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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2022, compared with the year ended October 31, 2021, and should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise indicated, the information contained herein is dated as of December 14, 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 year ended October 31, 2022 and the Annual Information Form.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

We draw your attention to the MD&A's Section 7, Financial Position, Liquidity and Capital Resources and Note 2 to the Consolidated Financial Statements which describe an environment, events and conditions, specifically in the context of a pandemic, which indicate the existence of material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern.

As a result of the COVID-19 pandemic, the global air transportation and tourism industry has faced a collapse in traffic and demand. Despite the easing of health measures and travel restrictions initially put in place, travel restrictions and vaccination requirements introduced by numerous countries as well as concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine are creating significant demand uncertainty, and the effects will still be partially present in fiscal 2023. 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 2022 summer season, the Corporation also deployed a further reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter of 2022, 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 most restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2024.

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

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 Basis of Preparation and Going Concern of the MD&A and Note 2 to the Consolidated Financial Statements, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby, for 2023 as a whole, the Corporation expects to deploy capacity equivalent to 90% of the 2019 level.
- The outlook whereby, the combination of demand and higher prices will allow the Corporation to deal with higher costs.
- The outlook whereby, for 2023 as a whole, the Corporation expects an adjusted operating income margin of approximately 4% to 6%.

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

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	2022 $	2021 $	2020 $
Operating loss	**(303,420)**	(401,222)	(425,962)
Special items	**1,630**	27,572	99,675
Depreciation and amortization	**153,429**	159,765	204,112
Premiums related to derivatives that matured during the period	**(8,391)**	—	—
Adjusted operating loss	**(156,752)**	(213,885)	(122,175)
Loss before income tax expense	**(449,473)**	(389,415)	(488,973)
Special items	**1,630**	27,572	99,675
Change in fair value of derivatives	**9,685**	(8,849)	13,715
Revaluation of liability related to warrants	**(21,989)**	(4,934)	—
Gain on long-term debt modification	**(22,191)**	—	—
Loss (gain) on asset disposals	**(3,934)**	(17,347)	11,271
Foreign exchange loss (gain)	**92,150**	(53,260)	3,601
Premiums related to derivatives that matured during the period	**(8,391)**	—	—
Adjusted pre-tax loss	**(402,513)**	(446,233)	(360,711)
Net loss attributable to shareholders	**(445,324)**	(389,559)	(496,545)
Special items	**1,630**	27,572	99,675
Change in fair value of derivatives	**9,685**	(8,849)	13,715
Revaluation of liability related to warrants	**(21,989)**	(4,934)	—
Gain on long-term debt modification	**(22,191)**	—	—
Loss (gain) on asset disposals	**(3,934)**	(17,347)	11,271
Foreign exchange loss (gain)	**92,150**	(53,260)	3,601
Premiums related to derivatives that matured during the period	**(8,391)**	—	—
Tax recovery on ABCP losses	**(5,347)**	—	—
Tax impact	**—**	—	12,948
Adjusted net loss	**(403,711)**	(446,377)	(355,335)
Adjusted net loss	**(403,711)**	(446,377)	(355,335)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,838**	37,747	37,747
Adjusted net loss per share	**(10.67)**	(11.83)	(9.41)

(in thousands of dollars)	October 31, 2022 $	October 31, 2021 $	October 31, 2020 $
Long-term debt	**664,160**	463,180	49,980
Deferred government grant	**169,025**	167,394	—
Liability related to warrants	**24,360**	36,557	—
Deferred financing costs	**(12,552)**	(19,368)	—
Lease liabilities	**1,087,908**	956,358	853,906
Total debt	**1,932,901**	1,604,121	903,886
Total debt	**1,932,901**	1,604,121	903,886
Cash and cash equivalents	**(322,535)**	(433,195)	(426,433)
Total net debt	**1,610,366**	1,170,926	477,453

3. FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2022 $	2021 $	2020 $	Difference 2022 %	Difference 2021 %
Consolidated Statements of Loss					
Revenues	**1,642,038**	124,818	1,302,069	1,215.5	(90.4)
Operating loss	**(303,420)**	(401,222)	(425,962)	24.4	5.8
Net loss attributable to shareholders	**(445,324)**	(389,559)	(496,545)	(14.3)	21.5
Basic loss per share	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5
Diluted loss per share	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5
Adjusted operating loss[1]	**(156,752)**	(213,885)	(122,175)	26.7	(75.1)
Adjusted net loss[1]	**(403,711)**	(446,377)	(355,335)	9.6	(25.6)
Adjusted net loss per share[1]	**(10.67)**	(11.83)	(9.41)	9.8	(25.7)
Consolidated Statements of Cash Flows					
Operating activities	**(177,854)**	(518,444)	(46,136)	65.7	(1,023.7)
Investing activities	**(33,783)**	4,542	(60,414)	(843.8)	107.5
Financing activities	**99,689**	522,071	(33,374)	(80.9)	1,664.3
Effect of exchange rate changes on cash and cash equivalents	**1,288**	(1,407)	1,513	191.5	(193.0)
Net change in cash and cash equivalents	**(110,660)**	6,762	(138,411)	(1,736.5)	104.9

	October 31, 2022 $	October 31, 2021 $	October 31, 2020 $	Difference 2022 %	Difference 2021 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**322,535**	433,195	426,433	(25.5)	1.6
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**375,557**	170,311	308,647	120.5	(44.8)
	698,092	603,506	735,080	15.7	(17.9)
Total assets	**2,271,131**	1,897,658	2,016,071	19.7	(5.9)
Debt (current and non-current)	**664,160**	463,180	49,980	43.4	826.7
Total debt [1]	**1,932,901**	1,604,121	903,886	20.5	77.5
Total net debt [1]	**1,610,366**	1,170,926	477,453	37.5	145.2

[1] See Non-IFRS financial measures section

4. HIGHLIGHTS OF THE FISCAL YEAR

IMPACT OF THE COVID-19 PANDEMIC

As a result of the COVID-19 pandemic, the global air transportation and tourism industry has faced a collapse in traffic and demand. Despite the easing of health measures and travel restrictions initially put in place, travel restrictions and vaccination requirements introduced by numerous countries as well as concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine are creating significant demand uncertainty, and the effects will still be partially present in fiscal 2023. 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 2022 summer season, the Corporation also deployed a further reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter of 2022, 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 most restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2024.

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

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

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

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

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

- During the fiscal year, 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 followed by the lifting of most of them led to an increase in demand. Since then, the Corporation resumed its flight schedule for the summer season representing a significant portion of its pre-pandemic volume.

- The Corporation is negotiating with its suppliers to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.
- The Corporation continued to benefit from government grants for businesses affected by COVID-19. The Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") have been replaced by the Government of Canada with two new programs, the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP"). These two programs, which ended on May 7, 2022, provided support for salaries.
- As at October 31, 2022, cash and cash equivalents totalled $322.5 million.

CODESHARE AND VIRTUAL INTERLINING AGREEMENTS

In 2022, the Corporation enhanced its virtual interlining agreements with the addition of partners Azores Airlines, Longanair, SKY Express, Air North, AEGEAN Airlines and Viva Air 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 through this platform to over 300.

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

In October 2022, the Corporation opened bookings under the codeshare agreement with Porter Airlines.

NEW AIRCRAFT LEASES

In September 2022, the Corporation announced a long-term lease agreement for three new Airbus A321XLRs, for delivery from 2025 to 2026. The agreement also includes an option for an additional A321XLR to be delivered in 2027.

In November 2022, the Corporation entered into an agreement for the delivery of two additional Airbus A321LRs, delivery being expected in 2024, bringing the total projected number of A321LRs to 19.

COLLECTIVE AGREEMENTS

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, until April 30, 2025.

In October 2022, the Corporation entered into a new five-year collective agreement with the International Association of Machinists and Aerospace Workers (AIMTA), representing maintenance workers and central baggage agents. This new agreement, expiring on April 30, 2027, was ratified on November 7, 2022.

5. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

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

CORE BUSINESS, VISION AND STRATEGY

Core Business

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

Strategy

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

STRATEGIC PLAN

To that end, Transat is implementing or continuing certain changes:

- Refocus airline operations and redefine the network by ensuring a greater presence in Montréal and Eastern Canada and forging partnerships to strengthen the network;
- Reduce costs and increase agility, particularly by renegotiating some commitments (fleet, real estate, etc.), by refocusing on airline businesses and a significant streamlining of the organization;
- Optimize financing structure over the long term;
- Increase efficiency by streamlining the fleet and bringing its average age down, around two types of Airbus aircraft (A330 and A321), optimizing aircraft usage, reducing seasonal fluctuations and enhancing revenue management practices.

The Corporation is continuing to rely on and leverage its strengths:

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

For fiscal 2023, in line with its 2022-2026 strategic plan, Transat has set the following objectives and performance drivers:

1. Continue to strengthen the network, particularly by entering into partnerships to improve aircraft usage and expand into new markets, and by implementing a dynamic pricing solution.
2. Preserve liquidity and optimize cash to support the resumption and development of operations.

3. Continue to streamline the fleet, in particular with the addition of new A321LR aircraft and implementation of the Mixed Fleet Flying accreditation program.

4. Optimize capital structure.

5. Accelerate growth in ancillary revenues.

6. Improve call centre performance.

REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2022

The main objectives and achievements for fiscal 2022 were as follows:

Continue to resume operations by increasing volumes and employment levels during the winter and summer seasons to prepare for a return to pre-pandemic levels by 2023 at the latest

The Corporation continuously adjusted 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 followed by the lifting of most of them has led to an increase in demand. Since then, the Corporation has resumed its flight schedule for the summer season representing a significant portion of pre-pandemic volume.

As at October 31, 2022, the workforce totalled about 3,900, up by approximately 1,800 employees compared to last year, which represents 75% of the pre-pandemic headcount.

Preserve liquidity and optimize cash to support the resumption and development of operations

By renegotiating certain terms of the agreement entered into with the Government of Canada, as discussed below, and by implementing the measures described in the following paragraphs, the Corporation has given itself the means to resume its operations gradually. Accordingly, in 2022, the Corporation has resumed its flight schedule for the summer season representing a significant portion of pre-pandemic volume.

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

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

During the fiscal year, one Airbus A330 was returned to lessors early.

Continue to streamline the fleet, in particular with the addition of new A321LR aircraft and implementation of the Mixed Fleet Flying accreditation program, and prepare the necessary changes for the next five years

During the fiscal year, the Corporation took delivery of two Airbus A321LRs while one Airbus A330 was returned to lessors early. In addition, in September 2022, the Corporation announced a long-term lease for three new Airbus A321XLRs, for delivery from 2025 to 2026. The agreement also includes an option for an additional A321XLR aircraft to be delivered in 2027. The A321XLRs will provide substantial operational flexibility and meet Air Transat's needs, both for the winter and summer seasons. All these changes, plus the aircraft to be delivered in fiscal 2023 and 2024, will allow the Corporation to deploy a fleet adapted to the post-pandemic recovery and growth in operations.

In August 2022, the Corporation received Transport Canada accreditation for its Mixed Fleet Flying program for Airbus A321s and A330s. This program allows accredited pilots to fly both Airbus A321 and A330 aircraft, as well as for the pooling of the training and verification activities required for these aircraft.

Deploy the partnership strategy by setting up several interlining or codeshare agreements

In 2022, the Corporation implemented two codeshare agreements. The first, with Westjet launched in May 2022, allows travellers on Air Transat's transatlantic flights to connect, via Montréal and Toronto, to or from Westjet's and Westjet Encore's domestic and US flights.

The second partnership, in effect since October 2022 with Porter Airlines allows travellers on Air Transat flights to connect, via Montréal, to or from Porter flights from Toronto Billy Bishop and Halifax, starting November 2, 2022.

These agreements are part of Air Transat's network development strategy through partnerships, in order to offer customers more options, diversify our transborder route network and expand into new markets more quickly by combining complementary strengths with these partners.

Reconsider existing financing and optimize capital structure

As described in the Financing section, the Corporation renegotiated certain terms of its agreement with the Government of Canada. On March 9, 2022, the financing agreement for the unsecured debt - LEEFF was amended to, among other things, defer the increase in interest rates as well as the date at which 50% of vested warrants would be forfeited if the financing were to be repaid before December 31, 2023. The unsecured credit facility related to travel credits was also amended to increase the amount that can be drawn by $43.3 million. On July 29, 2022, the Corporation secured an additional $100.0 million through the LEEFF on the same terms and conditions as amended on March 9, 2022. This agreement provides the Corporation with access to an additional $100.0 million in liquidity. Of this additional liquidity, $80.0 million is in addition to the unsecured LEEFF financing and $20.0 million is in addition to the secured LEEFF financing. In connection with the arrangement of this additional financing, the Corporation has agreed with all lenders to extend the maturities originally scheduled for April 29, 2023 to April 29, 2024. The Corporation has also agreed to extend the date by which the Corporation must comply with certain financial covenants to October 29, 2023 (previously October 30, 2022). In addition, as provided for under the terms of the LEEFF financing, a total of 4,687,500 warrants to purchase an equivalent number of shares of Transat at an exercise price of $3.20 per share were also issued under the renegotiated terms on March 9, 2022.

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

Deploy a global corporate responsibility strategy and set concrete decarbonization targets

In 2022, the Corporation created a new Vice Presidency, Corporate Responsibility, to strengthen its commitment to environmental, societal and governance issues. The mandate of this new team is to better support the priority objectives of its strategic plan in this area, which includes promoting diversity and inclusion in the workplace and decarbonizing its operations.

Transat is aligned with the airline industry's goal of achieving net zero emissions by 2050. In 2022, a cross-functional decarbonization committee was established to develop the climate action plan, including the identification of medium-term targets for carbon emission reductions and sustainable aviation fuel supply (SAF).

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents (not held in trust or otherwise reserved) totalled $322.5 million as at October 31, 2022.
Credit facilities	For operational purposes, we can also rely on, among other resources, a $50.0 million revolving term credit facility and a $70.0 million subordinated short-term credit facility maturing on April 29, 2024. In addition, as described in the Financing section, on July 29, 2022, the Corporation renegotiated it agreement with the Government of Canada that allows it to borrow up to $843.3 million in additional liquidity through the LEEFF, of which $743.2 million was drawn. Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements contain more detail on this issue.

Our non-financial resources include:

Brand	The Corporation continues to strengthen its distinctive brand image and raise its profile, including its sustainable tourism approach.
Structure	The integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.
Employees	The employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. In addition, we believe that the Corporation has strong management.
Supplier relationships	The Corporation has maintained over 35 years of privileged relationships with many local and destination suppliers, including hotel operators.

Subject to the going concern uncertainty described in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements, Transat has the resources it needs to meet its 2023 objectives and continue building on its long-term strategies.

6. CONSOLIDATED OPERATIONS

	2022	2021	2020	Difference	
(in thousands of dollars)	$	$	$	%	%
Revenues	**1,642,038**	124,818	1,302,069	1,215.5	(90.4)
Operating expenses					
Aircraft fuel	**526,152**	22,373	258,947	2,251.7	(91.4)
Costs of providing tourism services	**355,250**	31,958	431,562	1,011.6	(92.6)
Salaries and employee benefits	**288,889**	122,770	239,250	135.3	(48.7)
Depreciation and amortization	**153,429**	159,765	204,112	(4.0)	(21.7)
Airport and navigation fees	**128,318**	13,032	77,622	884.6	(83.2)
Sales and distribution costs	**116,105**	13,020	97,086	791.7	(86.6)
Aircraft maintenance	**114,159**	48,832	110,413	133.8	(55.8)
Aircraft rent	**6,018**	—	23,358	100.0	(100.0)
Other airline costs	**162,082**	24,643	109,424	557.7	(77.5)
Other	**90,949**	57,371	75,410	58.5	(23.9)
Share of net loss of a joint venture	**2,477**	4,704	1,172	(47.3)	301.4
Special items	**1,630**	27,572	99,675	(94.1)	(72.3)
	1,945,458	526,040	1,728,031	269.8	(69.6)
Operating loss	**(303,420)**	(401,222)	(425,962)	24.4	5.8
Financing costs	**105,314**	77,024	48,049	36.7	60.3
Financing income	**(12,982)**	(4,441)	(13,625)	192.3	(67.4)
Change in fair value of derivatives	**9,685**	(8,849)	13,715	(209.4)	164.5
Revaluation of liability related to warrants	**(21,989)**	(4,934)	—	345.7	100.0
Gain on long-term debt modification	**(22,191)**	—	—	100.0	—
Loss (gain) on asset disposals	**(3,934)**	(17,347)	11,271	(77.3)	253.9
Foreign exchange (gain) loss	**92,150**	(53,260)	3,601	(273.0)	1,579.0
Pre-tax loss	**(449,473)**	(389,415)	(488,973)	(15.4)	20.4
Income taxes (recovery)					
Current	**(3,174)**	(52)	(4,376)	(6,003.8)	98.8
Deferred	**(975)**	75	12,168	(1,400.0)	(99.4)
	(4,149)	23	7,792	(18,139.1)	(99.7)
Net loss for the year	**(445,324)**	(389,438)	(496,765)	(14.4)	21.6
Net income (loss) attributable to:					
Shareholders	**(445,324)**	(389,559)	(496,545)	(14.3)	21.5
Non-controlling interests	**—**	121	(220)	(100.0)	155.0
	(445,324)	(389,438)	(496,765)	(14.4)	21.6
Loss per share:					
Basic	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5
Diluted	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5

REVENUES

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

For the year ended October 31, 2022, our revenues were up significantly by $1,517.2 million, owing primarily to the fact the Corporation had to suspend its airline operations from January 29, 2021 to July 30, 2021 and to adjust its offering to reduced demand throughout fiscal 2021. Compared with fiscal 2019, revenues were down 44.1%.

Revenue growth in winter 2022 was dampened by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant during the first quarter and the new restrictive measures put in place by the federal government on December 15, 2021. As a result, the Corporation initially cancelled nearly 30% of flights scheduled from January to the end of February. In addition, at the beginning of February, the Corporation cancelled additional winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity.

For the 2022 summer season, the Corporation also deployed a reduced program although much more similar to pre-pandemic levels. Compared with the corresponding period of fiscal 2019, revenues were down 22.3%. For the 2022 summer season, the capacity offered represented 87% of that deployed in 2019 across all programs and 74% of the 2019 level for the transatlantic program, the main program during this period. Overall, the number of travellers were down 21% compared with 2019. The gradual recovery of demand combined with higher fuel prices contributed to the increase in average selling prices compared with 2019. For our transatlantic program, selling prices increased by an average of 7%.

OPERATING EXPENSES

Total operating expenses were up $1,419.4 million (269.8%) for the fiscal year, compared with 2021, attributable to the greater capacity deployed compared with the corresponding periods of 2021 following higher demand compared with last year.

Aircraft fuel

Aircraft fuel expense was up $503.8 million for the fiscal year. The increase was mainly attributable to a higher capacity compared with 2021, combined with a significant 88% rise in fuel prices ($241.8 million) compared with fiscal 2021.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. The $323.3 million increase resulted primarily from the rise in the number of packages sold compared with 2021.

Salaries and employee benefits

Salaries and employee benefits were up $166.1 million (135.3%) to $288.9 million for the year ended October 31, 2022, mainly following the gradual resumption of the Corporation's airline operations and the recall of some of its employees since July 2021.

Up through April 30, 2022, the Corporation benefited from wage subsidies for businesses affected by COVID-19 for its personnel in Canada. During the year ended October 31, 2022, the Corporation made use of the THRP and HHBRP, resulting in the recognition of an amount of $24.4 million under these programs. The THRP and HHBRP ended on May 7, 2022. For the year ended October 31, 2021, the Corporation made use of the CEWS; amounts of $25.8 million and $80.9 million, respectively, were recognized related to active employees and non-active employees, representing salaries paid.

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was down $6.3 million (4.0%) for fiscal 2022. The decrease stemmed mainly from the accelerated amortization that was recorded during fiscal 2021 of certain right-of-use assets related to the fleet, partially offset by the commissioning of four Airbus A321LRs in 2021 and two more in 2022.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $115.3 million for the fiscal year, compared with 2021. The increase mainly resulted from the greater capacity deployed compared with 2021 and higher prices.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs amounted to $116.1 million, up $103.1 million from fiscal 2021. The increase was mainly driven by higher revenues. Other factors were the higher advertising expenses due to the gradual resumption of operations, the increase in package sales which have higher commissions and costs related to booking cancellations.

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 $65.3 million (133.8%) for the year, compared with 2021. The increase was attributable to the greater capacity deployed compared with 2021.

Aircraft rent

Aircraft rent refers to variable aircraft rent. Aircraft rent amounted to $6.0 million for fiscal 2022 (nil in 2021). The increase was 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 $137.4 million for the fiscal year, compared with 2021. This increase was attributable to higher capacity compared with 2021.

Other

Other costs were up $33.6 million (58.5%) for the fiscal year, compared with 2021. The increase 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 fiscal 2022 amounted to $2.5 million, compared with $4.7 million for 2021. Operations at our hotel joint venture gradually resumed compared with 2021. Moreover, certain assets were impaired during the year ended October 31, 2021.

Special items

	2022 $	2021 $
Special items		
Severance	**847**	6,739
Impairment of assets	**783**	–
Impairment of contract balances and other assets	**–**	24,333
Impairment of the fleet (including right-of-use assets)	**–**	9,117
	1,630	40,189
Special items related to the transaction with Air Canada		
Termination payment	**–**	(12,500)
Professional fees	**–**	6,106
Reversal of compensation expense	**–**	(6,223)
	–	(12,617)
	1,630	27,572

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

Special items

As a result of the global COVID-19 pandemic since the beginning of 2020, the Corporation's operations have been significantly disrupted. As a result, the Corporation has had to make significant capacity reductions, primarily in 2021, and recognize impairment charges in this respect and other charges. These charges and impairment losses are included in Special items.

As at October 31, 2022, special items included severance costs of $0.8 million in respect of estimated termination benefits and an asset impairment charge of $0.8 million for the impairment of rotable Boeing 737 spare parts.

During the year ended October 31, 2021, special items included the impairment of contract balances of $21.9 million related to commissions, global distribution system fees and credit card fees that will not be refunded to the Corporation as part of the traveller refunds. In addition, the Corporation recorded an impairment charge of $2.4 million related to deposits associated with an impaired aircraft.

During the year ended October 31, 2021, it was determined that a leased Airbus A330 will not be used until it is returned to the lessor. An impairment charge totalling $9.1 million has been recorded to this effect.

As a result of the COVID-19 pandemic, the Corporation has undertaken to reduce its workforce through permanent layoffs. Severance costs of $6.7 million were accrued in 2021, of which $5.2 million was included in Trade and other payables at October 31, 2021. The provision includes the estimated costs of notices and severance benefits provided for in the Corporation's collective agreements and applicable laws, the amount of which could be adjusted based on various factors such as the relevant notice period and the number of employees being laid off and the period for which they remain laid off.

Special items related to the transaction with Air Canada

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

OPERATING RESULTS

Given the above, we recorded an operating loss of $303.4 million for the year, compared with $401.2 million in 2021. Operating results by season are summarized as follows:

				Difference	
	2022	**2021**	**2020**	**2022**	**2021**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Winter season					
Revenues	**560,595**	49,489	1,264,097	1,032.8	(96.1)
Operating expenses	**721,949**	234,017	1,318,714	208.5	(82.3)
Operating loss	**(161,354)**	(184,528)	(54,617)	12.6	(237.9)
Operating loss (%)	**(28.8)**	(372.9)	(4.3)	92.3	(8,529.9)
Summer season					
Revenues	**1,081,443**	75,329	37,972	1,335.6	98.4
Operating expenses	**1,223,509**	292,023	409,317	319.0	(28.7)
Operating loss	**(142,066)**	(216,694)	(371,345)	34.4	41.6
Operating loss (%)	**(13.1)**	(287.7)	(977.9)	95.4	70.6

We reported an operating loss for the winter season amounting to $161.4 million (28.8%), compared with $184.5 million (372.9%) in 2021. The improvement in operating results was attributable to the gradual and partial resumption of airline operations, substantially offset by the significant rise in fuel prices. 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 Corporation cancelled flights due to the drop in demand and booking cancellations following the emergence of the Omicron variant and restrictive measures put in place by the federal government on December 15, 2021. Due to the COVID-19 pandemic, demand for the winter season remained low and the Corporation's deployed capacity for winter 2022 was a fraction of 2019 capacity

During the summer season, the Corporation incurred an operating loss of $142.1 million (13.1%) compared with $216.7 million (287.7%) for the previous year. The improvement in operating results was attributable to the gradual and partial resumption of our operations, but was substantially offset by the significant rise in fuel prices and the weakening of the dollar against the U.S. currency. Airline operations were suspended for the third quarters of 2021 and 2020. Since the resumption of airline operations, demand and the Corporation's deployed capacity remains below the 2019 level; however, the recovery of demand is stronger in 2021 compared with 2020 and continues to gather strength. In 2020, the decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts.

During the winter season, the Corporation reported an adjusted operating loss of $87.4 million (15.6%), compared with an adjusted operating loss of $104.6 million (211.3%) in 2021. For the summer season, we incurred an adjusted operating loss of $69.4 million (6.4%) compared with $109.3 million (145.1%) in 2021. Overall, for the fiscal year, the Corporation reported an adjusted operating loss of $156.8 million (9.5%), compared with $213.9 million (171.4%) 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 $28.3 million (36.7%) in fiscal 2022 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 $8.5 million (192.3%) during fiscal 2022, compared with 2021, mainly due to the increases in average balances of cash and cash equivalents and higher interest rates compared with 2021. Also, following a settlement agreement with the tax authorities on the deductibility of losses related to ABCP (Asset-Backed Commercial Paper), the Corporation recorded interest income of $2.1 million for the year.

Change in fair value of derivatives

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

During fiscal 2022, the Corporation resumed the use of fuel-related and foreign currency derivatives to mitigate fluctuations in fuel prices and exchange rates. During the year ended October 31, 2022, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies decreased by $7.9 million, mainly due to the decrease in the fair value of fuel-related derivatives. During fiscal 2022, the fair value of the pre-payment option related to LEEFF unsecured financing decreased by $1.8 million. In fiscal 2021, the $8.8 million increase in the fair value of derivatives was mainly due to the maturing of fuel-related derivatives.

Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the year ended October 31, 2022, the fair value of warrants decreased by $22.0 million, owing mainly to the decline in the closing price of the share from $4.39 to $2.60 between October 31, 2021 and October 31, 2022.

Gain on long-term debt modification

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

Gain on asset disposals

For the year ended October 31, 2022, the $3.9 million gain on asset disposals was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4.1 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.

For the year ended October 31, 2021, the $17.3 million gain was primarily attributable to the termination of aircraft leases for four Airbus A330s and one Boeing 737-800. The $14.6 million gain on termination of aircraft leases resulted from the reversal of lease liabilities of $20.0 million, property, plant and equipment of $9.3 million and the provision for return conditions of $3.9 million. The carrying amounts of right-of-use assets for four of these aircraft leases were fully impaired during the year ended October 31, 2020. Moreover, during the year ended October 31, 2021, the Corporation recognized a gain on real estate lease termination of $2.6 million that stemmed from the reversal of $22.1 million in lease liabilities and $19.5 million in property plant and equipment.

Foreign exchange loss (gain)

For fiscal 2022, the Corporation recorded a foreign exchange loss of $92.2 million compared with a foreign exchange gain of $53.3 million in 2021. In 2022, the foreign exchange loss resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar.

INCOME TAXES

For the fiscal year, income tax recovery totalled $4.1 million, compared with an income tax expense of $0.0 million in 2021. The effective tax rates were 0.9% and 0.0%, respectively, for the years ended October 31, 2022 and 2021. During the year ended October 31, 2022, following a settlement agreement with the tax authorities on the deductibility of ABCP-related losses, the Corporation recorded an income tax recovery of $5.3 million.

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

NET LOSS

Considering the items discussed in the Consolidated Operations section, a net loss of $445.3 million was reported for the year ended October 31, 2022, compared with $389.4 million in 2021.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For fiscal 2022, net loss attributable to shareholders amounted to $445.3 million or $11.77 per share (basic and diluted) compared with $389.6 million or $10.32 per share (basic and diluted) for fiscal 2021. For the year ended October 31, 2022, the weighted average number of outstanding shares used to compute per share amounts was 37,838,000 (basic and diluted) compared with 37,747,000 (basic and diluted) for 2021.

For the year ended October 31, 2022, adjusted net loss was $403.7 million ($10.67 per share), compared with $446.4 million ($11.83 per share) in 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. The Corporation had to fully suspend its airline operations from January 29, 2021 to July 30, 2021 due to the COVID-19 pandemic. Nevertheless, the recovery in demand continues to gather strength since July 31, 2021, driving revenue growth.

The improvement in our operating results was driven by the partial and gradual resumption of operations. The operating losses for winter 2021 (Q1 and Q2) and the first part of summer 2021 (Q3) were mainly attributable to the suspension of our airline operations combined with a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. The recovery of demand was stronger in 2022 than in 2021, and accordingly, operating results improved for the 2022 winter and summer seasons 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)	Q1-2021 $	Q2-2021 $	Q3-2021 $	Q4-2021 $	Q1-2022 $	Q2-2022 $	Q3-2022 $	Q4-2022 $
Revenues	41,920	7,569	12,548	62,781	**202,438**	**358,157**	**508,304**	**573,139**
Operating loss	(98,048)	(86,480)	(98,368)	(118,326)	**(73,841)**	**(87,513)**	**(93,218)**	**(48,848)**
Net loss	(60,503)	(69,537)	(138,059)	(121,339)	**(114,345)**	**(98,276)**	**(106,472)**	**(126,231)**
Net loss attributable to shareholders	(60,534)	(69,561)	(138,125)	(121,339)	**(114,345)**	**(98,276)**	**(106,472)**	**(126,231)**
Basic loss per share	(1.60)	(1.84)	(3.66)	(3.21)	**(3.03)**	**(2.60)**	**(2.82)**	**(3.32)**
Diluted loss per share	(1.60)	(1.84)	(3.66)	(3.21)	**(3.03)**	**(2.60)**	**(2.82)**	**(3.32)**
Adjusted operating loss(1)	(53,632)	(50,963)	(50,928)	(58,362)	**(36,369)**	**(51,014)**	**(57,824)**	**(11,545)**
Adjusted net loss(1)	(109,049)	(103,287)	(115,641)	(118,400)	**(95,317)**	**(111,563)**	**(120,901)**	**(75,930)**
Adjusted net loss per share(1)	(2.89)	(2.74)	(3.06)	(3.14)	**(2.53)**	**(2.95)**	**(3.20)**	**(2.00)**

1 See non-IFRS financial measures

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $573.1 million in revenues, up $510.4 million from $62.8 million for the corresponding period of 2021. This increase resulted from the partial resumption of operations at a higher level in 2022 compared with 2021 since airline operations restarted on July 30, 2021. Operations generated an operating loss of $48.8 million compared with an operating loss of $118.3 million in 2021. Operating results improved compared with 2021 but were strongly reined in by the significant rise in fuel prices and the weakening of the dollar against the U.S. currency. In 2021, the operating loss was aggravated by special items of $20.3 million, including an aircraft impairment charge of $9.1 million, termination benefits of $6.7 million and impairment of contract balances of $4.5 million.

We reported a net loss of $126.2 million in the fourth quarter, compared with a net loss of $121.3 million in 2021. Net loss attributable to shareholders was $126.2 million ($3.32 per share, basic and diluted), compared with a net loss of $121.3 million ($3.21 per share, basic and diluted) in 2021.

For the fourth quarter, adjusted net loss amounted to $75.9 million ($2.00 per share) compared with an adjusted net loss of $118.4 million ($3.14 per share) in 2021.

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation’s ability to continue as a going concern. Significant doubt regarding the Corporation’s ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from October 31, 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 since the beginning of 2020, the Corporation’s operations have been severely disrupted and its financial results significantly impacted. Among other things, the Corporation had to suspend all of its flights twice, from April 1, 2020 to July 23, 2020 and from January 29, 2021 to July 30, 2021 and also to scale back its offering to adjust to demand. Despite the resumption of operations since July 30, 2021, the Corporation reported a net loss of $445.3 million and generated negative cash flows related to operating activities totalling $177.9 million for the year ended October 31, 2022. However, as discussed in Note 14 and to overcome the impacts of the pandemic, the Corporation renegotiated its agreement with the Government of Canada in order to be able to borrow up to $843.3 million in additional liquidity through the Large Employer Emergency Financing Facility (“LEEFF”). The ratios applicable to the credit facilities are now suspended until October 29, 2023 (previously October 30, 2022). As a result, total available credit amounts to a maximum of $963.3 million, of which $863.2 million was drawn as at October 31, 2022.

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

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

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

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

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

CONSOLIDATED FINANCIAL POSITION

As at October 31, 2022, cash and cash equivalents totalled $322.5 million compared with $433.2 million as at October 31, 2021. Cash and cash equivalents in trust or otherwise reserved amounted to $375.6 million at the end of fiscal 2022, compared with $170.3 million as at October 31, 2021. The Corporation's statement of financial position reflected negative working capital of $21.7 million, for a ratio of 0.98, compared with working capital of $89.3 million and a ratio of 1.14 as at October 31, 2021.

Total assets increased by $373.5 million (19.7%), from $1,897.7 million as at October 31, 2021 to $2,271.1 million as at October 31, 2022. This increase is explained in the financial position table provided below. Equity decreased by $435.1 million, from a negative amount of $315.1 million as at October 31, 2021 to negative equity of $750.2 million as at October 31, 2022. The deterioration resulted primarily from the $445.3 million net loss attributable to shareholders.

(in thousands of dollars)	October 31, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**322,535**	433,195	(110,660)	See Cash flows section
Cash and cash equivalents otherwise reserved	**375,557**	170,311	205,246	Higher business volume
Trade and other receivables	**265,050**	108,857	156,193	Increase in amounts receivable from credit card processors
Income taxes receivable	**5,537**	16,220	(10,683)	Collection of income taxes recoverable related to ABCP
Inventories	**26,725**	10,514	16,211	Increase in inventory of fuel and aircraft parts
Prepaid expenses	**26,428**	16,465	9,963	Higher business volume
Deposits	**201,623**	122,174	79,449	Increase in deposits for aircraft maintenance
Deferred tax assets	**953**	—	953	Recognition of deferred tax assets by certain foreign subsidiaries
Property, plant and equipment	**1,000,151**	974,229	25,922	Delivery of two Airbus A321LRs and capitalization of eligible aircraft maintenance partially offset by depreciation for the period and by the impairment of Boeing 737 spare parts inventory
Intangible assets	**13,261**	16,849	(3,588)	Amortization for the period, partially offset by software acquisitions
Derivative financial instruments	**11,939**	—	11,939	Favourable change in fuel-related and foreign currency derivatives contracted and premiums paid
Investment	**8,820**	9,476	(656)	Share of net loss of a joint venture
Deferred financing costs	**12,552**	19,368	(6,816)	Deferred financing costs related to the recent amendments to the LEEFF credit facilities, offset by the full utilization of deferred financing costs related to the initial LEEFF financing

(in thousands of dollars)	October 31, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**289,897**	141,790	148,107	Higher business volume
Income taxes payable	**1,054**	1,354	(300)	Decrease in amounts due
Customer deposits and deferred revenues	**602,509**	292,158	310,351	Higher business volume
Derivative financial instruments	**6,209**	—	6,209	Unfavourable change in currencies related to contracted derivatives
Long-term debt and lease liabilities	**1,752,068**	1,419,538	332,530	Drawdowns on the credit facilities, addition of two new aircraft leases, and weakening of the dollar against the U.S. dollar, partially offset by the gain on long-term debt modification and the early return of an aircraft
Provision for return conditions	**154,772**	126,244	28,528	Increase mainly related to the passage of time
Liability related to warrants	**24,360**	36,557	(12,197)	Decrease in fair value of warrants during the period, partially offset by the issuance of warrants
Deferred government grant	**169,025**	167,394	1,631	Drawdowns on the credit facility related to travel credits, partially offset by proceeds from government grants during the period
Employee benefits liability	**20,773**	27,120	(6,347)	Decrease in the defined benefit obligation following the increase in the discount rate and the amendments
Deferred tax liabilities	**644**	613	31	No significant difference
Equity				
Share capital	**221,924**	221,012	912	Shares issued from treasury
Share-based payment reserve	**16,092**	15,948	144	Share-based payment expense
Deficit	**(984,602)**	(544,881)	(439,721)	Net loss
Cumulative exchange differences	**(3,594)**	(7,189)	3,595	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

				Difference	
(in thousands of dollars)	2022 $	2021 $	2020 $	2022 %	2021 %
Cash flows related to operating activities	**(177,854)**	(518,444)	(46,136)	65.7	(1,023.7)
Cash flows related to investing activities	**(33,783)**	4,542	(60,414)	(843.8)	107.5
Cash flows related to financing activities	**99,689**	522,071	(33,374)	(80.9)	1,664.3
Effect of exchange rate changes on cash	**1,288**	(1,407)	1,513	191.5	(193.0)
Net change in cash and cash equivalents	**(110,660)**	6,762	(138,411)	(1,736.5)	104.9

Operating activities

Operating activities used cash flows of $177.9 million during fiscal 2022, compared with $518.4 million in 2021. The $340.6 million decrease in cash flows used in operating activities resulted from the $313.6 million increase in cash flows generated by the net change in non-cash working capital balances related to operations, the $39.1 million decrease in net loss before operating items not involving an outlay (receipt) of cash, and the $21.0 million increase in in the net change in the provision for return conditions, partially offset by the $33.1 million decrease in the net change in other assets and liabilities related to operations.

In 2021, the decrease in cash flows related to operating activities resulted mainly from a $362.3 million decline in the net change in non-cash working capital balances related to operations combined with a $70.0 million increase in net loss before operating items not involving an outlay (receipt) of cash, a $43.9 million decrease in the net change in other assets and liabilities related to operations and a $3.9 million increase in the net change in the provision for return conditions. The deterioration in cash flows related to operating activities resulted mainly from the suspension of airline operations for the second and third quarters of 2021, combined with a significant reduction in capacity deployed in the first half of winter 2021, due to demand remaining below prior year level because of the COVID-19 pandemic, and the travel credits refunded during the summer and payments made to suppliers.

Investing activities

Cash flows used in investing activities amounted to $33.8 million for fiscal 2022, compared with cash flows generated of $4.5 million in 2021. For the year ended October 31, 2022, additions to property, plant and equipment and intangible assets amounted to $32.5 million and consisted primarily in aircraft maintenance and spare parts, compared with $5.6 million in 2021. During the year ended October 31, 2021, cash flows were generated by the decrease in the cash and cash equivalents reserved balance of $25.5 million partially offset by the $15.0 million consideration paid to acquire the 30% interest held by the minority shareholder in Trafictours Canada inc.

Financing activities

Financing activities generated cash flows of $99.7 million, compared with $522.1 million in 2021. During the year ended October 31, 2022, the Corporation made drawdowns on its credit facilities amounting to $213.2 million, compared with $599.9 million in 2021. In addition, the Corporation made repayments on its lease liabilities amounting to $108.3 million compared with $74.5 million in 2021. In 2021, the Corporation was able to negotiate rent deferral with certain lessors.

FINANCING

Funding from the Government of Canada

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

Secured debt – LEEFF

On July 29, 2022, the Corporation renegotiated its secured LEEFF financing agreement in order to borrow additional liquidity of $20.0 million, bringing the total amount of the credit facility to $98.0 million. The maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms of the agreement remain unchanged. The non-revolving facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and continues to bear interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the year ended October 31, 2022, the Corporation drew down a total amount of $34.0 million. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022, an amount of $78.0 million was drawn down ($44.0 million as at October 31, 2021) with a carrying amount of $77.2 million ($43.8 million as at October 31, 2021).

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

Unsecured debt – LEEFF

On March 9, 2022 and July 29, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Accordingly, on July 29, 2022, the Corporation obtained additional liquidity of $80.0 million, bringing the total unsecured, non-revolving credit facility to $392.0 million. Under the agreement amended on March 9, 2022, the credit facility now bears interest at a rate of 5.0% until December 31, 2023 (previously until April 29, 2022), increasing to 8.0% until December 31, 2024 (previously until April 29, 2023), and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024 (previously until April 29, 2023). The maturity date for the initial amount of $312.0 million of the credit facility remains April 29,2026 while the additional amount of $80.0 million will mature on July 29, 2027. In the event of a change of control, this credit facility becomes immediately due and payable. As at October 31, 2022, the amount drawn down was $312.0 million ($176.0 million as at October 31, 2021) with a carrying amount of $284.8 million ($158.0 million as at October 31, 2021). During the year ended October 31, 2022, the Corporation drew down a total amount of $136.0 million.

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

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

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

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

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

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

As at October 31, 2022, a total of 13,000,000 warrants (7,333,333 warrants as at October 31, 2021) had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

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

- a maximum of 9,503,036 warrants could be exercised through the issuance of shares;
- 8,184,464 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Unsecured credit facility related to travel credits

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

As at October 31, 2022, the credit facility was fully drawn down ($310.0 million as at October 31, 2021) and its carrying amount stood at $182.5 million ($140.6 million as at October 31, 2021). An amount of $169.0 million ($167.4 million as at October 31, 2021) was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

On July 29, 2022, the Corporation renegotiated its $50.0 million revolving credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. This agreement can be extended for one year on each anniversary date subject to lender approval. The balance becomes immediately due and payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022 and 2021, the credit facility was fully drawn.

Subordinated credit facility

On July 29, 2022, the Corporation renegotiated its $70.0 million subordinated credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. In the event of a change in control, the agreement becomes immediately due and payable. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate or at the SOFR in U.S. dollars, plus a 6.0% premium, or at the financial institution's prime rate, plus a 5.0% premium. Until October 29, 2023 (previously October 31, 2022), an additional compounding premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022 and 2021, 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 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 $978.0 million as at October 31, 2022 ($549.8 million as at October 31, 2021) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**2022** **$**	**2021** **$**
Guarantees		
Irrevocable letters of credit	**978**	6,951
Collateral security contracts	**469**	425
Leases		
Lease obligations	**976,510**	542,397
	977,957	549,773
Agreements with suppliers	**17,352**	21,344
	995,309	571,117

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 October 31, 2022, $55.9 million of the facility was drawn ($38.2 million as at October 31, 2021), including $31.3 million ($30.7 million as at October 31, 2021) to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits from which £0.2 million ($0.3 million) has been drawn down.

As at October 31, 2022, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $428.2 million compared with October 31, 2021. This increase is primarily due to the signing of an agreement for the lease of three Airbus A321XLRs and one Airbus A321ceo (the agreement includes an option for the Corporation to lease an additional Airbus A321XLR), the impact of higher interest rates on future rents and the weakening of the dollar against the U.S. dollar.

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

CONTRACTUAL OBLIGATIONS BY YEAR Years ending October 31	2023 $	2024 $	2025 $	2026 $	2027 $	2028 and up $	Total $
Contractual obligations							
Long-term debt	25,220	215,783	32,662	406,290	4,309	355,377	1,039,641
Lease liabilities	191,166	171,474	177,080	156,799	141,893	533,565	1,371,977
Leases (off-balance sheet)	7,822	46,548	58,206	75,677	80,840	707,417	976,510
Agreements with suppliers and other obligations	10,568	4,415	6,158	1,446	1,463	30,097	54,147
	234,776	**438,220**	**274,106**	**640,212**	**228,505**	**1,626,456**	**3,442,275**

Debt levels

The Corporation reported $664.2 million in long-term debt and $1,087.9 million in lease liabilities in the consolidated statement of financial position.

The Corporation's total debt stood at $1,932.9 million as at October 31, 2022, up $328.8 million from October 31, 2021. The increase was primarily due to a drawdown of $213.2 million from its credit facilities, the addition of two Airbus A321LRs to the fleet and the strengthening of the U.S. dollar against the dollar, partially offset by the repayment of long-term debt and lease liabilities, and the $22.2 million gain on long-term debt modification related to the modification of the LEEFF unsecured financing facility.

Total net debt increased by $439.4 million from $1,170.9 million as at October 31, 2021 to $1,610.4 million as at October 31, 2022. The increase in total net debt resulted from the increase in total debt and the decrease in cash and cash equivalent balances.

Outstanding shares

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

As at December 9, 2022, there were a total of 38,090,534 voting shares outstanding.

Stock options

As at December 9, 2022, a total of 480,847 stock options was outstanding, 180,847 of which were exercisable.

Warrants

As at October 31, 2022 and as at December 9, 2022, a total of 17,687,500 warrants was issued. As at October 31, 2022 and as at December 9, 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 October 31, 2022, Air Transat's fleet consisted of twelve Airbus A330s (332 or 345 seats), twelve Airbus A321LRs (199 seats), seven Airbus A321ceos (199 seats) and one Boeing 737-800 (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, one Airbus A330 was returned to the lessor early during the year ended October 31, 2022. In addition, a leased Boeing 737-800 will no longer be used until its return to the lessor; the carrying amount of this leased aircraft is fully written down.

The Corporation took delivery of two Airbus A321LRs during the year ended October 31, 2022.

LITIGATION

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

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

9. ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

Amortization and impairment of non-financial assets

Depreciation of property, plant and equipment

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

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

Impairment of non-financial assets

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

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

As at October 31, 2022, the Corporation determined that the declines in revenues and demand owing to the COVID-19 pandemic are indications of impairment of its CGUs. Accordingly, the Corporation performed a new impairment test on its CGUs. The recoverable amount of CGUs was determined based on their useful value, applying a discounted cash flow model. This model is based on Level 3 inputs within the fair value hierarchy. Cash flows are derived from the financial forecasts for the next four fiscal years, based on Corporation's 2022–2026 strategic plan and the 2023 budget, which are consistent with management's best estimates and have been approved by the Board of Directors, and take into account current and expected market conditions, including the impact of the COVID-19 pandemic. The Corporation has used various assumptions in the preparation of these projections, which are by their nature uncertain and may change unpredictably; accordingly, it is possible that these projections will not be achieved, particularly if demand remains at lower-than-expected levels and travel restrictions persist over time.

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

- An average discount rate of 15.70% (14.75% in 2021), which is the Corporation's weighted average capital cost. This rate was determined taking into account a number of factors such as the risk-free interest rate, the required return on equity investments, risk factors specific to the air transportation industry and risk factors specific to the Corporation's CGUs;
- A long-term growth rate of 2.0% beyond the 5-year period (2.0% in 2021), based on the Bank of Canada's target inflation rate;
- A per gallon fuel price between US$2.24 and US$3.79 (between US$1.93 and US$2.53 in 2021), based on management's best estimates.

As at October 31, 2022 and 2021, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount remained higher than their carrying amount. Sensitivity analyses were performed on the significant assumptions used in the discounted cash flow model and no impairment would have resulted from a change in those assumptions.

Property, plant and equipment

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

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2022 and 2021, the land in Mexico did not meet the required criteria to be presented as an asset held for sale. Given the above-mentioned factors and the uncertainty surrounding future use of the land in Mexico, assessments of its recoverable amount compared with its carrying amount were made as at October 31, 2022 and 2021. The recoverable amount of the land at each of these dates was determined based on fair value less costs to sell. Fair value less costs to sell was estimated using level 3 input data, according to valuations prepared by an independent, external evaluator as at October 13, 2022 and October 19, 2021, respectively. As at October 31, 2022 and 2021, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly, no impairment charge was required.

Investment

As at October 31, 2022 and 2021, the Corporation determined that there was no objective evidence of impairment of its investment in a joint venture and that there was no increase in the value of the investment.

Discount rate of lease liabilities

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

Provision for return conditions

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

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

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

Liability related to warrants

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $51.3 million, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt - LEEFF.

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

Employee future benefits

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

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

	Retirement benefit expense for the year ended October 31, 2022	Retirement benefit obligation as at October 31, 2022
Increase (decrease)	$	$
Discount rate	(32)	(594)
Growth rate of eligible earnings	22	51

Taxes

Due to the adverse impact of the COVID-19 pandemic on its results, the Corporation ceased to recognize deferred tax assets of its Canadian subsidiaries and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. The Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the existing deferred tax assets. As discussed in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements, due to the COVID-19 pandemic, the losses generated during the years ended October 31, 2022 and 2021 and the uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the years ended October 31, 2022 and 2021, these adverse indications outweighed the historical favourable indications and the Corporation did not record any deferred tax assets for its Canadian subsidiaries during the year ended October 31, 2022. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is 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.

FINANCIAL INSTRUMENTS

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

Foreign exchange risk management

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 66% of the Corporation’s costs were incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 21% of revenues were earned in a currency other than the measurement currency of the reporting unit making the sale. To safeguard the value of commitments and anticipated transactions, the Corporation has a foreign currency risk management policy that authorizes the use of certain types of foreign currency derivatives based on anticipated foreign exchange rate trends, expiring in generally less than 18 months. During fiscal 2022, the Corporation resumed the use of foreign currency derivatives to mitigate exchange rate fluctuations.

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

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

Management of fuel price risk

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes certain types of fuel-related derivative financial instruments, expiring in generally less than 12 months. During fiscal 2022, the Corporation resumed the use of fuel-related derivatives to mitigate fuel price fluctuations.

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $9.5 million as at October 31, 2022 ($9.8 million as at October 31, 2021). Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2022 and 2021. As at October 31, 2022, approximately 14% (approximately 11% as at October 31, 2021) of accounts receivable were over 90 days past due, whereas approximately 78% (approximately 85% as at October 31, 2021) were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Receivables included receivables from two credit card processors totalling $196.9 million ($77.7 million as at October 31, 2021). The credit risk for these receivables is negligible.

Pursuant to certain agreements entered into with its service providers, primarily hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $28.1 million as at October 31, 2022 ($7.5 million as at October 31, 2021). These deposits are offset by purchases of person-nights at these hotels and purchases from suppliers. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights and that the suppliers might not be able to provide the required services. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators and suppliers in its active markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $37.9 million as at October 31, 2022 ($33.9 million as at October 31, 2021) and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2022, the cash security deposits with lessors that have been claimed totalled $10.0 million ($1.6 million as at October 31, 2021) and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is negligible.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2022 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A2 (by Standard & Poor's) or P2 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2022.

Liquidity risk

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

Interest rate risk

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

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

Changes in accounting policies

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

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

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

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

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

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

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

Annual Improvements to IFRS Standards 2018-2020 - IFRS 9, Financial Instruments

The *Annual Improvements to IFRS Standards 2018–2020* issued on May 14, 2020 makes the following amendments to IFRS 9, *Financial Instruments*: the standard has been amended to clarify which fees an entity includes in the "10 per cent" test for the derecognition of financial liabilities in connection with debt modifications and settlements. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. This amendment is effective for annual reporting periods beginning on or after January 1, 2022.

The Corporation has elected to early adopt this amendment. The application of this amendment did not have a significant impact on the Corporation's consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements

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

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

10. RISKS AND UNCERTAINTIES

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

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

RISK GOVERNANCE

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

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

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

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

Managing these risks is also shared between members of the Corporation's management and the members of the Board of Directors using consistent mapping and language in order to eliminate a silo approach to risk management. As a result of the COVID-19 pandemic period, all risks to which the Corporation is exposed have been re-assessed in detail by the Corporation's officers. As part of this essential process, risks were reprioritized based on their level of probability of occurrence and their quantitative and qualitative impact on the Corporation's business. The outcome of this annual exercise comprised a total of 48 risks, rated in order of importance: red for the 16 high-priority risks, orange for the 7 priority risks, yellow for the 5 moderate risks and green for the 20 low risks. These risks were then grouped according to the subject matter and the owner for ease of reference and to ensure that mitigation measures are properly applied as set out in the following paragraphs.

KEY RISKS

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

RISKS RELATING TO THE ABILITY TO CONTINUE AS A GOING CONCERN

As discussed in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements, there are material uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements as at October 31, 2022 have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. The consolidated financial statements as at October 31, 2022 and for the year then ended do not include adjustments to the book value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

The Corporation is making every effort and remains confident of returning to profitability under its strategic plan, based on current market conditions and the gradual resumption of its operations. However, there can be no assurance that the Corporation will be able to settle its debts and meet its obligations in the normal course of business. In addition, to finance the Corporation's operations until the maturity of the credit facilities, the Corporation might have to again borrow sufficient amounts to meet its needs but there can be no assurance that it will be able to do so on acceptable terms, or that suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. While the signs of resumption of the Corporation's operations are encouraging, 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.

Other socio-economic and geo-political factors are also present and create additional uncertainty related to travel demand in the coming months. These factors are further discussed below in the Economic and General Risks section.

CYBER ATTACK RISK

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

Despite our efforts to protect against unauthorized access to our systems and sensitive information, due to the scope and complexity of their information technology structure, our reliance on third parties to support and protect our structure and data, and a constantly evolving cyber threat environment, our systems and those of third parties we rely on are subject to disruptions, failures, unauthorized access, cyber terrorism, employee errors, negligence, fraud or other misuse. In addition, given the sophistication of hackers to gain unauthorized access to our sensitive information, we may be unable to detect the violation for long periods of time, or even not at all.

Such events, whether accidental or intentional, could result in the theft, unauthorized access or disclosure, loss, misuse or unlawful use of customer data that could damage our reputation, disrupt our services or result in business loss, as well as repair and other costs, fines, investigations, legal actions or proceedings. As a result, future incidents could have a material adverse effect on the Corporation, including our business, financial condition, liquidity and operating results.

COVID-19-RELATED RISKS

This section provides an overview of the specific risks to which Transat and its subsidiaries have been and/or will be exposed as a result of the persisting COVID-19 pandemic even though there are some encouraging signs that the pandemic is in the process of slowly disappearing. While the Corporation has resumed its airline operations, there is still a risk that cross-border travel restrictions will be imposed again by domestic government authorities and the countries that the Corporation serves. This would once again lead to a significant decrease in cash flows from operations despite the mitigation actions taken by the Corporation and considering that Transat does not expect operations to reach pre-pandemic levels before 2024.

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

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

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

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

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

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

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

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

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

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

HUMAN RESOURCE RISKS

The Corporation's ability to achieve its plan to resume operations is dependent on the experience of its key executives and employees and their knowledge of the tourism, travel and airline industries. In the current economic environment and that of the tourism industry, it is difficult to retain the resources necessary for recovery due to the limited ability to pay employees their fair value. As a result, the loss of key employees could adversely affect our business and operating results.

In addition, our recruitment program, salary structure, performance management programs, succession plan, retention plan and training plan involve risks that could negatively impact our ability to attract and retain the skilled resources needed to regain the pre-pandemic level of operations and support the Corporation's future growth and success. The resumption of the Corporation's activities requires new hires and represents a serious challenge given the labour shortage in the overall economy in Québec and Canada. This shortage has given rise to salary expectations that are challenging for the Corporation because of its limited capacity to compensate employees in this new labour market context. In some respects, certain positions are necessary for the Corporation to operate normally. If such skilled labour cannot be found, the Corporation may have to suspend its operations.

As of October 31, 2022, the total workforce was approximately 3,900, up by about 1,800 from last year, representing approximately 75% of the pre-pandemic headcount. Labour costs are a significant component of the Corporation's operating expenses. There can be no assurance that Transat will be able to maintain these costs at levels that will not adversely affect its operations, results of operations or financial condition.

The Corporation's Air Transat subsidiary is the only subsidiary with unionized employees, who are governed by five collective agreements, two of which will expire in 2023. The agreement with the crew assignment office, which covers, among others, employees involved in crew planning will expire on December 31, 2022. The agreement governing flight attendants, namely the Canadian Union of Public Employees (Airline Division), which covers a significant pool of employees, will expire on January 31, 2023. Furthermore, it is possible that negotiations to renew these collective agreements, particularly that of flight attendants, could give rise to work stoppages or slowdowns or substantially higher labour costs in the coming years that could unfavourably impact our operations and operating income.

FINANCIAL RISKS

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

The Corporation's current credit facilities are subject to compliance with certain financial ratios and covenants, which have been suspended up to October 29, 2023. There can be no assurance that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

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

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

Transat is particularly exposed to fluctuations in fuel costs, which were very significant in fiscal 2022. Although Transat has implemented a fuel price hedging program, due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any such fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

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

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

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

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

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

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

COMPETITION RISKS

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

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

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

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

ECONOMIC AND GENERAL RISKS

The holiday travel industry is sensitive to global, national, regional and local economic conditions, particularly since the pandemic situation that we have been experiencing starting in March 2020. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. All these factors are creating feelings of anxiety among the Corporation's customers, affecting demand for leisure travel. As a result, revenues might not be sufficient to cover the fixed expenses related to the resumption of operations and bring about profitability in the medium term.

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

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

ESG RISKS

The market and travelers are increasingly requiring that a public company, such as Transat, be recognized as a socially responsible company and that it adhere to environmental, social and governance ("ESG") criteria, i.e., factors that have an impact on the environment, that are related to the social involvement of the Corporation and that are related to the way the Corporation runs its business governs itself. In this respect, over the years, the Corporation has adopted multiple measures related to these factors, especially its Travelife certification program, its agreement with the SAF+ Consortium to build fuel-efficient aircraft, its new fleet of more efficient, energy-saving Airbus A321LR aircraft, its ISO and LEED certifications, its involvement with communities in Canada and where it flies, its approach to managing human resources and corporate governance, and many others. Despite these initiatives, it is possible that, in the eyes of current and future clients, certain organizations, institutions or shareholders, the Corporation may not fully meet the definition of a socially responsible company, which could also tarnish the Corporation's reputation.

REPUTATION RISKS

All the risks discussed in this section have an impact on the Corporation's reputation. If mitigation measures are not sufficient, the arising of a risk can harm the Corporation's reputation. In addition, the ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control, such as a cyberattack, will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

KEY SUPPLIES AND SUPPLIER RISKS

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

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

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

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

AVIATION RISKS

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

REGULATORY RISKS

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

Various measures are in place to combat climate change. The Corporation is subject to CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) for most of its international flights. Airlines will begin to meet their obligations under CORSIA when the aviation industry as a whole recovers and exceeds its 2019 emission levels. Due to the decrease in the number of flights caused by the pandemic, the Corporation does not anticipate at this time that it would have to purchase offsets for the first years of the scheme. However, the costing of this obligation will depend on the participating countries, growth in applicable routes and the type of eligible carbon offsets. Should changes occur in these regulations, the Corporation may incur additional costs as a result.

The Corporation is also subject to Canada's *Clean Fuel Regulations*, which are an important part of Canada's climate plan to reduce emissions, accelerate the use of clean technologies and fuels, and support long-term, sustainable jobs in a diversified economy. The version of the regulations published on July 6, 2022 excludes aircraft fuel.

In addition, under the *Greenhouse Gas Pollution Pricing Act*, Canada established a minimum royalty for carbon pollution. This is in the form of a fossil fuel charge and a regulatory greenhouse gas emissions trading system called the Output-Based Pricing System. It currently applies only to interprovincial flights in certain provinces, such as British Columbia. The Corporation is currently not affected by this legislation. However, the federal government has indicated it could broaden the scope of the legislation to include interprovincial (domestic) flights. In Canada's *2022 Aviation Climate Action Plan*, the Canadian government recognizes that more work needs to be done to draw up a coherent policy to address interprovincial aviation emissions. In the future, it may decide to implement an emissions trading system for domestic flights, which would have an impact on our costs, and in turn, apply pressure on the Corporation's margins.

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

INSURANCE COVERAGE RISKS

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

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

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

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

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

11. CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2022.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2022 that materially affected the Corporation's ICFR.

12. OUTLOOK

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

To date, for winter 2023, load factors are comparable to 2019 levels and are already over 55% across the network. Airline unit revenues, expressed in revenue per passenger-mile (or yield), are approximately 15% higher than in winter 2019. The combination of demand and higher prices will allow the Corporation to deal with higher costs.

For 2023 as a whole, the Corporation expects an adjusted operating income margin of approximately 4% to 6%. In making forward-looking statements, the Corporation has relied on a number of assumptions, including moderate growth in Canada's GDP taking into account the risk of a short recession, an exchange rate of C$1.34 to US$1 and an average price per gallon of aviation fuel of C$4.50.

MANAGEMENT'S REPORT

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

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

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

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

Annick Guérard
President and Chief Executive Officer

Patrick Bui
Chief Financial Officer

December 14, 2022