)**
Net loss	(45,721)	(238,370)	(60,503)	(69,537)	**(138,059)**	**(121,339)**	**(114,345)**	**(98,276)**
Net loss attributable to shareholders	(45,115)	(238,077)	(60,534)	(69,561)	**(138,125)**	**(121,339)**	**(114,345)**	**(98,276)**
Basic loss per share	(1.20)	(6.31)	(1.60)	(1.84)	**(3.66)**	**(3.21)**	**(3.03)**	**(2.60)**
Diluted loss per share	(1.20)	(6.31)	(1.60)	(1.84)	**(3.66)**	**(3.21)**	**(3.03)**	**(2.60)**
Adjusted operating income (loss)[1]	(79,941)	(90,735)	(53,632)	(50,963)	**(50,928)**	**(58,362)**	**(36,369)**	**(51,014)**
Adjusted net loss[1]	(139,848)	(156,392)	(109,049)	(103,287)	**(115,641)**	**(118,400)**	**(95,317)**	**(111,563)**
Adjusted net loss per share[1]	(3.70)	(4.14)	(2.89)	(2.74)	**(3.06)**	**(3.14)**	**(2.53)**	**(2.95)**

[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 April 30, 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 $212.6 million and generated negative cash flows related to operations totalling $55.1 million for the six-month period ended April 30, 2022. However, as discussed in Note 9, the Corporation renegotiated its agreement with the Government of Canada that now allows it to borrow up to $743.3 million in additional liquidity through the Large Employer Emergency Financing Facility ("LEEFF") and on March 9, 2022, the Corporation renegotiated certain terms of this agreement. The ratios applicable to the credit facilities are suspended until October 30, 2022. As a result, total available credit amounts to a maximum of $863.3 million, of which $858.6 million was drawn as at April 30, 2022. The financing was fully drawn down as at June 8, 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 $743.3 million through the LEEFF, bringing total available financing to a maximum of $863.3 million. 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 31, 2022. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management is currently in discussions lenders regarding amendments to the existing financing agreements in order to ensure greater financial flexibility to the Corporation. Management is also continuing to monitor possible government assistance programs.

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 April 30, 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.

CONSOLIDATED FINANCIAL POSITION

As at April 30, 2022, cash and cash equivalents totalled $511.2 million compared with $433.2 million as at October 31, 2021. Cash and cash equivalents in trust or otherwise reserved amounted to $223.2 million at the end of the second quarter of 2022, compared with $170.3 million as at October 31, 2021. The Corporation's statement of financial position reflected negative working capital of $101.1 million, for a ratio of 0.91, compared with $89.7 million and a ratio of 1.14 as at October 31, 2021. As at April 30, 2022, certain credit facilities were classified in the current portion of long-term debt given their maturity on April 29, 2023.

Total assets increased by $264.8 million (14.0%), from $1,897.7 million as at October 31, 2021 to $2,162.4 million as at April 30, 2022. This increase is explained in the financial position table provided below. Equity decreased by $214.2 million, from a negative amount of $315.1 million as at October 31, 2021 to negative equity of $529.3 million as at April 30, 2022. The deterioration resulted primarily from a $212.6 million net loss attributable to shareholders.

(in thousands of dollars)	**April 30, 2022 $**	**October 31, 2021 $**	**Difference $**	**Main reasons for significant differences**
Assets				
Cash and cash equivalents	**511,210**	433,195	78,015	See Cash flows section
Cash and cash equivalents otherwise reserved	**223,194**	170,311	52,883	Seasonal nature of operations combined with higher business volume
Trade and other receivables	**277,418**	108,857	168,561	Increase in amounts receivable from credit card processors and government grants receivable
Income taxes receivable	**16,202**	16,220	(18)	No significant difference
Inventories	**19,145**	10,514	8,631	Increase in inventory of fuel and consumable parts
Prepaid expenses	**34,588**	16,465	18,123	Seasonal nature of operations combined with higher business volume
Deposits	**135,781**	122,174	13,607	Increase in deposits for aircraft maintenance
Property, plant and equipment	**921,132**	974,229	(53,097)	Depreciation for the period partially offset by capitalization of eligible aircraft maintenance
Intangible assets	**14,545**	16,849	(2,304)	Amortization for the period, partially offset by the acquisitions
Investment	**9,201**	9,476	(275)	Share of net loss of a joint venture
Deferred financing costs	**—**	19,368	(19,368)	Full utilization of deferred financing costs related to the LEEFF credit facilities

(in thousands of dollars)	April 30, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**243,788**	141,413	102,375	Seasonal nature of operations combined with higher business volume
Income taxes payable	**2,000**	1,354	646	No significant difference
Customer deposits and deferred revenues	**494,191**	292,158	202,033	Seasonal nature of operations combined with higher business volume
Long-term debt and lease liabilities	**1,567,096**	1,419,538	147,558	Drawdowns on the credit facilities 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	**142,111**	126,244	15,867	Increase mainly related to the passage of time
Liability related to warrants	**37,366**	36,557	809	Increase in fair value of warrants during the period
Deferred government grant	**177,035**	167,394	9,641	Drawdowns on the credit facility related travel credits, partially offset by proceeds from government grants during the period
Other liabilities	**27,536**	27,497	39	No significant difference
Deferred tax liabilities	**630**	613	17	No significant difference
Equity				
Share capital	**221,273**	221,012	261	Shares issued from treasury
Share-based payment reserve	**16,006**	15,948	58	Share-based payment expense
Deficit	**(757,502)**	(544,881)	(212,621)	Net loss
Cumulative exchange differences	**(9,114)**	(7,189)	(1,925)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
(in thousands of dollars)	2022 $	2021 $	Difference $	2022 $	2021 $	Difference $
Cash flows related to operating activities	**24,640**	(100,635)	125,275	**(55,069)**	(206,930)	151,861
Cash flows related to investing activities	**(10,846)**	(5,114)	(5,732)	**(15,009)**	(6,988)	(8,021)
Cash flows related to financing activities	**156,013**	150,112	5,901	**149,446**	134,969	14,477
Effect of exchange rate changes on cash	**(1,728)**	(1,068)	(660)	**(1,353)**	(1,343)	(10)
Net change in cash and cash equivalents	**168,079**	43,295	124,784	**78,015**	(80,292)	158,307

Operating activities

Operating activities generated cash flows of $24.6 million during the second quarter, compared with cash flows used of $100.6 million in 2021. The $125.3 million increase resulted from the $150.5 million increase in non-cash working capital balances related to operations and the $10.4 million increase in the net change in the provision for return conditions, partially offset by the $32.0 million decrease in the net change in other assets and liabilities related to operations.

Cash flows used in operating activities amounted to $55.1 million for the six-month period compared with $206.9 million in 2021. The decrease resulted mainly from the improvement in our operating results following the gradual and partial resumption of airline operations, combined with the $160.2 million increase in non-cash working capital balances related to operations and the $24.8 million increase in the net change in the provision for return conditions, partially offset by the $51.8 million decrease in the net change in other assets and liabilities related to operations.

Investing activities

Cash flows used in investing activities amounted to $10.8 million for the second quarter, compared with $5.1 million in 2021, representing an increase of $5.7 million. For the six-month period, cash flows used in investing activities amounted to $15.0 million compared with $7.0 million in 2021, representing an increase of $8.0 million. For the quarter and the six-month period ended April 30, 2022, additions to property, plant and equipment and intangible assets amounted to $10.3 million and $14.5 million, respectively, and consisted primarily in aircraft maintenance and spare parts, compared with $1.5 million and $3.8 million, respectively, for the corresponding periods of 2021.

Financing activities

For the second quarter, cash flows generated by financing activities amounted to $156.0 million compared with $150.1 million in 2021, representing an increase of $5.9 million. During the quarter ended April 30, 2022, the Corporation drew down a total amount of $180.6 million from its credit facilities compared with $100.0 million from credit facilities related to the LEEFF and $69.9 million under its subordinated credit facility for operating purposes in 2021. In addition, during the quarter, the Corporation made repayments on its lease liabilities amounting to $24.8 million compared with $16.5 million in 2021. In 2021, the Corporation was able to negotiate rent deferral with certain lessors.

For the six-month period, financing activities generated cash flows of $149.4 million, compared with $135.0 million in 2021. During the six-month ended April 30, 2022, the Corporation made drawdowns on its credit facilities amounting to $208.6 million, compared with $169.9 million in 2021. In addition, during the six-month period, the Corporation made repayments on its lease liabilities amounting to $59.4 million compared with $31.6 million in 2021. In 2021, the Corporation was able to negotiate rent deferral with certain lessors.

FINANCING

Funding from the Government of Canada

The Corporation has entered into an agreement with the Government of Canada that allows it to borrow up to $743.3 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF). The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only on an as-needed basis, are as follows:

Secured debt – LEEFF

An amount of $78.0 million, available for drawdown until October 29, 2022, in the form of a non-revolving secured credit facility, maturing on April 29, 2023; the 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 The facility bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the six-month period ended April 30, 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. As at April 30, 2022, the Corporation benefited from a waiver of certain financial ratios and covenants from its lenders until October 30, 2022 and the credit facility was fully drawn [an amount of $44.0 million was drawn down as at October 31, 2021] with a carrying value of $77.3 million.

Unsecured debt – LEEFF

On March 9, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Under the amended agreement, the Corporation continues to have access to an amount of $312.0 million in the form of an unsecured, non-revolving credit facility maturing on April 29, 2026. 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). In the event of a change of 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 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.

As at April 30, 2022, the credit facility was fully drawn with a carrying amount of $267.3 million. During the six-month period ended April 30, 2022, the Corporation drew down a total amount of $136.0 million.

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

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

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

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

Unsecured credit facility related to travel credits

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. The Corporation has now access to an amount of $353.3 million 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 the existing long-term debt and was accounted for in the same way as previous tranches.

As at April 30, 2022, $348.6 million was drawn down under the credit facility. During the six-month period ended April 30, 2022, the Corporation drew down a total amount of $38.6 million. On May 31, 2022, the Corporation drew down an additional amount of $4.6 million, which will be recognized as long-term debt and deferred government grant during the third quarter. As at April 30, 2022, the carrying amount of the credit facility was $169.7 million, and an amount of $177.0 million was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

The Corporation has a $50.0 million revolving credit facility for its operations which expires on April 29, 2023. 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. As at April 30, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions from its lenders until October 30, 2022 and the credit facility was fully drawn.

Subordinated credit facility

The Corporation also has a $70.0 million subordinated credit facility for its operations. The facility expires on April 29, 2023 and becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or at the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and conditions. As at April 30, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions from its lenders until October 30, 2022 and 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 $596.3 million as at April 30, 2022 ($549.8 million as at October 31, 2021) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at April 30, 2022** **$**	**As at October 31, 2021** **$**
Guarantees		
Irrevocable letters of credit	**949**	6,951
Collateral security contracts	**440**	425
Leases		
Lease obligations	**594,910**	542,397
	596,299	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 April 30, 2022, $54.3 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 ($3.9 million), which has been fully drawn down.

As at April 30, 2022, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $46.5 million compared with October 31, 2021. This increase resulted primarily from the impact of higher interest rate 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 $636.2 million in long-term debt and $930.9 million in lease liabilities on the consolidated statement of financial position.

The Corporation’s total debt stood at $1,781.5 million as at April 30, 2022, up $177.4 million from October 31, 2021. The increase was primarily due to a drawdown of $208.6 million from its credit facilities and the strengthening of the U.S. dollar against the dollar, partially offset by the payment of 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 $99.4 million from $1,170.9 million as at October 31, 2021 to $1,270.3 million as at April 30, 2022. The increase in total net debt resulted from the increase in total debt, partially offset by the increase in cash and cash equivalent balances.

Outstanding shares

As at April 30, 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 June 3, 2022, there were 37,829,416 total voting shares outstanding.

Stock options

As at June 3, 2022, a total of 330,847 stock options was outstanding, 180,847 of which were exercisable.

Warrants

As at April 30, 2022 and as at June 3, 2022, a total of 13,000,000 warrants was issued. As at April 30, 2022 and as at June 3, 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 April 30, 2022, Air Transat's fleet consisted of twelve Airbus A330s (332 or 345 seats), ten Airbus A321neoLRs (199 seats), seven Airbus A321ceos (199 seats) and one Boeing 737-800 (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, one Airbus A330 was returned to the lessor early during the six-month period ended April 30, 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 April 30, 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, totalling $41.5 million, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF.

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

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.

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 April 30, 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 April 30, 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

Impact of the coronavirus on outlook - The Corporation continues to implement a series of operational, commercial and financial measures, including cost reduction, to preserve its cash flow. The Corporation continues to monitor the situation on a daily basis in order to adjust these measures as the situation evolves. It also continuously monitors demand in order to adjust the deployed capacity.

Following the recent announcements regarding the easing of health measures and travel restrictions by various governments in Canada and other countries, 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, reaching 85% on flights from March to May for the south destinations program, the Corporation's main market for the period, which bodes well for the summer peak season. 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 89% of the 2019 capacity. For the transatlantic program, the Corporation's main market for the summer season, the planned capacity in 2022 is 75% of the 2019 levels. In the sun destinations program, the Corporation's planned capacity represents 98% of the 2019 levels. Moreover, the Corporation plans to increase its presence in the transborder market by quadrupling its capacity compared with 2019 by offering, among other things, new flights from Montréal to Los Angeles and San Francisco. Lastly, the Corporation also plans to increase its capacity by 5% in the domestic market compared with 2019.

The impact of fuel prices, if they remain at the current level, is however creating strong pressure on our operating costs and profitability. As discussed above, the Corporation is making every effort to offset these effects and improve its performance.

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

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Notes	As at April 30, 2022 $	As at October 31, 2021 $
ASSETS			
Cash and cash equivalents		**511,210**	433,195
Cash and cash equivalents in trust or otherwise reserved	4	**191,921**	139,583
Trade and other receivables	5	**277,418**	108,857
Income taxes receivable		**1,102**	1,120
Inventories		**19,145**	10,514
Prepaid expenses		**34,588**	16,465
Current portion of deposits	6	**6,295**	10,130
Current assets		**1,041,679**	719,864
Cash and cash equivalents reserved	4	**31,273**	30,728
Deposits	6	**129,486**	112,044
Income taxes receivable	17	**15,100**	15,100
Property, plant and equipment	7	**921,132**	974,229
Intangible assets		**14,545**	16,849
Investment	8	**9,201**	9,476
Deferred financing costs		**—**	19,368
Non-current assets		**1,120,737**	1,177,794
		2,162,416	1,897,658
LIABILITIES			
Trade and other payables		**243,788**	141,413
Income taxes payable		**2,000**	1,354
Customer deposits and deferred revenues		**494,191**	292,158
Current portion of long-term debt and lease liabilities	9	**364,193**	171,557
Current portion of liability related to warrants	10	**37,366**	20,622
Current portion of provision for return conditions	11	**1,280**	3,065
Current liabilities		**1,142,818**	630,169
Long-term debt and lease liabilities	9	**1,202,903**	1,247,981
Liability related to warrants	10	**—**	15,935
Deferred government grant	9	**177,035**	167,394
Provision for return conditions	11	**140,831**	123,179
Other liabilities	12	**27,536**	27,497
Deferred tax liabilities		**630**	613
Non-current liabilities		**1,548,935**	1,582,599
NEGATIVE EQUITY			
Share capital	13	**221,273**	221,012
Share-based payment reserve		**16,006**	15,948
Deficit		**(757,502)**	(544,881)
Cumulative exchange differences		**(9,114)**	(7,189)
		(529,337)	(315,110)
		2,162,416	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]

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended April 30 2022 $	2021 $	Six-month periods ended April 30 2022 $	2021 $
Revenues	14	**358,157**	7,569	**560,595**	49,489
Operating expenses					
Costs of providing tourism services		**139,414**	4,768	**205,632**	14,787
Aircraft fuel		**81,468**	1,723	**117,781**	9,271
Salaries and employee benefits	14	**59,786**	20,978	**106,106**	49,190
Aircraft maintenance		**29,307**	13,236	**47,536**	29,684
Sales and distribution costs		**28,804**	508	**44,960**	2,456
Airport and navigation fees		**19,907**	1,026	**35,821**	5,816
Aircraft rent	9	**2,315**	—	**3,091**	—
Other airline costs		**26,621**	3,838	**47,209**	12,168
Other		**21,123**	11,754	**39,037**	27,431
Share of net loss of a joint venture	8	**426**	701	**805**	3,281
Depreciation and amortization		**36,499**	35,272	**73,971**	72,762
Special items	15	**—**	245	**—**	7,171
		445,670	94,049	**721,949**	234,017
Operating loss		**(87,513)**	(86,480)	**(161,354)**	(184,528)
Financing costs	9	**24,962**	18,025	**46,930**	37,170
Financing income		**(1,563)**	(1,109)	**(2,552)**	(2,556)
Change in fair value of fuel-related derivatives and other derivatives		**1,192**	(3,433)	**1,720**	(8,629)
Revaluation of liability related to warrants	10	**353**	757	**809**	757
Gain on long-term debt modification	9	**(22,191)**	—	**(22,191)**	—
Gain on asset disposals	16	**(66)**	(1,525)	**(4,018)**	(18,897)
Foreign exchange (gain) loss		**7,425**	(29,770)	**29,421**	(62,643)
Loss before income tax expense		**(97,625)**	(69,425)	**(211,473)**	(129,730)
Income taxes					
Current		**651**	112	**1,148**	235
Deferred		**—**	—	**—**	75
		651	112	**1,148**	310
Net loss for the period		**(98,276)**	(69,537)	**(212,621)**	(130,040)
Net income (loss) attributable to:					
Shareholders		**(98,276)**	(69,561)	**(212,621)**	(130,095)
Non-controlling interests		**—**	24	**—**	55
		(98,276)	(69,537)	**(212,621)**	(130,040)
Loss per share	13				
Basic		**(2.60)**	(1.84)	**(5.63)**	(3.45)
Diluted		**(2.60)**	(1.84)	**(5.63)**	(3.45)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Quarters ended April 30 2022 $	 2021 $	Six-month periods ended April 30 2022 $	 2021 $
Net loss for the period	**(98,276)**	(69,537)	**(212,621)**	(130,040)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Reclassification to net income	**—**	—	**—**	447
Deferred taxes	**—**	—	**—**	75
	—	—	**—**	522
Foreign exchange loss on translation of financial statements of foreign subsidiaries for the period	**(1,708)**	(1,657)	**(1,565)**	(2,393)
Reclassification to net income (loss)	**—**	—	**(360)**	—
	(1,708)	(1,657)	**(1,925)**	(2,393)
Total other comprehensive income	**(1,708)**	(1,657)	**(1,925)**	(1,871)
Comprehensive loss for the period	**(99,984)**	(71,194)	**(214,546)**	(131,911)
Comprehensive loss attributable to:				
Shareholders	**(99,984)**	(69,687)	**(214,546)**	(128,666)
Non-controlling interests	**—**	(1,507)	**—**	(3,245)
	(99,984)	(71,194)	**(214,546)**	(131,911)

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	—	—	(130,095)	—	—	(130,095)	55	(130,040)
Other comprehensive income (loss)	—	—	—	522	907	1,429	(3,300)	(1,871)
Comprehensive income (loss) for the period	—	—	(130,095)	522	907	(128,666)	(3,245)	(131,911)
Fair value changes of non-controlling interest liabilities	—	—	(342)	—	—	(342)	342	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(397)	(397)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(3,300)	(3,300)	3,300	—
	—	—	(342)	—	(3,300)	(3,642)	3,245	(397)
Balance as at April 30, 2021	**221,012**	**15,948**	**(294,575)**	**—**	**(8,386)**	**(66,001)**	**—**	**(66,001)**
Net income (loss) for the period	—	—	(259,464)	—	—	(259,464)	66	(259,398)
Other comprehensive income (loss)	—	—	(597)	—	1,905	1,308	(708)	600
Comprehensive income (loss) for the period	—	—	(260,061)	—	1,905	(258,156)	(642)	(258,798)
Fair value changes of non-controlling interest liabilities	—	—	9,755	—	—	9,755	(9,755)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	9,689	9,689
Reclassification of non-controlling interest exchange difference	—	—	—	—	(708)	(708)	708	—
	—	—	9,755	—	(708)	9,047	642	9,689
Balance as at October 31, 2021	221,012	15,948	(544,881)	—	(7,189)	(315,110)	—	(315,110)
Net loss for the period	—	—	(212,621)	—	—	(212,621)	—	(212,621)
Other comprehensive loss	—	—	—	—	(1,925)	(1,925)	—	(1,925)
Comprehensive loss for the period	—	—	(212,621)	—	(1,925)	(214,546)	—	(214,546)
Issued from treasury	261	—	—	—	—	261	—	261
Share-based payment expense	—	58	—	—	—	58	—	58
	261	58	—	—	—	319	—	319
Balance as at April 30, 2022	**221,273**	**16,006**	**(757,502)**	**—**	**(9,114)**	**(529,337)**	**—**	**(529,337)**

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]

Unaudited (in thousands of Canadian dollars)	Notes	Quarters ended April 30 2022 $	2021 $	Six-month periods ended April 30 2022 $	2021 $
OPERATING ACTIVITIES					
Net loss for the period		**(98,276)**	(69,537)	**(212,621)**	(130,040)
Operating items not involving an outlay (receipt) of cash:					
Depreciation and amortization		**36,499**	35,272	**73,971**	72,762
Change in fair value of fuel-related derivatives and other derivatives		**1,192**	(3,433)	**1,720**	(8,629)
Revaluation of liability related to warrants		**353**	757	**809**	757
Gain on long-term debt modification	9	**(22,191)**	—	**(22,191)**	—
Gain on asset disposals	16	**(66)**	(1,525)	**(4,018)**	(18,897)
Foreign exchange (gain) loss		**7,425**	(29,770)	**29,421**	(62,643)
Share of net loss of a joint venture	8	**426**	701	**805**	3,281
Capitalized interests on long term debt and lease liabilities		**12,083**	8,403	**22,302**	14,297
Deferred taxes		**—**	—	**—**	75
Employee benefits		**480**	768	**960**	1,537
Share-based payment expense		**29**	—	**58**	—
		(62,046)	(58,364)	**(108,784)**	(127,500)
Net change in non-cash working capital balances related to operations		**90,001**	(60,523)	**57,676**	(102,528)
Net change in provision for return conditions		**357**	(10,060)	**11,376**	(13,375)
Net change in other assets and liabilities related to operations		**(3,672)**	28,312	**(15,337)**	36,473
Cash flows related to operating activities		**24,640**	(100,635)	**(55,069)**	(206,930)
INVESTING ACTIVITIES					
Additions to property, plant and equipment and other intangible assets		**(10,301)**	(1,461)	**(14,464)**	(3,757)
Decrease in cash and cash equivalents reserved		**(545)**	(2,832)	**(545)**	(2,832)
Proceeds from sale of assets	16	**—**	—	**—**	422
Capital contribution to a joint venture	8	**—**	(821)	**—**	(821)
Cash flows related to investing activities		**(10,846)**	(5,114)	**(15,009)**	(6,988)
FINANCING ACTIVITIES					
Proceeds from borrowings	9	**180,594**	169,851	**208,594**	169,851
Transaction costs		**—**	(3,242)	**—**	(3,242)
Proceeds from issuance of shares		**261**	—	**261**	—
Repayment of lease liabilities	9	**(24,842)**	(16,497)	**(59,409)**	(31,640)
Cash flows related to financing activities		**156,013**	150,112	**149,446**	134,969
Effect of exchange rate changes on cash and cash equivalents		**(1,728)**	(1,068)	**(1,353)**	(1,343)
Net change in cash and cash equivalents		**168,079**	43,295	**78,015**	(80,292)
Cash and cash equivalents, beginning of period		**343,131**	302,846	**433,195**	426,433
Cash and cash equivalents, end of period		**511,210**	346,141	**511,210**	346,141
Supplementary information (as reported in operating activities)					
Net income taxes paid (recovered)		**400**	(1,139)	**471**	(1,297)
Interest paid		**3,993**	11,176	**7,649**	11,922

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 April 30, 2022 were approved by the Corporation's Board of Directors on June 8, 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 April 30, 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 $212,621 and generated negative cash flow related to operations totalling $55,069 for the six-month period ended April 30, 2022. However, as discussed in Note 9, the Corporation renegotiated its agreement with the Government of Canada that now allows it to borrow up to $743,300 in additional liquidity through the Large Enterprise Emergency Financing Facility ("LEEFF") and on March 9, 2022, the Corporation renegotiated certain terms of this agreement. The ratios applicable to the credit facilities are suspended until October 30, 2022. In total, the available financing amounts to a maximum of $863,300, of which $858,594 was drawn down as at April 30, 2022. The financing was fully drawn down as at June 8, 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 during the 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 $743,300 through the LEEFF, bringing the total available financing to a maximum of $863,300. 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 31, 2022. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management is currently in discussions with lenders regarding amendments to the existing financing agreements in order to ensure greater financial flexibility to the Corporation. Management is also continuing to monitor possible government assistance programs.

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 April 30, 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 April 30, 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, totalling $41,491, 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.

Note 4 Cash and cash equivalents in trust or otherwise reserved

As at April 30, 2022, cash and cash equivalents in trust or otherwise reserved included $164,866 [$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 $58,328, $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 April 30, 2022 $	As at October 31, 2021 $
Credit card processors receivables	**231,988**	77,733
Government receivables	**21,902**	13,111
Trade receivables	**11,752**	9,775
Cash receivable from lessors	**3,162**	1,610
Other receivables	**8,614**	6,628
	277,418	108,857

As at April 30, 2022, government receivables included a wage subsidy in the amount of $7,825 under the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP") [Note 14] (a wage subsidy of $1,296 under the Canada Emergency Wage Subsidy ("CEWS"] program as at October 31, 2021).

Note 6 Deposits

	As at April 30, 2022 $	As at October 31, 2021 $
Maintenance deposits with lessors	**97,622**	80,777
Deposits on leased aircraft and engines	**32,707**	33,926
Deposits with suppliers	**5,452**	7,471
	135,781	122,174
Less current portion	**6,295**	10,130
	129,486	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	**463**	**3,420**	**823**	**4**	**13,989**	**456**	**19,155**
Disposals	**(4,585)**	**(36)**	**(17)**	**—**	**(32,140)**	**(451)**	**(37,229)**
Write-offs	**—**	**—**	**(237)**	**(188)**	**(5,321)**	**(1,171)**	**(6,917)**
Exchange difference	**—**	**—**	**21**	**1,609**	**—**	**(70)**	**1,560**
Balance as at April 30, 2022	**112,996**	**138,870**	**57,783**	**80,109**	**1,276,596**	**121,214**	**1,787,568**
Accumulated depreciation							
Balance as at October 31, 2021	**67,277**	**78,803**	**43,180**	**30,168**	**539,787**	**77,555**	**836,770**
Depreciation	**4,068**	**4,234**	**2,270**	**599**	**55,714**	**3,293**	**70,178**
Disposals	**(4,585)**	**(36)**	**(17)**	**—**	**(28,809)**	**(163)**	**(33,610)**
Write-offs	**—**	**—**	**(237)**	**(188)**	**(5,321)**	**(1,171)**	**(6,917)**
Exchange difference	**—**	**—**	**28**	**32**	**—**	**(45)**	**15**
Balance as at April 30, 2022	**66,760**	**83,001**	**45,224**	**30,611**	**561,371**	**79,469**	**866,436**
Net book value as at April 30, 2022	**46,236**	**55,869**	**12,559**	**49,498**	**715,225**	**41,745**	**921,132**

	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, 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 six-month period ended April 30, 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.

Note 8 Investment

As at April 30, 2022, the change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2021	**9,476**
Share of net loss	**(805)**
Translation adjustment	**530**
Balance as at April 30, 2022	**9,201**

The investment was translated at the USD/CAD closing rate of 1.2803 as at April 30, 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 April 30, 2022 and October 31, 2021. The current portion of lease liabilities included deferred rent payments related to aircraft leases and real estate leases of $73,546 and $2,089, respectively [$80,989 and $2,340 in 2021, respectively]:

	Final maturity	Weighted average effective interest rate	As at April 30, 2022	As at October 31, 2021
		%	$	$
Long-term debt				
Secured debt - LEEFF	**2023**	**5.55**	**77,250**	43,827
Unsecured debt - LEEFF	**2026**	**13.27**	**267,282**	157,985
Unsecured credit facility - Travel credits	**2028**	**14.02**	**169,749**	140,590
Revolving credit facility	**2023**	**5.83**	**49,744**	49,805
Subordinated credit facility	**2023**	**11.12**	**72,180**	70,973
Long-term debt		**11.71**	**636,205**	463,180
Lease liabilities				
Fleet	**2022-2033**	**5.25**	**884,735**	904,922
Real estate and other	**2022-2037**	**5.39**	**46,156**	51,436
Lease liabilities		**5.26**	**930,891**	956,358
Total long-term debt and lease liabilities		**7.88**	**1,567,096**	1,419,538
Current portion of long-term debt and lease liabilities			**(364,193)**	(171,557)
Long-term debt and lease liabilities			**1,202,903**	1,247,981

Funding from the Government of Canada

The Corporation has entered into an agreement with the Government of Canada that allows it to borrow up to $743,300 in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF). The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only on an as-needed basis, are as follows:

Secured debt - LEEFF

An amount of $78,000, available for drawdown until October 29, 2022, in the form of a non-revolving and secured credit facility, maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of 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 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change in control, this credit facility becomes immediately due and payable. During the six-month period ended April 30, 2022, the Corporation drew down a total amount of $34,000. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and conditions. As at April 30, 2022, the Corporation benefited from a waiver of certain financial ratios and covenants from its lenders until October 30, 2022 and the credit facility was fully drawn [$44,000 as at October 31, 2021] with a carrying amount of $77,250.

Unsecured debt - LEEFF

On March 9, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Under the amended agreement, the Corporation continues to have access to an amount of $312,000, in the form of an unsecured, non-revolving credit facility maturing on April 29, 2026. 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). 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 LEEEF 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)**

As at April 30, 2022, the credit facility was fully drawn down and its carrying amount was $267,282. During the six-month period ended April 30, 2022, the Corporation drew down a total amount of $136,000. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a reduction of the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated as at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of income (loss) under Change in fair value of fuel-related derivatives and other derivatives. As at April 30, 2022, the fair value of the prepayment option of $214 [$1,377 as at October 31, 2021] was determined using a trinomial tree approach based on the Hull-White model.

In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants *[Note 10]* related to the unsecured financing facility - 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 April 30, 2022, $348,594 was drawn down under the credit facility. During the six-month period ended April 30, 2022, the Corporation drew down a total amount of $38,594. On May 31, 2022, the Corporation drew down an additional amount of $4,623, which will be recognized as long-term debt and deferred government grant during the third quarter. As at April 30, 2022, the carrying amount of the credit facility was $169,749, and an amount of $177,035 was also recognized as deferred government grant related to these drawdowns. During the six-month period ended April 30, 2022, an amount of $8,607 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

Other credit facilities

Revolving credit facility

The Corporation has a $50,000 revolving term credit facility for its operations which expires on April 29, 2023. 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 of 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. As at April 30, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions from its lenders until October 30, 2022 and the credit facility was fully drawn.

Subordinated credit facility

The Corporation also has a $70,000 subordinated credit agreement for its operations. The facility expires on April 29, 2023 and becomes immediately due and payable in the event of a change of control. The agreement is secured by a second ranking movable hypothec on the universality 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 31, 2022, an additional capitalizable premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and conditions. As at April 30, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions from its lenders until October 30, 2022 and the credit facility was fully drawn.

Revolving credit facility agreement – Letters of credit

The Corporation has a $74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at April 30, 2022, $54,341 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 April 30, 2022 and 2021 is detailed as follows:

		Quarters ended April 30		Six-month periods ended April 30
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Interest on lease liabilities	**11,034**	11,055	**22,463**	22,414
Interest on long-term debt	**12,442**	1,196	**21,556**	1,806
Accretion on provision for return conditions	**560**	188	**1,051**	337
Other interest	**926**	5,586	**1,860**	12,613
Financing costs	**24,962**	18,025	**46,930**	37,170

Other interest for the six-month period ended April 30, 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 April 30, 2022 and 2021 is detailed as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2022	2021	2022	2021
	$	$	$	$
Variable lease payments	**2,315**	–	**3,091**	–
Aircraft rent	**2,315**	–	**3,091**	–
Variable lease payments	**408**	–	**408**	–
Short-term leases	**850**	407	**1,587**	895
Low value leases	**100**	113	**174**	229
	3,673	520	**5,260**	1,124

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the six-month period ended April 30, 2022:

	Cash flows	Non-cash changes	Total
	$	$	$
Balance as at October 31, 2021			**956,358**
Repayments	**(59,409)**	**—**	**(59,409)**
New lease liabilities (new contracts and amendments)	**—**	**7,379**	**7,379**
Interest portion of deferred rent payments	**—**	**7,600**	**7,600**
Offset of rent payments and lease terminations	**—**	**(5,437)**	**(5,437)**
Exchange difference	**—**	**24,400**	**24,400**
Balance as at April 30, 2022	**(59,409)**	**33,942**	**930,891**

Maturity analysis

Principal and interest payments on long-term debt and lease liabilities as at April 30, 2022 are detailed as follows. Interest on long-term debt only includes interest payable as at April 30, 2022. Lease liabilities denominated in U.S. dollars are translated at the USD/CAD closing rate of 1.2803 as at April 30, 2022:

Year ended October 31	2022	2023	2024	2025	2026	2027 and up	Total
	$	$	$	$	$	$	$
Long-term debt obligations	**—**	**199,174**	**—**	**—**	**267,282**	**169,749**	**636,205**
Fleet	138,332	131,618	119,959	118,704	112,382	464,700	**1,085,695**
Real estate and other	4,676	3,894	3,279	5,742	5,304	40,951	**63,846**
Lease liabilities	**143,008**	**135,512**	**123,238**	**124,446**	**117,686**	**505,651**	**1,149,541**
Total	**143,008**	**334,686**	**123,238**	**124,446**	**384,968**	**675,400**	**1,785,746**

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 financing arrangement related to the unsecured debt – 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. Warrants are to vest in proportion to the drawings that will be made. Under the terms of the 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.

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

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

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

Moreover, the parties may, by mutual agreement, exercise the 9,436,772 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 9,436,772 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.

As at April 30, 2022, a total of 13,000,000 warrants had vested following drawdowns on the unsecured debt – LEEFF and no warrants had been exercised.

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 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 initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF. Upon drawdown of the unsecured debt – LEEFF, 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 be included in the calculation of the effective rate of each drawdown in conjunction with the expected cash flows to repay such 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 six-month period ended April 30, 2022 is detailed as follows:

	As at April 30, 2022 $	As at October 31, 2021 $
Opening balance	**36,557**	—
Issuance	—	41,491
Revaluation of liability related to warrants	**809**	(4,934)
Closing balance	**37,366**	36,557
Current liability	**37,366**	20,622
Non-current liability	—	15,935
Closing balance	**37,366**	36,557

To remeasure the liability related to warrants classified in Level 3, the Corporation used the Black-Scholes model. The main non-observable input used in the model is expected volatility, which was estimated at 54.5% as at April 30, 2022. A 5.0% increase in the expected volatility used in the pricing model would result in an increase of $2,110 in the liability related to the warrants as at April 30, 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 six-month period ended April 30, 2022 is detailed as follows:

	As at April 30, 2022 $	As at October 31, 2021 $
Opening balance	**126,244**	143,598
Additional provisions	**25,557**	28,574
Change in estimate	**(3,597)**	(18,527)
Utilization of provision	**(4,794)**	—
Unused amounts reversed	**(2,350)**	(28,384)
Accretion	**1,051**	983
Closing balance	**142,111**	126,244
Current provisions	**1,280**	3,065
Non-current provisions	**140,831**	123,179
Closing balance	**142,111**	126,244

Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at April 30, 2022, the unused amounts recovered correspond to the reversals of the provision for return conditions for three aircraft, including one aircraft whose lease had been 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 had been terminated.

Note 12 Other liabilities

	As at April 30, 2022 $	As at October 31, 2021 $
Employee benefits	**27,536**	27,120
Other liabilities	—	377
	27,536	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	59,569	261
Balance as at April 30, 2022	**37,806,659**	**221,273**

As at April 30, 2022, the number of Class A Shares and Class B Shares stood at 1,378,807 and 36,427,852, 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
Cancelled	(672,898)	7.77
Expired	(104,517)	7.86
Balance as at April 30, 2022	**330,847**	**7.01**
Options exercisable as at April 30, 2022	**180,847**	**9.01**

Warrants

No warrants were exercised during the quarter and six-month period ended April 30, 2022. Accordingly, the Corporation issued no shares related to the exercise of warrants *[Note 10]*.

Earnings per share

Basic and diluted loss per share were calculated as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	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	**(98,276)**	(69,561)	**(212,621)**	(130,095)
Effect of deemed conversion of warrants	**353**	757	**809**	757
Less anti-dilutive impact	**(353)**	(757)	**(809)**	(757)
Net loss attributable to shareholders used in computing diluted loss per share	**(98,276)**	(69,561)	**(212,621)**	(130,095)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**37,783**	37,747	**37,765**	37,747
Effect of potential dilutive securities				
Stock options	**9**	—	**4**	—
Warrants	**754**	365	**476**	459
Less anti-dilutive impact	**(763)**	(365)	**(480)**	(459)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**37,783**	37,747	**37,765**	37,747
Loss per share				
Basic	**(2.60)**	(1.84)	**(5.63)**	(3.45)
Diluted	**(2.60)**	(1.84)	**(5.63)**	(3.45)

During the quarter and the six-month period ended April 30, 2022, 180,847 outstanding stock options were excluded from the calculation since the exercise price exceeded the average share price for the period [1,724,570 stock options for the quarter and six-month period ended April 30, 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 April 30		Six-month periods ended April 30	
	2022	2021	2022	2021
	$	$	$	$
Customers				
Transatlantic	**35,916**	218	**67,477**	6,288
Americas	**317,577**	5,847	**485,476**	37,428
Other	**4,664**	1,504	**7,642**	5,773
Total revenues	**358,157**	7,569	**560,595**	49,489

Government grants

During the quarter and the six-month period ended April 30, 2022, the Corporation recognized deductions of $10,190 and $25,256 from Salaries and employee benefits related to the new subsidy programs (THRP and HHBRP). During the quarter and six-month period ended April 30, 2021, the Corporation had recognized deductions of $34,172 and $67,516 from Salaries and employee benefits related to the CEWS program, including $8,106 and $19,791, respectively for active employees.

Note 15 Special items

	Quarters ended April 30		Six-month periods ended April 30	
	2022 $	2021 $	2022 $	2021 $
Special items related to the transaction with Air Canada				
Termination payment	–	(12,500)	–	(12,500)
Professional fees	–	963	–	6,106
Reversal of compensation expense	–	(6,163)	–	(4,380)
	–	(17,700)	–	(10,774)
Other special items				
Impairment of contract costs and other assets	–	17,945	–	17,945
	–	17,945	–	17,945
	–	245	–	7,171

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 six-month period ended April 30, 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 $4,380 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 quarter and six-month period ended April 30, 2021, special items included $17,945 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 Gain on asset disposals

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

During the six-month period ended April 30, 2022, the $4,018 gain on asset disposals is mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4,085 gain, which resulted from the reversal of lease liabilities of $3,976 and other assets and liabilities totalling $109. The carrying amount of the right-of-use asset for this aircraft lease was fully impaired during the year ended October 31, 2021.

During the quarter ended April 30, 2021, the Corporation recorded, among others, a $1,638 gain on lease termination related to the partial termination of a real estate lease. During the six-month period ended April 30, 2021, 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 $18,897 recognized during the six-month period ended April 30, 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 April 30, 2022, the Corporation was party to agreements to lease seven Airbus A321neos for delivery up to 2023. The Corporation also has leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, particularly in connection with information technology service contracts, undertaken in the normal course of business. The following table sets out the minimum payments due under aircraft leases to be delivered over the next few years and under leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations:

Year ended October 31	2022	2023	2024	2025	2026	2027 and up	Total
	$	$	$	$	$	$	$
Leases (aircraft)	5,637	29,115	48,435	49,600	49,600	412,523	**594,910**
Purchase obligations	4,593	4,627	2,950	4,750	—	—	**16,920**
	10,230	**33,742**	**51,385**	**54,350**	**49,600**	**412,523**	**611,830**

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. No provisions were made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15,100 to the tax authorities in relation to this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount was recognized as income taxes receivable as at April 30, 2022 and October 31, 2021.

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 April 30, 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 April 30, 2022, no amounts had been accrued with respect to the above-mentioned agreements.

Note 19 Segmented disclosure

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

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