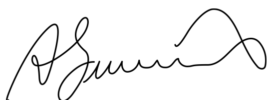
MANAGEMENT'S REPORT

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Transat A.T. Inc.,

Opinion

We have audited the consolidated financial statements of Transat A.T. Inc. and its subsidiaries [the "Group"], which comprise the consolidated statement of financial position as at October 31, 2021 and 2020 and the consolidated statements of loss, the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements, which indicates that the Group incurred a net loss of $389.4 million and generated negative cash flows from operations totalling $518.4 million for the year ended October 31, 2021. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matters described in the "Material uncertainty related to going concern" section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of long-lived non-financial assets	
As at October 31, 2021, the Corporation held \$1,000.6 million in long-lived non-financial assets, including property, plant and equipment, intangible assets and a long-term investment. As indicated in notes 3, 4, 9, 10 and 11, the Corporation assesses at each reporting date whether there is any indication that an asset or a cash-generating unit ("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. The recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value in use. We determined that auditing the impairment of long-lived non-financial assets is a key audit matter due to the significance of the balance and the degree of subjectivity in evaluating management's significant assumptions relating to the discount rate, long-term growth rate and per gallon price of fuel in its model.	Our approach to addressing the matter included the following procedures, among others: – We assessed management's documentation of the CGUs; – We involved our valuation specialists to assist in evaluating the discount rate, the long-term growth rates and the per gallon fuel price used by the Corporation and the valuation methods used; – We tested the reasonableness of cash flow projections by comparing them to external economic data from the airline and tourism industry and to the Corporations past results; – We conducted sensitivity testing to assess the potential impact of changes in the significant assumptions used by management in its models; – We examined the adequacy of the disclosures relating to CGUs, impairment tests and impairment charges presented in notes 3, 4, 9, 10, and 11 to the Corporation's consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sylvain Boucher.

Montréal, Canada

December 8, 2021

[1] CPA auditor, CA, public accountancy permit No. A113209

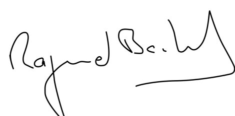
TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Note 2, Uncertainty related to going concern]

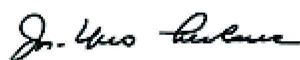
(in thousands of Canadian dollars)	Notes	As at October 31, 2021 $	As at October 31, 2020 $
ASSETS	14		
Cash and cash equivalents		**433,195**	426,433
Cash and cash equivalents in trust or otherwise reserved	5	**139,583**	252,379
Trade and other receivables	6	**108,857**	95,334
Income taxes receivable	22	**1,120**	2,377
Inventories		**10,514**	10,024
Prepaid expenses		**16,465**	47,164
Derivative financial instruments	7	**—**	964
Current portion of deposits	8	**10,130**	16,471
Current assets		**719,864**	851,146
Cash and cash equivalents reserved	5	**30,728**	56,268
Deposits	8	**112,044**	136,904
Income taxes receivable	25	**15,100**	15,100
Property, plant and equipment	9	**974,229**	916,382
Intangible assets	10	**16,849**	25,509
Investment	11	**9,476**	14,509
Other assets	12	**19,368**	253
Non-current assets		**1,177,794**	1,164,925
		1,897,658	2,016,071
LIABILITIES			
Trade and other payables	13	**141,413**	232,243
Income taxes payable		**1,354**	203
Customer deposits and deferred revenues		**292,158**	608,890
Derivative financial instruments	7	**—**	10,055
Current portion of lease liabilities	14	**171,557**	147,980
Current portion of liability related to warrants	15	**20,622**	—
Current portion of provision for return conditions	16	**3,065**	14,963
Current liabilities		**630,169**	1,014,334
Long-term debt and lease liabilities	14	**1,247,981**	755,906
Liability related to warrants	15	**15,935**	—
Deferred government grant	14	**167,394**	—
Provision for return conditions	16	**123,179**	128,635
Other liabilities	17	**27,497**	50,215
Deferred tax liabilities	22	**613**	674
Non-current liabilities		**1,582,599**	935,430
NEGATIVE EQUITY			
Share capital	18	**221,012**	221,012
Share-based payment reserve		**15,948**	15,948
Deficit		**(544,881)**	(164,138)
Unrealized loss on cash flow hedges		**—**	(522)
Cumulative exchange differences		**(7,189)**	(5,993)
		(315,110)	66,307
		1,897,658	2,016,071

See accompanying notes to consolidated financial statements

On behalf of the Board,



Director



Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

Years ended October 31		2021	2020
(in thousands of Canadian dollars, except per share amounts)	*Notes*	$	$
Revenues	*19*	**124,818**	1,302,069
Operating expenses			
Salaries and employee benefits	*19, 23*	**122,770**	239,250
Aircraft maintenance		**48,832**	110,413
Costs of providing tourism services		**31,958**	431,562
Aircraft fuel		**22,373**	258,947
Airport and navigation fees		**13,032**	77,622
Sales and distribution costs		**13,020**	97,086
Aircraft rent	*14*	**—**	23,358
Other airline costs		**24,643**	109,424
Other		**57,371**	75,410
Share of net loss of a joint venture	*11*	**4,704**	1,172
Depreciation and amortization	*19*	**159,765**	204,112
Special items	*20*	**27,572**	99,675
		526,040	1,728,031
Operating loss		**(401,222)**	(425,962)
Financing costs	*14*	**77,024**	48,049
Financing income		**(4,441)**	(13,625)
Change in fair value of fuel-related derivatives and other derivatives		**(8,849)**	13,715
Revaluation of liability related to warrants	*15*	**(4,934)**	—
Loss (gain) on asset disposals	*21*	**(17,347)**	11,271
Foreign exchange (gain) loss		**(53,260)**	3,601
Loss before income tax expense		**(389,415)**	(488,973)
Income taxes (recovery)	*22*		
Current		**(52)**	(4,376)
Deferred		**75**	12,168
		23	7,792
Net loss for the year		**(389,438)**	(496,765)
Net income (loss) attributable to:			
Shareholders		**(389,559)**	(496,545)
Non-controlling interests		**121**	(220)
		(389,438)	(496,765)
Loss per share	*18*		
Basic		**(10.32)**	(13.15)
Diluted		**(10.32)**	(13.15)

See accompanying notes to consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Years ended October 31		**2021**	**2020**
(in thousands of Canadian dollars)	*Notes*	**$**	**$**
Net loss for the year		**(389,438)**	(496,765)
Other comprehensive income (loss)			
Items that will be reclassified to net income (loss)			
Change in fair value of derivatives designated as cash flow hedges		**—**	(1,191)
Reclassification to net income (loss)		**447**	12,925
Deferred taxes	22	**75**	(3,080)
		522	8,654
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiariesfor the year		**(1,196)**	1,333
Items that will never be reclassified to net income (loss)			
Retirement benefits – Net actuarial losses	24	**(597)**	(827)
Deferred taxes	24	**—**	(3,837)
		(597)	(4,664)
Total other comprehensive income		**(1,271)**	5,323
Comprehensive loss for the period		**(390,709)**	(491,442)
Comprehensive income (loss) attributable to:			
Shareholders		**(386,822)**	(491,885)
Non-controlling interests		**(3,887)**	443
		(390,709)	(491,442)

See accompanying notes to consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

				Accumulated other comprehensive income (loss)				
(in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Retained earnings (deficit) $	Unrealized gain (loss) on cash flow hedges $	Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at October 31, 2019	221,012	15,948	336,993	(9,176)	(7,326)	557,451	—	557,451
Net loss for the year	—	—	(496,545)	—	—	(496,545)	(220)	(496,765)
Other comprehensive income (loss)	—	—	(4,664)	8,654	670	4,660	663	5,323
Comprehensive income (loss) for the year	—	—	(501,209)	8,654	670	(491,885)	443	(491,442)
Dividends	—	—	—	—	—	—	(849)	(849)
Fair value changes of non-controlling interest liabilities	—	—	78	—	—	78	(78)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,147	1,147
Reclassification of non-controlling interest exchange difference	—	—	—	—	663	663	(663)	—
	—	—	78	—	663	741	(443)	298
Balance as at October 31, 2020	**221,012**	**15,948**	**(164,138)**	**(522)**	**(5,993)**	**66,307**	**—**	**66,307**
Net income (loss) for the year	—	—	(389,559)	—	—	(389,559)	121	(389,438)
Other comprehensive income (loss)	—	—	(597)	522	2,812	2,737	(4,008)	(1,271)
Comprehensive income (loss) for the year	—	—	(390,156)	522	2,812	(386,822)	(3,887)	(390,709)
Fair value changes of non-controlling interest liabilities	—	—	9,413	—	—	9,413	(9,413)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	9,292	9,292
Reclassification of non-controlling interest exchange difference	—	—	—	—	(4,008)	(4,008)	4,008	—
	—	—	9,413	—	(4,008)	5,405	3,887	9,292
Balance as at October 31, 2021	**221,012**	**15,948**	**(544,881)**	**—**	**(7,189)**	**(315,110)**	**—**	**(315,110)**

See accompanying notes to consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Years ended October 31 (in thousands of Canadian dollars)	Notes	2021 $	2020 $
OPERATING ACTIVITIES			
Net loss for the year		**(389,438)**	(496,765)
Operating items not involving an outlay (receipt) of cash:			
Depreciation and amortization	19	**159,765**	204,112
Change in fair value of fuel-related derivatives and other derivatives		**(8,849)**	13,715
Revaluation of liability related to warrants		**(4,934)**	—
Loss (gain) on asset disposals	21	**(17,347)**	11,271
Foreign exchange (gain) loss		**(53,260)**	3,601
Asset impairment	20	**33,450**	89,127
Share of net loss of a joint venture	11	**4,704**	1,172
Capitalized interests on long term debt and lease liabilities		**41,537**	—
Deferred taxes		**75**	12,168
Employee benefits	24	**5,754**	3,009
		(228,543)	(158,590)
Net change in non-cash working capital balances related to operations		**(267,096)**	95,202
Net change in provision for return conditions		**(7,653)**	(11,522)
Net change in other assets and liabilities related to operations		**(15,152)**	28,774
Cash flows related to operating activities		**(518,444)**	(46,136)
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(5,599)**	(61,422)
Decrease (increase) in cash and cash equivalents reserved		**25,540**	(5,044)
Proceeds from sale of assets	21	**422**	8,094
Consideration paid for the buyback of a non-controlling interest	7	**(15,000)**	—
Capital contribution to a joint venture	11	**(821)**	(2,042)
Cash flows related to investing activities		**4,542**	(60,414)
FINANCING ACTIVITIES			
Proceeds from borrowings	14	**599,852**	49,980
Transaction costs		**(3,242)**	—
Repayment of lease liabilities	14	**(74,539)**	(82,505)
Dividends paid by a subsidiary to a non-controlling shareholder		**—**	(849)
Cash flows related to financing activities		**522,071**	(33,374)
Effect of exchange rate changes on cash and cash equivalents		**(1,407)**	1,513
Net change in cash and cash equivalents		**6,762**	(138,411)
Cash and cash equivalents, beginning of year		**426,433**	564,844
Cash and cash equivalents, end of year		**433,195**	426,433
Supplementary information (as reported in operating activities)			
Net income taxes recovered		**(2,383)**	(245)
Interest paid		**18,288**	1,769

See accompanying notes to consolidated financial statements

October 31, 2021 and 2020

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

Note 1 Corporate information

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

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

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2021 were approved by the Corporation's Board of Directors on December 8, 2021.

Note 2 Uncertainty related to going concern

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from October 31, 2021. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due is to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $389,438 and generated negative cash flows related to operations totalling $518,444 for the year ended October 31, 2021. However, as discussed in note 14, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada enabling it to borrow additional cash resources up to a maximum of $700,000 through the Large Employer Emergency Financing Facility ["LEEFF"]. To supplement the new financing, the amounts already drawn on existing facilities remain in place and are extended for a period of two years, until April 29, 2023. The ratios applicable to existing facilities are suspended for a period of 18 months, until October 31, 2022. The undrawn credit under the short-term subordinated facility is cancelled. Therefore, available credit amounts to a maximum of $820,000, including an amount of $650,000 that was drawn down as at October 31, 2021.

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

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial

institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada that allows it to borrow additional cash resources up to a maximum of $700,000 through the LEEFF, bringing total available financing to a maximum of $820,000. Management is also continuing to monitor possible government assistance programs.

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

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

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

These consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These consolidated financial statements as at October 31, 2021 and for the year then ended do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

Note 3 Significant accounting policies

Basis of preparation

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

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

These consolidated financial statements have been prepared on a going concern basis, using historical cost accounting, except for certain financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries.

Subsidiaries

Subsidiaries are entities over which the Corporation has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date when such control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- Cost is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of income;
- Contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the statement of income when the contingent consideration is a financial liability;
- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income; and
- For each business combination including the non-controlling interest, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

The non-controlling interest, which represent the portion of net income and net assets in subsidiaries that are not 100% owned by the Corporation, is reported separately within equity in the consolidated statement of financial position. The non-controlling interest in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares is reclassified from equity to liabilities, deeming exercise of the option. The carrying amount of the reclassified interest is also adjusted to match its estimated redemption value. Any changes in the estimated redemption value are recognized as equity transactions in retained earnings.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies. All balances, transactions and unrealized gains and losses resulting from intragroup transactions and all intragroup dividends are fully eliminated on consolidation.

Investment in a joint venture

A joint venture is an entity in which the parties that have joint control over the entity have rights to the net assets of the entity. The Corporation's investment in a joint venture is accounted for using the equity method as follows:

- Investment is initially recognized at cost;
- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;
- The Corporation's share of post-acquisition net income (loss) is recognized in the statement of income and is also added to (netted against) the carrying amount of the investment; and
- Gains on transactions between the Corporation and the joint venture are eliminated to the extent of the Corporation's interest in this entity and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency spot rate of exchange at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary are recognized in the statement of income, except for qualifying cash flow hedges, which are deferred and presented as Unrealized gain (loss) on cash flow hedges in Accumulated other comprehensive income (loss) in the statement of changes in equity.

Group companies

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated at the period-end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The exchange differences arising from translation are recognized in Cumulative exchange differences in Accumulated other comprehensive income (loss) in equity. On disposal of an interest, the exchange difference component relating to that particular interest is recognized in net income.

Cash equivalents

Cash equivalents consist primarily of term deposits and bankers' acceptances that are highly liquid and readily convertible into known amounts of cash with initial maturities of less than three months.

Inventories

Inventories, consisting primarily of supplies and fuel, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be indicative of net realizable value. Inventories are presented net of the provision for impairment of inventories, if applicable. The Corporation did not record a provision for impairment of inventories in 2021 and 2020.

Leases

The Corporation is party to leases, primarily for aircraft, aircraft engines, real estate and automotive equipment. At the commencement date of the lease, the Corporation recognizes a right-of-use asset and a lease liability at the present value of future lease payments, using the Corporation's incremental borrowing rate. The Corporation has elected to separate lease and non-lease components of lease agreements.

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

The initial value of right-of-use assets is obtained through the calculation of lease liabilities. Right-of-use assets are recognized in accordance with IAS 16, Property, Plant and Equipment, and depreciated over the term of the lease.

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

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

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any. Right-of-use assets under leases are recognized at the lower of the current value of future lease payments, using the Corporation's incremental borrowing rate and fair value.

Depreciation on property, plant and equipment with finite lives is calculated on a straight-line basis, unless otherwise specified, and serves to write down the cost of the assets to their estimated residual value over their expected useful lives as follows:

Aircraft equipment, including spare engines and rotable spare parts	5–10 years or use
Office furniture and equipment	3–10 years
Right-of-use assets and leasehold improvements	Lease term or useful life
Administrative building	10-20 years

Land and property, plant and equipment under construction or development are not depreciated.

The fleet includes owned aircraft and improvements to leased aircraft. A portion of the cost of owned aircraft is allocated to the "major maintenance activities" subclass, which relates to airframe, engine and landing gear overhaul costs, and the remaining cost is allocated to Aircraft. Aircraft and major maintenance activities are depreciated taking into account their expected estimated residual value. Aircraft are depreciated on a straight-line basis over seven- to ten-year periods, and major maintenance activities are depreciated according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity, or their expected useful lives. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are depreciated according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income (loss) as incurred. Improvements to aircraft under operating leases are depreciated on a straight-line basis over the shorter of the corresponding lease term and their useful life.

Estimated residual values and useful lives are reviewed annually and adjusted as appropriate.

Right-of-use assets

For leased aircrafts, on initial recognition, right-of-use assets are broken down between the airframe, engines and major maintenance components. Eligible maintenance costs related to engines and major maintenance components are capitalized and depreciated over the shorter of the lease term or expected useful life. The total of these items is recorded under Right-of-use assets related to the fleet. Subsequently, eligible maintenance costs over the lease term are capitalized and depreciated over the shorter of the lease term or expected useful life.

The Corporation is party to real estate leases, in particular for spaces in airports, offices and travel agencies. Moreover, the Corporation is party to equipment and aircraft engine leases, including automotive equipment. Right-of-use assets are recognized in respect of such leases, except for leases with terms of less than 12 months and leases with substantial substitution rights.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash-generating units ["CGUs"] that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible assets

Intangible assets are recorded at cost. The cost of intangible assets acquired in a business combination is recorded at fair value as at the acquisition date. Internally generated intangible assets include developed or modified application software. These costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software product and make it available for use;
- Management intends to complete the software product and use it;
- The Corporation has ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and use the software product are available;
- The expenditures attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project.

Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over their respective useful economic lives, as follows:

Software	3–10 years
Customer lists	7–10 years

Intangible assets with finite useful lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually and adjusted as appropriate.

Intangible assets with indefinite useful lives, consisting mainly of trademarks, are not amortized but are tested for impairment at least annually. The indefinite useful life of those assets is reviewed annually, at a minimum, to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. If they do not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, trade and other receivables other than amounts receivable due from government, deposits on leased aircraft and engines, and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables other than amounts due to government, long-term debt, lease liabilities, liabilities related to warrants, derivative financial instruments with a negative fair value and the put option held by the non-controlling interest.

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial assets/liabilities at fair value through profit or loss, at fair value through other comprehensive income (loss), or at amortized cost. The classification of financial assets is determined based on the business model under which risks are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified by default at amortized cost except for derivative financial instruments and non-controlling interests. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or liabilities at fair value through profit or loss unless they are designated within an effective hedging relationship; in that event, they are classified as financial assets or liabilities at fair value through other comprehensive income (loss).

Classification of financial instruments

Financial assets and financial liabilities at fair value through profit or loss

Financial assets, financial liabilities and derivative financial instruments classified as financial assets or liabilities at fair value through profit or loss are measured at fair value at the period-end date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of income (loss) as incurred.

Financial assets and financial liabilities at fair value through other comprehensive income (loss)

Derivative financial instruments designated within an effective hedging relationship classified as financial assets or financial liabilities at fair value through other comprehensive income (loss) are measured at fair value as at the reporting date.

Amortized cost

Financial assets and financial liabilities classified at amortized cost are measured at amortized cost using the effective interest method.

Derivative financial instruments and hedge accounting

The Corporation uses derivative financial instruments to hedge against future foreign currency fluctuations in relation to its lease payments, receipts of revenues from certain tour operators and disbursements pertaining to certain operating expenses in foreign currencies. For hedge accounting purposes, the Corporation designates some of its foreign currency derivatives as hedging instruments.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. This process includes linking all derivative financial instruments to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

These derivative financial instruments are designated as cash flow hedges.

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

The Corporation enters into foreign currency contract options and designates the intrinsic value of these contracts as cash flow hedging on future purchases of foreign currencies. The time value of these options, including premiums paid, is recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss) for effective hedging relationships. The time value of these options, including premiums paid, remains in Accumulated other comprehensive income (loss) as "Unrealized gain (loss) on cash flow hedges" until the settlement of the underlying hedged item, at which time the premiums paid accounted for under "Unrealized gain (loss) on cash flow hedges" are reclassified under the same account in the consolidated statement of income (loss) than the underlying hedged item.

For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in the same account in the consolidated statement of income (loss) as the hedged item.

Derivative financial instruments that do not qualify for hedge accounting

In the normal course of business, the Corporation also uses fuel-related derivatives to manage its exposure to unstable fuel prices as well as certain foreign currency derivatives to offset the future risks of fluctuations in foreign currencies that have not been designated for hedge accounting. These derivative financial instruments used for fuel purchases are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under Change in fair value of fuel-related derivatives and other derivatives in the consolidated statement of income (loss). When realized, at maturity of fuel-related derivative financial instruments, any gains or losses are reclassified to Aircraft fuel. When realized, at maturity of foreign currency derivatives that do not qualify for hedge accounting, any gains or losses are reclassified to the same consolidated statement of income (loss) account in which the hedged item is recognized.

It is the Corporation's policy not to speculate on derivative financial instruments; accordingly, these instruments are normally purchased for risk management purposes and held to maturity.

Transaction costs

Transaction costs related to financial assets and financial liabilities classified as financial assets or liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets or to financial liabilities classified at amortized cost are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

Fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted prices in an active market at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets accessible to the Corporation at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Impairment of financial assets classified at amortized cost

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified at amortized cost is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset [an incurred loss event] and that incurred loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. In addition, the Corporation assesses expected credit losses related to its financial assets classified at amortized cost. Accordingly, the Corporation must determine whether credit risk has increased significantly by comparing the risk of a default occurring on the asset as at each reporting date with the risk of a default occurring on the asset as at the initial recognition date, taking into account the information it has been able to obtain, including relevant forward-looking information. Impairment losses are recognized through profit or loss. For Trade and other receivables, the Corporation applies the simplified approach permitted by IFRS 9 which requires that full lifetime expected credit losses be recognized starting from initial recognition.

Impairment of non-financial assets

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. These criteria are also applied in assessing impairment of specific assets:

Intangible assets

Intangible assets with indefinite useful lives, such as trademarks, are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Reversal of impairment losses

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. The reversal is recognized in the statement of income (loss). Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized when the Corporation has a present, legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Provisions are measured at their present value.

Provision for return conditions

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

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

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. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of income (loss). The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits vest.

The liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the term of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in Retained earnings and included in the statement of comprehensive income (loss).

Contributions to defined contribution pension plans are expensed as incurred, which is as the related employee service is rendered.

Revenue recognition

The Corporation recognizes revenue when it satisfies the performance obligation, that is, when the service is transferred to the customer and the customer obtains control of that service. Amounts received from customers for services not yet rendered, including amounts received from customers for trips that had to be cancelled and for which the Corporation has issued travel credits, are included in current liabilities as Customer deposits and deferred revenues.

Revenue from contracts with customers includes revenue from passenger air transportation, revenue from the land portion of holiday packages and commission revenue from travel agencies. Revenue from passenger air transportation is recognized when such transportation is provided. Revenue from the land portion of holiday packages includes hotel services, among others, and the related costs are recognized when the corresponding services are rendered over the course of the stay. Commission revenue from travel agencies is recognized when passengers depart.

Other revenue includes, among others, aircraft subleasing, cargo and franchising revenue.

Revenue for which the Corporation provides multiple services, such as air transportation, hotel and travel agency services, is recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. These different services are considered as separate units of accounting, as each service has value to the customer on a stand-alone basis, and the selling price is allocated using the expected cost plus a reasonable market margin approach.

Breakdown of revenue from contracts with customers

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation operates mainly in the Americas, and serves two main programs that also represent its two main product lines: the transatlantic program and the Americas program, which includes the sun destinations program.

Contract balances

Contract balances with customers are included in Trade and other receivables, Prepaid expenses and Customer deposits and deferred revenues in the consolidated statement of financial position. Trade accounts receivable included under Trade and other receivables comprise receivables related to passenger air transportation, the land portion of holiday packages and commissions. Payment is generally received before services are provided, but some tour operators make payments after services are provided. Amounts receivable from credit card processors are included in Trade and other receivables. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers, consisting of hotel room costs, costs related to the worldwide distribution system and credit card fees. These costs are capitalized upon payment and expensed when the related revenue is recognized. Customer deposits and deferred revenues represent amounts received from customers for services not yet provided.

Given that contracts with customers have a duration of one year or less, the Corporation applies the practical expedient set forth in paragraph 121 of IFRS 15, Revenue from Contracts with Customers, under which no information is disclosed about the remaining performance obligations that are part of a contract that has a duration of one year or less.

Government grants

When there is reasonable assurance that grant-related conditions will be met and grants will be received, the Corporation recognizes income-related government grants as deduction from the related expenses.

The difference between the fair value of drawdowns under the unsecured credit facility related to travel credits and their nominal value was recognized as Deferred government grant at the time of the drawdown. The proceeds from the deferred government grant are recognized on the consolidated statement of income (loss) as a reduction of the corresponding financing costs using the effective interest method.

Income Taxes

The Corporation provides for income taxes using the liability method. Under this method, deferred tax assets and liabilities are calculated based on differences between the carrying value and tax basis of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Deferred tax assets and liabilities are recognized directly through profit or loss, other comprehensive income (loss), or equity based on the classification of the item to which they relate.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforwards of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Share-based payment plans

The Corporation offers to certain employees various equity-settled and cash-settled share-based compensation plans under which it receives services from employees.

Equity-settled transactions

For equity-settled share-based compensation [stock option plan and performance share unit plan], including share-based payment transactions with a net settlement feature to satisfy withholding tax obligations, the compensation expense is based on the grant date fair value of the share-based awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. Compensation expense related to the stock option plan is calculated using the Black-Scholes model, whereas the performance share unit expense is measured based on the closing price of the shares of the Corporation on the Toronto Stock Exchange at the grant date adjusted to take into account the terms and conditions upon which the units were granted. For awards with graded vesting, the fair value of each tranche is recognized through profit or loss over its respective vesting period. Any consideration paid by employees on exercising these awards and the corresponding portion previously credited to the share-based payment reserve are credited to share capital.

Cash-settled transactions

For cash-settled share-based compensation [deferred share unit plan and restricted share unit plan], the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The value of the compensation is measured based on the closing price of the shares of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance or service conditions are satisfied. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions through profit or loss.

Employee share purchase plans

The Corporation's contributions to the employee share purchase plans [stock ownership incentive and capital accumulation plan and permanent stock ownership incentive plan] consist of shares acquired in the marketplace by the Corporation. These contributions are measured at cost and are recognized over the period from the acquisition date to the date that the award vests to the participant. Any consideration paid by the participant to purchase shares under the share purchase plan is credited to share capital.

Earnings per share

Basic earnings per share is computed based on net income attributable to shareholders of the Corporation, divided by the weighted-average number of Class A Variable Voting Shares and Class B Voting Shares outstanding during the year.

Diluted earnings per share is calculated by adjusting net income (loss) attributable to shareholders of the Corporation for any changes in income or expense that would result from the exercise of dilutive elements. The weighted-average number Class A Variable Voting Shares and Class B Voting Shares outstanding is increased by the weighted-average number of additional Class A Variable Voting Shares and Class B Voting Shares that would have been outstanding assuming the exercise of all dilutive elements.

Future change in accounting policies

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

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

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

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

Note 4 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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.

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

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

Amortization and impairment of non-financial assets

Depreciation of property, plant and equipment

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

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

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or 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 fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years, that were approved by the Corporation's Board of Directors, and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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

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

- An average discount rate of 14.75%, which is the Corporation's weighted average capital cost. This rate was determined taking into account a number of factors such as the risk-free interest rate, the required return on equity investments, risk factors specific to the air transportation industry and risk factors specific to the Corporation's CGUs;

- A long-term growth rate of 2.0% beyond the 5-year period, based on the Bank of Canada's target inflation rate;

- A per gallon fuel price between US$1.93 and US$2.53, based on management's best estimates.

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

As at October 31, 2020, the Corporation has determined that the significant declines in revenues and demand owing to the COVID-19 pandemic, and the resulting significant reductions in capacity were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of CGUs was determined based on fair value less costs to sell and using a transaction price of $5.00 per share under the arrangement with Air Canada dated October 9, 2020, which was in effect on October 31, 2020. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

Impairment tests of the fleet of aircraft that will not be used between now and the expiry of their lease, the land held in Mexico, the investment in a joint venture and trademarks were performed independent of the test performed on the Corporation's CGUs. The key assumptions used to determine the recoverable amount of non-financial assets, including a sensitivity case analysis, are discussed in notes 9, 10 and 11. Given that various assumptions are used in determining impairment charges, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

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

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

Liability related to warrants

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $41,491, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF.

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

Employee future benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the associated obligations are determined using actuarial valuations. These actuarial valuations require the use of assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. 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.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax legislation and the amount and timing of future taxable income. Given the Corporation's wide range of international business relationships, differences arising between actual results and the assumptions made, or future changes in such assumptions, could give rise to future adjustments in the amounts of income taxes previously reported. Such interpretive differences may arise in a variety of areas depending on the conditions specific to the respective tax jurisdiction of the Corporation's subsidiaries. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgment is required by management to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Since the second quarter of the year ended October 31, 2020, due to the adverse impact of the COVID-19 pandemic on our results, the Corporation ceased to recognize deferred tax assets and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. The Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the existing deferred tax assets. As discussed in note 2, due to the COVID-19 pandemic, the losses generated during the years ended October 31, 2021 and 2020 and the uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the years ended October 31, 2021 and 2020, these adverse indications outweighed the historical favourable indications and the Corporation did not record any deferred tax assets for the year ended October 31, 2021 and reduced the balance of its deferred tax assets by $18,396 in 2020. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

Note 5 Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2021, cash and cash equivalents in trust or otherwise reserved included $128,154 [$242,622 as at October 31, 2020] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $42,157, $30,728 of which was recorded as non-current assets [$66,025 as at October 31, 2020, $56,268 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 Trade and other receivables

	2021 **$**	**2020** **$**
Trade receivables	**9,775**	5,565
Government receivables	**13,111**	26,017
Cash receivable from lessors	**1,610**	18,970
Credit card processors receivables	**77,733**	19,177
Other receivables	**6,628**	25,605
	108,857	95,334

As at October 31, 2021, government receivables included an amount of $1,296 related to the Canada Emergency Wage Subsidy ["CEWS"] program *[note 19]* [$16,061 as at October 31, 2020].

Note 7 Financial instruments

Classification of financial instruments

The classification of financial instruments and their carrying amounts and fair values are detailed as follows:

	Carrying amount				
	Fair value through net income $	Fair value through other comprehensive income $	Amortized cost $	Total $	Fair value $
As at October 31, 2021					
Financial assets					
Cash and cash equivalents	**433,195**	**–**	**–**	**433,195**	**433,195**
Cash and cash equivalents in trust or otherwise reserved	**170,311**	**–**	**–**	**170,311**	**170,311**
Trade and other receivables	**–**	**–**	**95,746**	**95,746**	**95,746**
Deposits on leased aircraft and engines	**–**	**–**	**33,926**	**33,926**	**33,926**
Derivative financial instruments					
- Prepayment option	**1,377**	**–**	**–**	**1,377**	**1,377**
	604,883	**–**	**129,672**	**734,555**	**734,555**
Financial liabilities					
Trade and other payables	**–**	**–**	**130,632**	**130,632**	**130,632**
Long-term debt	**–**	**–**	**464,557**	**464,557**	**466,557**
Liability related to warrants	**36,557**	**–**	**–**	**36,557**	**36,557**
	36,557	**–**	**595,189**	**631,746**	**633,746**

	Carrying amount				
	Fair value through net income $	Fair value through other comprehensive income $	Amortized cost $	Total $	Fair value $
As at October 31, 2020					
Financial assets					
Cash and cash equivalents	426,433	–	–	426,433	426,433
Cash and cash equivalents in trust or otherwise reserved	308,647	–	–	308,647	308,647
Trade and other receivables	–	–	69,317	69,317	69,317
Deposits on leased aircraft and engines	–	–	40,470	40,470	40,470
Derivative financial instruments					
- Other foreign currency derivatives	964	–	–	964	964
	736,044	–	109,787	845,831	845,831
Financial liabilities					
Trade and other payables	–	–	189,309	189,309	189,309
Derivative financial instruments					
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	9,233	–	–	9,233	9,233
- Other foreign currency derivatives	454	368	–	822	822
Non-controlling interest	37,800	–	–	37,800	37,800
Long-term debt	–	–	49,980	49,980	49,871
	47,487	368	239,289	287,144	287,035

Determination of fair value of financial instruments

The fair value of financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions were used to measure fair value:

The fair value of cash and cash equivalents, in trust or otherwise reserved or not, trade and other receivables, and accounts payable and accrued liabilities approximates their carrying amount due to the short-term maturity of these financial instruments.

The fair value of deposits on leased aircraft and engines approximates their carrying amount given that they are subject to terms and conditions similar to those available to the Corporation for instruments with comparable terms.

The fair value of forward purchase contracts and other derivative financial instruments related to fuel or currencies is measured using a generally accepted valuation method, i.e., by discounting the difference between the value of the contract at expiration determined according to contract price or rate and the value of the contract at expiration determined according to contract price or rate that the financial institution would have used had it renegotiated the same contract under the same conditions at the current date. The Corporation also factors in the financial institution's credit risk when determining the value of financial assets and its own credit risk when determining the value of financial liabilities.

The fair value of the pre-payment option related to the unsecured debt – LEEFF was determined using a trinomial tree approach based on the Hull-White model *[note 14]*.

The fair value of the non-controlling interest in respect of which a shareholder holds an option entitling him to require the Corporation to buy back his shares corresponds to its redemption price. The redemption price is based on a formula that factors in financial indicators.

The fair value of long-term debt is measured using a generally accepted valuation method, i. e., by discounting long-term debt-related cash outflows based on the prevailing market interest rate for similar debt, taking into account guarantees, current credit market conditions and the Corporation's credit risk.

The fair value of the liability related to warrants was measured using the Black-Scholes model *[note 15]*.

The following table details the fair value hierarchy of financial instruments by level:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
	$	$	$	$
As at October 31, 2021				
Financial assets				
Derivative financial instruments				
- Prepayment option	—	—	1,377	1,377
	—	—	1,377	1,377
Financial liabilities				
Liability related to warrants	—	—	36,557	36,557
	—	—	36,557	36,557

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
	$	$	$	$
As at October 31, 2020				
Financial assets				
Derivative financial instruments				
-Foreign exchange forward contracts and other foreign currency derivatives	—	964	—	964
	—	964	—	964
Financial liabilities				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	9,233	—	9,233
-Foreign exchange forward contracts and other foreign currency derivatives	—	822	—	822
Non-controlling interest	—	—	37,800	37,800
	—	10,055	37,800	47,855

Non-controlling interest

On May 31, 2021, following a mutual agreement between the two parties, the Corporation acquired the 30% interest held by the minority shareholder of Trafictours, Canada inc. ["Trafictours"], thereby increasing its interest to 100%. Trafictours is an incoming tour operator that offers excursions and other services to travellers vacationing in Mexico, the Dominican Republic and Jamaica. The purchase price amounted to $24,500, which is lower than the amount of $37,800 recorded in the Corporation's consolidated financial statements as at October 31, 2020, $15,000 of which was paid on May 31, 2021; the balance of $9,500 is payable on October 31, 2022.

Up to May 31, 2021, the minority shareholder of the subsidiary Trafictours could require that the Corporation purchase its Trafictours shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash. As at October 31, 2020, the fair value of this option was taken into account in the carrying amount of the non-controlling interest.

The change in the non-controlling interest is as follows:

	2021	2020
	$	$
Balance, beginning of year	**37,800**	38,284
Net income (loss)	**121**	(220)
Other comprehensive income (loss)	**(4,008)**	663
Dividends	**—**	(849)
Change in fair value of non-controlling interest	**(9,413)**	(78)
Buyback of non-controlling interest	**(24,500)**	—
	—	37,800

Management of risks arising from 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.

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 $9,775 as at October 31, 2021 [$5,565 as at October 31, 2020]. Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2021 and 2020. As at October 31, 2021, approximately 11% [approximately 18% as at October 31, 2020] of accounts receivable were over 90 days past due, whereas approximately 85% [approximately 77% as at October 31, 2020] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Receivables from two credit card processors totalled $77,733 [$19,177 as at October 31, 2020]. The credit risk for these receivables is negligible.

Pursuant to certain agreements entered into with its service providers, primarily hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $7,471 as at October 31, 2021 [$9,267 as at October 31, 2020]. These deposits are offset by purchases of person-nights at these hotels and purchases from suppliers. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights and that the suppliers might not be able to provide the required services. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators and suppliers in its active markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $33,926 as at October 31, 2021 [$40,470 as at October 31, 2020] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2021, the cash security deposits with lessors that have been claimed totalled $1,610 [$18,970 as at October 31, 2020] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is negligible.

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

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

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price *[see note 2]*. 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.

The maturities of the Corporation's financial liabilities as at October 31, 2021 are summarized in the following table, excluding lease liabilities, which are disclosed in note 14:

	Maturing in under 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Maturing in 5 years and up	Contractual cash flows Total	Carrying amount Total
	$	$	$	$	$	$
Accounts payable and accrued liabilities	130,632	—	—	—	130,632	130,632
Long-term debt	13,038	187,433	271,568	315,678	787,717	464,557
Liability related to warrants	20,622	15,935	—	—	36,557	36,557
Total	**164,292**	**203,368**	**271,568**	**315,678**	**954,906**	**631,746**

Market risk

Foreign exchange risk

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

Expressed in Canadian dollar terms, the net financial assets and net financial liabilities of the Corporation and its subsidiaries denominated in currencies other than the measurement currency of the financial statements as at October 31, based on their financial statement measurement currency, are summarized in the following tables:

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
	$	$	$	$	$	$
2021						
Financial statement measurement currency of the group's companies						
U.S. dollar	—	—	—	(13)	(1,280)	(1,293)
Pound sterling	4	116	—	40,241	—	40,361
Canadian dollar	(909,884)	8,209	4,029	—	(850)	(898,496)
Other currencies	(1,153)	4	—	—	780	(369)
Total	**(911,033)**	**8,329**	**4,029**	**40,228**	**(1,350)**	**(859,797)**

For the year ended October 31, 2021, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in an $8,794 increase or decrease in the Corporation's net loss for the year, whereas other comprehensive loss would have decreased or increased by $722. For sensitivity analysis purposes, the impact of the U.S. dollar individually on the Corporation's net loss for the year would have resulted in an increase or decrease of $8,902. Also for sensitivity analysis purposes, the impact of any other single currency on the Corporation's income would not be material.

As at October 31, 2021, 0% of estimated requirements for fiscal 2022 were covered by foreign exchange derivatives. As at October 31, 2020, due to a significant COVID-19 pandemic-related decrease in our capacity, 100% of estimated requirements for winter 2021 were covered while no foreign exchange derivatives had been contracted for summer 2021.

Risk of fluctuations in fuel prices

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

As at October 31, 2021, since the Corporation did not contract any new fuel-related derivatives since March 2020, 0% of estimated requirements for fiscal 2022 were covered by fuel-related derivatives [100% of estimated requirements for winter 2021 were covered as at October 31, 2020].

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.

For the year ended October 31, 2021, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $301 increase or decrease in the Corporation's net loss.

Capital risk management

The Corporation's capital management objectives are first to ensure the longevity of the Corporation so as to support its continued operations, provide its shareholders with a return, generate benefits for its other stakeholders and maintain the most optimal capitalization possible with a view to keeping capital costs to a minimum.

The Corporation manages its capitalization in accordance with changes in economic conditions. In order to maintain or adjust its capitalization, the Corporation may elect to declare dividends to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issue new shares. The Corporation uses non-IFRS financial ratios to evaluate its capitalization. These ratios are described in the following paragraphs.

Due to the COVID-19 pandemic and the revision of capital risk management, the Corporation is suspending its strategy of maintaining its adjusted debt/equity ratio below 1. Until October 31, 2020, the Corporation monitored its capitalization using the adjusted debt/equity ratio. This ratio is calculated by dividing total net debt by equity. Total net debt is equal to the aggregate of long-term debt and lease obligations, less cash and cash equivalents [not held in trust or otherwise reserved]. Although commonly used, this measure does not reflect the fair value of leases as it does not take into account current rates for similar obligations with similar terms and risks.

Since October 31, 2021, the Corporation monitors its capitalization using the total net debt/total capitalization ratio, targeting a ratio under 50% in the medium term. This ratio is calculated by dividing total net debt by total capitalization, which is the sum of total net debt and market capitalization. Although commonly used, this measure does not reflect the fair value of leases as it does not take into account current rates for similar obligations with similar terms and risks. The calculation of the total net debt/total capitalization is summarized as follows:

	2021 $	2020 $
Total net debt		
Long-term debt	**463,180**	49,980
Liability related to warrants	**36,557**	—
Deferred financing costs	**(19,368)**	—
Lease liabilities	**956,358**	853,906
Cash and cash equivalents	**(433,195)**	(426,433)
	1,003,532	477,453
Number of outstanding shares (in thousands)	**37,747**	37,747
Closing share price	**4.39**	4.65
Market capitalization	**165,710**	175,524
Total net debt	**1,003,532**	477,453
Total capitalization	**1,169,242**	652,977
Total net debt/Total capitalization ratio	**85.8%**	73.1%

The Corporation's credit facilities are subject to certain covenants including a ratio related to operating results and a minimum level of cash and cash equivalents. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2021, due to the COVID-19 pandemic, the Corporation benefited from a temporary suspension of these ratios by its lenders up to October 31, 2022. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

Note 8 Deposits

	2021 $	2020 $
Maintenance deposits with lessors	**80,777**	103,638
Deposits on leased aircraft and engines	**33,926**	40,470
Deposits with suppliers	**7,471**	9,267
	122,174	153,375
Less current portion	**10,130**	16,471
	112,044	136,904

Note 9 Property, plant and equipment

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

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2019	328,737	125,102	60,037	115,558	1,344,885	130,017	2,104,336
Additions	6,839	25,852	5,089	1,294	269,227	24,648	332,949
Disposals	(47,628)	(14,600)	(369)	—	(109,891)	(1,049)	(173,537)
Write-offs	(121,053)	—	(6,038)	(1,885)	(138)	(4,822)	(133,936)
Depreciation	(4,122)	(171)	—	(32,826)	(46,524)	—	(83,643)
Exchange difference	—	—	(70)	825	—	177	932
Balance as at October 31, 2020	162,773	136,183	58,649	82,966	1,457,559	148,971	2,047,101
Accumulated depreciation							
Balance as at October 31, 2019	250,001	74,717	40,388	29,167	741,597	77,021	1,212,891
Depreciation	18,372	11,152	5,642	2,392	145,810	9,262	192,630
Disposals	(45,060)	(14,597)	(209)	—	(80,773)	(130)	(140,769)
Write-offs	(121,053)	—	(6,038)	(1,885)	(138)	(4,822)	(133,936)
Exchange difference	—	—	61	(83)	—	(75)	(97)
Balance as at October 31, 2020	102,260	71,272	39,844	29,591	806,496	81,256	1,130,719
Net book value as at October 31, 2020	60,513	64,911	18,805	53,375	651,063	67,715	916,382

Fleet-related property, plant and equipment

During the year ended October 31, 2021, the Corporation early returned to lessors five leased aircraft, namely four Airbus A330s and one Boeing 737-800, while two Airbus A330 leases expired. These returns resulted in disposals of property, plant and equipment and accumulated amortization balances of $426,114 and $416,939, respectively. Moreover, 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 $9,117 *[note 20]*.

During the year ended October 31, 2020, the Corporation early returned four leased aircraft to the lessors: three Boeing 737-800s and one Airbus A330. These returns resulted in disposals of property, plant and equipment and accumulated amortization balances of $118,886 and $91,341, respectively. Moreover, due to the significant COVID-19 pandemic-related capacity reductions, ten leased aircraft, i.e., five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, will no longer be used until they are returned to the lessors. An impairment charge corresponding to the full carrying amount of the right-of-use assets, maintenance components and leasehold improvements for these aircraft was recorded under Special items in the consolidated statement of loss; these impairment charges totalled $50,817 *[note 20]*.

Land, building and leasehold improvements

During the year ended October 31, 2021, the Corporation renegotiated leases, resulting in a $19,453 reduction in real estate right-of-use assets *[note 21]*.

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2021 and 2020, the land in Mexico did not meet the required criteria to be presented as an asset held for sale. Given the above-mentioned factors and the uncertainty surrounding future use of the land in Mexico, an assessment of its recoverable amount compared with its carrying amount was made as at October 31, 2021 and 2020. The recoverable amount of the land was determined based on fair value less costs to sell. Fair value less costs to sell was estimated using level 3 input data, according to a valuation prepared by an independent, external valuator as at October 19, 2021 and October 12, 2020, respectively. As at October 31, 2021, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly, no impairment charge was required. As at October 31, 2020, the recoverable amount of the land in Mexico was less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized an impairment charge of $32,826 related to its land in Mexico, under Special items, in order to bring the carrying value of the land to its recoverable amount of $50,675 as at October 31, 2020 *[note 20]*.

Note 10 Intangible assets

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2020	**158,543**	**20,418**	**12,594**	**191,555**
Additions	**560**	**—**	**—**	**560**
Write-offs	**(2,720)**	**—**	**—**	**(2,720)**
Exchange difference	**(104)**	**(27)**	**—**	**(131)**
Balance as at October 31, 2021	**156,279**	**20,391**	**12,594**	**189,264**
Accumulated amortization and impairment				
Balance as at October 31, 2020	**135,391**	**18,193**	**12,462**	**166,046**
Amortization	**9,128**	**—**	**47**	**9,175**
Write-offs	**(2,720)**	**—**	**—**	**(2,720)**
Exchange difference	**(86)**	**—**	**—**	**(86)**
Balance as at October 31, 2021	**141,713**	**18,193**	**12,509**	**172,415**
Net book value as at October 31, 2021	**14,566**	**2,198**	**85**	**16,849**

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2019	162,800	20,381	12,789	195,970
Additions	2,456	—	12	2,468
Write-offs and impairment	(6,737)	—	(207)	(6,944)
Exchange difference	24	37	—	61
Balance as at October 31, 2020	158,543	20,418	12,594	191,555
Accumulated amortization and impairment				
Balance as at October 31, 2019	130,710	15,809	12,599	159,118
Amortization	11,410	—	70	11,480
Write-offs and impairment	(6,737)	2,384	(207)	(4,560)
Exchange difference	8	—	—	8
Balance as at October 31, 2020	135,391	18,193	12,462	166,046
Net book value as at October 31, 2020	**23,152**	**2,225**	**132**	**25,509**

Impairment test in 2021

The Corporation performed its annual impairment test as at October 31, 2021 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following this impairment test, the Corporation did not identify any impairment of its trademarks, which totalled $2,198 as at October 31, 2021.

The recoverable amount is determined based on value in use, using the royalty capitalization method. The Corporation prepares cash flow forecasts based on pre-established royalty rates, which represent what a third party would pay to use the trademark. The cash flow forecasts, which correspond to after-tax royalties, are then discounted.

As at October 31, 2020, the Corporation concluded that the recoverable value of the Canadian Affair trademark, determined on a value-in-use basis, was lower than its carrying amount as a result of a decrease in revenues and expected profitability for this trademark due to the COVID-19 pandemic. As a result, the Corporation recognized a $1,884 impairment charge.

As at October 31, 2020, the Corporation concluded that the recoverable value of its wholly owned agency trademark Marlin Travel, determined based on value in use, was lower than its carrying amount as a result of a decrease in revenues and expected profitability for this trademark due to the COVID-19 pandemic. As a result, the Corporation recognized a $500 impairment charge.

Note 11 Investment

The Corporation holds a 50% interest in Desarrollo Transimar, a Mexican company operating a hotel, the Marival Armony. This interest in a joint venture is accounted for using the equity method.

The change in the investment in Desarrollo Transimar is detailed as follows:

	2021	**2020**
	$	**$**
Opening balance	**14,509**	16,533
Capital contribution	**821**	2,042
Share of net loss	**(4,704)**	(1,172)
Impairment	**—**	(3,100)
Translation adjustment	**(1,150)**	206
Closing balance	**9,476**	14,509

The investment was translated at the USD/CAD closing rate of 1.2397 as at October 31, 2021 [1.3336 as at October 31, 2020].

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

As at October 31, 2020, the Corporation determined that the declines in Desarrollo Transimar's revenues and demand due to the COVID-19 pandemic were objective evidence of impairment of its investment in a joint venture. Accordingly, the Corporation performed an impairment test on its investment to compare its recoverable amount with its carrying amount. The recoverable amount of the investment was determined based on the fair value less costs to sell. Fair value less costs to sell was established based on a valuation prepared by an external and independent appraiser as at October 31, 2020, using a discounted cash flow model based on Level 3 inputs. The cash flows used are management's most plausible projections given current and expected market conditions. The recoverable amount of the investment determined is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized a $3,100 impairment charge related to its investment under Special items in order for the carrying amount of the investment to be equal to its recoverable amount as at October 31, 2020. The pre-tax discount rate used for the investment's impairment test was 7.1%.

The following table shows the condensed financial information regarding Desarrollo Transimar as at October 31, 2021 and 2020:

	2021 $	2020 $
Statement of financial position:		
Current assets	**6,667**	7,830
Non-current assets	**80,335**	97,323
Current liabilities	**3,875**	5,654
Non-current liabilities	**64,175**	64,282
Net assets	**18,952**	35,217
Impairment *[note 20]*	**—**	(3,100)
Carrying amount of investment	**9,476**	14,509
Statement of comprehensive income:		
Revenues	**12,402**	11,054
Net loss and comprehensive loss	**(9,408)**	(2,344)
Share of net loss	**(4,704)**	(1,172)

Note 12 Other assets

	2021 $	2020 $
Deferred financing costs	**19,368**	—
Sundry	**—**	253
	19,368	253

The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF. Upon drawdown of the unsecured debt – LEEFF, the deferred financing costs recorded as an asset are applied against the initial carrying amount of the liabilities recorded, pro rata to the amounts drawn *[note 15]*. Deferred financing costs also included financing costs related to the unused portion of the LEEFF credit facilities *[note 14]*.

Note 13 Trade and other payables

	2021 $	2020 $
Trade payables	**71,750**	90,750
Accrued expenses	**22,046**	15,743
Salaries and employee benefits payable	**36,836**	82,816
Government remittances	**10,781**	5,134
Non-controlling interest *[note 7]*	**—**	37,800
	141,413	232,243

Note 14 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at October 31, 2021 and October 31, 2020. The current portion of lease liabilities includes deferred rent payments related to aircraft leases and real estate leases of $80,989 and $2,340, respectively [$44,808 and $2,819 in 2020, respectively]:

	Final maturity	Weighted average effective interest rate	2021	2020
		%	$	$
Long-term debt				
Unsecured debt - LEEFF	**2026**	**13.03**	**157,985**	—
Unsecured credit facility - Travel credits	**2028**	**14.28**	**140,590**	—
Subordinated credit facility	**2023**	**10.22**	**70,973**	—
Revolving credit facility	**2023**	**4.93**	**49,805**	49,980
Secured debt - LEEFF	**2023**	**5.43**	**43,827**	—
Long-term debt		**11.39**	**463,180**	49,980
Lease liabilities				
Fleet	**2022-2033**	**5.31**	**904,922**	772,925
Real estate and other	**2021-2037**	**5.36**	**51,436**	80,981
Lease liabilities		**5.31**	**956,358**	853,906
Total long-term debt and lease liabilities		**7.30**	**1,419,538**	903,886
Current portion of lease liabilities			**(171,557)**	(147,980)
Long-term debt and lease liabilities			**1,247,981**	755,906

Funding of $700,000 from the Government of Canada

On April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700,000 in additional liquidity through the LEEFF. The new fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEF, which Transat would use only on an as-needed basis, are as follows:

Secured debt - LEEFF

An amount of $78,000 that may be drawn down up to October 29, 2022 in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of Canadian, Mexican, Caribbean and European subsidiaries of the Corporation, subject to certain exceptions. The facility bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. This credit facility becomes immediately payable in the event of a change in control. The terms of the agreement require the Corporation to comply with certain financial ratios and covenants. As at October 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and covenants by its lenders until October 31, 2022 and $44,000 was drawn down under this credit facility, which had a carrying amount of $43,827.

Unsecured debt - LEEFF

An amount of $312,000 that may be drawn down up to October 29, 2022 in the form of a non-revolving and unsecured credit facility maturing on April 29, 2026, bearing interest at a rate of 5.0% in the first year, increasing to 8.0% in the second year, and by 2.0% per annum thereafter, with the possibility of capitalization of interest in the first two years. This credit facility becomes immediately payable in the event of a change in control. As at October 31, 2021, $176,000 was drawn down under the credit facility, which has a carrying amount of $157,985. The credit facility included a pre-payment option, which is an embedded derivative, whose fair value is recorded as a reduction of the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated as at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of income (loss) under Change in fair value of fuel-related derivatives and other derivatives. As at October 31, 2021, the fair value of the pre-payment option of $1,377 was determined using a trinomial tree approach based on the Hull-White model.

In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants *[note 15]* related to unsecured financing facility - LEEFF.

Unsecured credit facility related to travel credits

An amount of $310,000 in the form of an unsecured credit facility, which can be drawn down up to December 31, 2021, for the sole purpose of making refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at the rate of 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately payable in case of default related to the debt – LEEFF, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce them or in the event of a change of control without the consent of the lenders. As at October 31, 2021, the credit facility was fully drawn down. As at October 31, 2021, the carrying amount of the credit facility amounted to $140,590, and an amount of $167,394 was also recognized as deferred government grant related to these drawdowns. During the year ended October 31, 2021, an amount of $5,056 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

Renewal of existing credit facilities

In addition to the new funding of $700,000 from the Government of Canada, the amounts already drawn on the existing facilities will remain in place.

Revolving credit facility

On April 29, 2021,the Corporation amended its $50,000 revolving credit facility agreement for operating purposes. The amended agreement, which expires on April 29, 2023, may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. The terms of the agreement require the Corporation to comply with certain financial ratios and covenants. As at October 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and covenants by its lenders until October 31, 2022 and the credit facility was fully drawn down.

Subordinated credit facility

On April 29, 2021, the Corporation amended its subordinated credit facility for operating purposes, reducing the amount from $250,000 to $70,000 The amended agreement expires on April 29, 2023 and becomes immediately payable in the event of a change in control. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to interest. The terms of the agreement require the Corporation to comply with certain financial ratios and covenants. As at October 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and covenants by its lenders until October 31, 2022 and the credit facility was fully drawn down.

Revolving credit facility agreement - Letters of credit

As at June 29, 2021, the Corporation amended its annually renewable revolving credit facility agreement for issuing letters of credit, reducing the amount from $75,000 to $74,000. Under this agreement, the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit. As at October 31, 2021, $38,161 had been drawn down under the facility [$60,266 as at October 31, 2020], $30,728 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

Financing costs

Interest expense for the years ended October 31, 2021 and 2020 is detailed as follows:

	2021 $	2020 $
Interest on lease liabilities	**45,567**	40,781
Accretion on provision for return conditions	**983**	2,454
Interest on long-term debt	**16,520**	1,361
Other interest	**13,954**	3,453
Financing costs	**77,024**	48,049

Other interest for the year ended October 31, 2021 consisted mainly of interest expense and standby and arrangement fees related to the $70,000 subordinated credit facility.

Rent expense

Rent expense for the years ended October 31, 2021 and 2020 is detailed as follows:

	2021 $	2020 $
Variable lease payments	**—**	4,810
Short-term leases	**—**	18,548
Aircraft rent	**—**	23,358
Variable lease payments	**—**	1,002
Short-term leases	**950**	3,618
Low value leases	**558**	556
	1,508	28,534

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the year ended October 31, 2021:

	2021			2020		
	Cash flows $	Non-cash changes $	Total $	Cash flows $	Non-cash changes $	Total $
Opening balance			**853,906**			665,929
Repayments	**(74,539)**	**—**	**(74,539)**	(82,505)	—	(82,505)
New lease liabilities (new contracts and amendments)	**—**	**241,605**	**241,605**	—	275,118	275,118
Interest portion of deferred rent payments	**—**	**33,174**	**33,174**	—	17,708	17,708
Offset of rent payments and lease terminations	**—**	**(45,222)**	**(45,222)**	—	(25,022)	(25,022)
Exchange difference	**—**	**(52,566)**	**(52,566)**	—	2,678	2,678
Closing balance	**(74,539)**	**176,991**	**956,358**	(82,505)	270,482	853,906

Analysis of maturities

Repayment of principal and interest on long-term debt and lease liabilities as at October 31, 2021 is detailed as follows. Interest on long-term debt includes interest payable as at October 31, 2021 only. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.2397 as at October 31, 2021:

Year ended October 31	2022 $	2023 $	2024 $	2025 $	2026 $	2027 and up $	Total $
Long-term debt obligations	**—**	**164,605**	**—**	**—**	**157,985**	**140,590**	**463,180**
Fleet	203,899	134,501	119,387	113,148	109,116	439,188	**1,119,239**
Real estate and other	11,367	3,803	3,194	5,587	5,292	40,951	**70,194**
Lease liabilities	**215,266**	**138,304**	**122,581**	**118,735**	**114,408**	**480,139**	**1,189,433**
Total	**215,266**	**302,909**	**122,581**	**118,735**	**272,393**	**620,729**	**1,652,613**

Note 9 provides the information required for right-of-use assets and depreciation. Note 25 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 15 Liability related to warrants

In the context of the financing arrangement related to the unsecured debt – LEEFF [note 14], on April 29, 2021, the Corporation issued to the Government of Canada 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 exercisable over a 10-year period, representing 18.75% of the total commitment available under the above unsecured debt – LEEFF. The warrants are to vest in proportion to the drawings that will be made. and 50% would be forfeited if the loan were to be repaid before April 29, 2022.

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

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

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

Moreover, the parties may, by mutual agreement, exercise the 9,436,772 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,436,772 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

As at October 31, 2021, a total of 7,333,333 warrants had vested following drawdowns on the unsecured debt – LEEFF and no warrants had been exercised.

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, using the Black-Scholes model, the fair value of the 13,000,000 warrants issued was estimated at $41,491 and recorded as a liability. In its model, the Corporation used a risk-free interest rate of 1.66%, expected volatility of 55.8% and a contractual term of 10 years. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF. Upon drawdown of the unsecured debt – LEEFF, the deferred financing costs recorded as an asset are applied against the initial carrying amount of the liabilities recorded, pro rata to the amounts drawn. The resulting discount will be included in the calculation of the effective rate of each drawdown in conjunction with the expected cash flows to repay such drawdowns

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

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

The change in the liability related to warrants for the year ended October 31 is detailed as follows:

	2021 **$**
Opening balance	**—**
Issuance	**41,491**
Revaluation of liability related to warrants	**(4,934)**
Closing balance	**36,557**
Current liability	**20,622**
Non-current liability	**15,935**
Closing balance	**36,557**

To remeasure the liability related to warrants classified in Level 3, the Corporation used the Black-Scholes model. The main non-observable input used in the model is expected volatility, which was estimated at 56.3% as at October 31, 2021. A 5.0% increase in the expected volatility used in the pricing model would result in a $2,165 increase in the liability related to the warrants as at October 31, 2021.

Note 16 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the year ended October 31 is detailed as follows:

	2021 $	2020 $
Opening balance	**143,598**	155,120
Additional provisions	**28,574**	35,791
Change in estimate	**(18,527)**	1,638
Unused amounts reversed	**(28,384)**	(51,405)
Accretion	**983**	2,454
Closing balance	**126,244**	143,598
Current provisions	**3,065**	14,963
Non-current provisions	**123,179**	128,635
Closing balance	**126,244**	143,598

Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at October 31, 2021, the unused amounts recovered included $7,521 related to future repairs to aircraft that will not be made, $6,610 related to the leases that matured during the year and $14,253 related to reversals of provisions for return conditions for aircraft whose leases had been terminated.

As at October 31, 2020, additional provisions included $6,395 related to impairment of leased aircraft *[note 20]*. In addition, the unused amounts recovered included $16,705 related to reversals of provisions for return conditions for aircraft whose leases had been terminated.

Note 17 Other liabilities

	2021 $	2020 $
Employee benefits *[note 24]*	**27,120**	49,862
Other liabilities	**377**	353
	27,497	50,215

Note 18 Equity

Authorized share capital

Class A Variable Voting Shares

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

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

provide an air service, so that such non-Canadian holders may never hold votes totalling more than 25% (or such other percentage as may be prescribed by law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting;

- last, if applicable, and once the two pro rata allocations described above have been made, a proportional reduction will be made in the voting rights of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares may never hold votes totalling more than 49% (or such other percentage as may be prescribed by law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting.

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

Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

During the year ended October 31, 2021 and the year ended October 31, 2020, no changes were made to the Class A and Class B shares.

As at October 31, 2021, the number of Class A Shares and Class B Shares stood at 1,694,125 and 36,052,965, respectively [3,785,312 and 33,961,778, respectively, as at October 31, 2020], for a total number of shares of 37,747,090 with a carrying amount of $221,012.

Subscription rights plan

The shareholders' subscription rights plan [the "rights plan"] entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider alternatives, thus allowing shareholders to receive full and fair value for their shares. The time limit for a permitted bid under the rights plan is 105 days. The rights plan terminated on the day after the annual general meeting on March 12, 2020.

Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 1,122,337 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the performance criteria are determined on each grant. The options granted between January 14, 2009 and October 31, 2015 are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. For options granted starting November 1, 2015, vesting will no longer depend on meeting performance criteria. The options granted before October 31, 2013 are exercisable over a ten-year period, whereas those granted after that date are exercisable over a seven-year period, respectively. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years. Under the plan, in the event of a change of control, all outstanding stock options vest.

The following tables summarize all outstanding options:

	2021		2020	
	Number of options	**Weighted average price ($)**	**Number of options**	**Weighted average price ($)**
Beginning of year	**1,738,570**	**10.13**	1,748,570	10.15
Granted	**150,000**	**4.61**	—	—
Cancelled	**(128,953)**	**10.96**	(2,000)	19.24
Expired	**(651,355)**	**13.07**	(8,000)	11.82
End of year	**1,108,262**	**7.55**	1,738,570	10.13
Options exercisable, end of year	**958,262**	**8.01**	1,557,042	10.03

	Outstanding options			Options exercisable	
Range of exercise price	**Number of options outstanding as at October 31, 2021**	**Weighted average remaining life**	**Weighted average price**	**Number of options exercisable as at October 31, 2021**	**Weighted average price**
$			**$**		**$**
4.61 to 7.48	**722,758**	**1.9**	**6.40**	**572,758**	**6.87**
8.73 to 11.22	**385,504**	**1.9**	**9.71**	**385,504**	**9.71**
	1,108,262	**1.9**	**7.55**	**958,262**	**8.01**

Compensation expense related to stock option plan

During the year ended October 31, 2021, the Corporation granted 150,000 stock options [nil in 2020] to its key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant were as follows:

	2021
Risk-free interest rate	**0.96%**
Expected life	**4 years**
Expected volatility	**67.0%**
Dividend yield	**0.0%**
Weighted average fair value at date of grant	**$2.34**

During the year ended October 31, 2021, the Corporation recorded a nil compensation expense [nil compensation expense in 2020] for its stock option plan.

Performance share unit plan

Performance share units ["PSUs"] are awarded in connection with the performance share unit plan for senior executives. Under this plan, each eligible senior executive receives a portion of his or her compensation in the form of PSUs. PSUs consist of a number equal to a percentage of the participant's basic salary, divided by the fair market value of Class B Shares as at the award date. Once vested, PSUs entitle participants to receive an equivalent number of shares or a cash payment, at the Corporation's option awarded vest 100% in mid-January three years following the award, provided the performance criteria determined on the award are met. The remaining 50% of PSUs awarded vest in mid-January three years following their award, provided the plan member is still an employee of the Corporation. Under the plan, in the event of a change of control, all outstanding PSUs vest.

During the years ended October 31, 2021 and 2020, the Corporation granted no PSUs to its key executives and employees. As at October 31, 2021, there were nil PSUs awarded [435,662 as at October 31, 2020]. During the year ended October 31, 2021, the Corporation recognized a compensation expense reversal of $1,843 [compensation expense reversal of $3,807 in 2020] for its performance share unit plan, which was recorded in full as a cash-settled transaction.

Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2021, the Corporation was authorized to issue up to 355,790 shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued no shares [nil Class B Shares in 2020] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of shares, the aggregate purchase price of which is equal to an amount of 30% or 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest to the eligible employee, subject to the retention during the first six months of the vesting period of all the shares purchased under the Corporation's share purchase plan.

The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' accounts as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2021, the Corporation recognized no compensation expense [nil compensation expense in 2020] for its stock ownership incentive and capital accumulation plan.

Permanent stock ownership incentive plan

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible senior executive a number of shares, the aggregate purchase price of which is equal to the maximum percentage of salary contributed, which may not exceed 10%. Shares so awarded by the Corporation will vest gradually to the eligible senior executive, subject to the senior executive's retaining, during the vesting period, all the shares purchased under the Corporation's share purchase plan. The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' account as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2021, the Corporation recognized no compensation expense [no compensation expense in 2020] for its permanent stock ownership incentive plan.

Deferred share unit plan

Deferred share units ["DSUs"] are awarded in connection with the independent director deferred share unit plan. Under this plan, each independent director receives a portion of his or her compensation in the form of DSUs. The value of a DSU is determined based on the average closing share price for the five trading days prior to the award of the DSUs. The DSUs are repurchased by the Corporation when a director ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the average closing share price for the five trading days prior to the repurchase of the DSUs.

As at October 31, 2021, the number of DSUs awarded amounted to 302,203 [306,775 as at October 31, 2020]. During the year ended October 31, 2021, the Corporation recorded a compensation expense of $171 [compensation expense reversal of $3,289 in 2020] for its deferred share unit plan.

Restricted share unit plan

Restricted share units ["RSUs"] are awarded annually to eligible employees under the new restricted share unit plan. Under this plan, each eligible employee receives a portion of his or her compensation in the form of RSUs. The value of an RSU is determined based on the weighted average closing share price for the five trading days prior to the award of the RSUs. The rights related to RSUs are acquired over a period of three years. When acquired, the RSUs are immediately repurchased by the Corporation, subject to certain conditions and certain provisions relating to the Corporation's financial performance. For the purpose of repurchasing RSUs, the value of an RSU is determined based on the weighted average closing share price for the five trading days prior to the repurchase of the RSUs. Under the plan, in the event of a change of control, all outstanding RSUs vest.

As at October 31, 2021, there were no PSUs awarded [149,097 as at October 31, 2020]. During the year ended October 31, 2021, the Corporation recorded a compensation expense reversal of $4,687 [compensation expense reversal of $928 in 2020] for its restricted share unit plan.

Warrants

No warrants were exercised during the year ended October 31, 2021. Accordingly, the Corporation issued no shares related to the exercise of warrants *[note 15]*.

Loss per share

Basic and diluted loss per share was calculated as follows:

(in thousands of dollars, except per share data)	**2021** **$**	**2020** **$**
NUMERATOR		
Net loss attributable to shareholders used in computing basic loss per share	**(389,559)**	(496,545)
Revaluation of liability related to warrants	**—**	—
Net loss attributable to shareholders used in computing diluted loss per share	**(389,559)**	(496,545)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,747**	37,747
Effect of dilutive securities		
Stock options	**—**	—
Warrants	**—**	—
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**37,747**	37,747
Loss per share		
Basic	**(10.32)**	(13.15)
Diluted	**(10.32)**	(13.15)

Given the loss recorded for the year ended October 31, 2021, the 1,108,262 outstanding stock options and the 13,000,000 warrants issued were excluded from the calculation due to their anti-dilutive effect [1,746,570 stock options and nil warrants for the year ended October 31, 2020].

Note 19 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

Revenue from contracts with customers is broken down as follows:

	2021 $	2020 $
Customers		
Transatlantic	**26,383**	164,804
Americas	**88,611**	1,102,080
Other	**9,824**	35,185
Total revenues	**124,818**	1,302,069

Contract balances

Contract balances with customers are detailed as follows:

	2021 $	2020 $
Trade accounts receivable *[note 6]*	**9,775**	5,565
Other receivables *[note 6]*	**77,733**	22,677
Contract costs, included in Prepaid expenses	**5,543**	14,256
Customer deposits and deferred revenues	**292,158**	608,890

Salaries and employee benefits

	2021 $	2020 $
Salaries and other employee benefits	**117,016**	236,241
Long-term employee benefits *[note 24]*	**5,754**	3,009
	122,770	239,250

Since March 15, 2020, the Corporation made use of the CEWS for its Canadian workforce, which enabled it to finance part of the salaries of its staff still at work and, until August 28, 2021, to offer employees on temporary layoff to receive a portion of their salary equivalent to the amount of the grant received, with no work required. The Corporation determined it fulfilled the employer eligibility criteria and claimed the CEWS for the period from March 15, 2020 to October 23, 2021.

For the year ended October 31, 2021, the Corporation recognized a total deduction of $106,659 from Salaries and other employee benefits expense related to CEWS, including $25,758 for active employees. For the year ended October 31, 2020, the Corporation recognized a total deduction of $113,596 from Salaries and other employee benefits expense related to CEWS, including $38,782 for active employees.

Depreciation and amortization

	2021 $	2020 $
Property, plant and equipment	**150,590**	192,630
Intangible assets subject to amortization	**9,175**	11,480
Other assets	**—**	2
	159,765	204,112

Note 20 Special items

	2021 $	2020 $
Special items related to the transaction with Air Canada		
Termination payment	**(12,500)**	–
Professional fees	**6,106**	7,753
Reversal of compensation expense	**(6,223)**	(4,491)
	(12,617)	3,262
Other special items		
Impairment of contract costs and other assets	**24,333**	–
Impairment of the fleet (including right-of-use assets) *[note 9]*	**9,117**	50,817
Severance	**6,739**	891
Provision for return conditions of impaired leased aircraft *[note 15]*	**–**	6,395
Impairment of the land in Mexico *[note 9]*	**–**	32,826
Impairment of the investment in a joint venture *[note 11]*	**–**	3,100
Impairment of trademarks *[note 10]*	**–**	2,384
	40,189	96,413
	27,572	99,675

Special items related to the transaction with Air Canada

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. During the year ended October 31, 2021, the agreed upon amount of $12,500 in termination fees for the arrangement agreement settled by Air Canada, $6,106 in professional fees as well as $6,223 in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada, compared with $7,753 in professional fees and $4,491 in reversals of compensation expenses for the previous fiscal year. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of compensation expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

Other special items

Due to the COVID-19 pandemic occurring worldwide, the global tourism industry has faced a collapse in demand. As a result, the Corporation had to scale back its capacity significantly and recognize impairment charges accordingly. These impairment charges are included under Special items.

As at October 31, 2021, other special items included $21,917 for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers. The Corporation also recorded an impairment charge of $2,416 for the deposits related to the impaired aircraft.

Due to the COVID-19 pandemic, the Corporation started reducing its workforce through permanent layoffs. Termination benefits in the amount of $6,739 ($891 in 2020) were recognized in 2021, of which $5,220 was included in trade and other payables as at October 31, 2021. The provision includes the costs estimated for termination notices and benefits provided for in the collective agreements of the Corporation and applicable laws, the amount of which could be adjusted based on various factors such as the relevant advanced notice, the number of employees being laid off and the period during which they will remain laid off.

Note 21 Loss (gain) on asset disposals

	2021 $	2020 $
Lease termination	**(17,193)**	**19,319**
Engine disposals	**—**	**(8,094)**
Other	**(154)**	**46**
	(17,347)	11,271

The gain on asset disposals relates to asset disposals and lease terminations.

During the year ended October 31, 2021, due to the significant reduction in capacity related to the COVID-19 pandemic, the Corporation early returned five leased aircraft to the lessors: four Airbus A330s and one Boeing 737-800. The termination of these aircraft leases gave rise to a gain of $14,580 resulting from the reversal of lease liabilities of $19,992, property, plant and equipment of $9,274 and the provision for return conditions of $3,862. The carrying amount of right-of-use assets for four of these terminated aircraft leases were fully impaired during the year ended October 31, 2020. Moreover, during the year ended October 31, 2021, the Corporation recognized a gain on real estate lease termination of $2,613 that stemmed from the reversal of $22,066 lease liabilities and $19,453 property plant and equipment.

During the year ended October 31, 2020, due to the significant reduction in capacity related to the COVID-19 pandemic, the Corporation early returned four leased aircraft to the lessors: three Boeing 737-800s and one Airbus A330, and also terminated the leases of certain travel agencies. These lease terminations resulted in the recognition of a $19,319 loss. In addition, during the year ended October 31, 2020, the Corporation disposed of Airbus A310 engines with a nil carrying value for an amount of $8,094, which corresponds to the amount recorded as a gain on disposal of assets.

Note 22 Income Taxes

The major components of the income tax expense for the years ended October 31 were:

Consolidated statements of income	2021 $	2020 $
Current		
Current income taxes	**(172)**	(1,905)
Adjustment to taxes payable for prior years	**120**	(2,471)
	(52)	(4,376)
Deferred		
Relating to temporary differences	**1,837**	10,009
Adjustment to deferred taxes for prior years	**(19)**	2,159
Recognition of previously unrecognized temporary difference	**(1,743)**	—
	75	12,168
Income tax expense	**23**	7,792

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the years ended October 31:

	2021		2020	
	%	$	%	$
Income taxes at the statutory rate	**26.5**	**(103,194)**	26.5	(128,774)
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	**—**	**34**	0.4	(1,737)
Non-taxable items	**(1.0)**	**3,845**	(0.5)	2,471
Unrecognized losses for the current year	**(25.9)**	**100,745**	(24.9)	120,925
Recognition of previously unrecognized temporary difference	**0.4**	**(1,743)**	—	—
Derecognition of a future income tax asset	**—**	**—**	(3.0)	14,559
Adjustments for prior years	**—**	**101**	0.1	(312)
Effect of tax rate changes	**0.1**	**(143)**	0.0	43
Other	**(0.1)**	**378**	(0.1)	617
	—	**23**	(1.6)	7,792

The applicable statutory income tax rate was 26.5% for the year ended October 31, 2021 [26.5% for the year ended October 31, 2020].

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components and changes in temporary differences in deferred tax assets and liabilities for fiscal 2021 and 2020 were as follows:

	2021				
	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Exchange differences	Balance, end of year
	$	$	$	$	$
Non-capital losses	**5,279**	**(270)**	**—**	**—**	**5,009**
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	**(209,414)**	**(20,409)**	**—**	**61**	**(229,762)**
Intangible assets, excluding software	**—**	**111**	**—**	**—**	**111**
Lease liabilities	**208,686**	**19,146**	**—**	**—**	**227,832**
Derivative financial instruments	**(68)**	**(7)**	**75**	**—**	**—**
Other financial assets and other assets	**(5,349)**	**1,513**	**—**	**—**	**(3,836)**
Provisions	**192**	**(159)**	**—**	**—**	**33**
Deferred tax	**(674)**	**(75)**	**75**	**61**	**(613)**

	2020				
	Balance, beginning of year	**Recognized in net income**	**Recognized in other comprehensive income**	**Exchange differences**	**Balance, end of year**
	$	**$**	**$**	**$**	**$**
Non-capital losses	3,072	2,207	—	—	5,279
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	(187,091)	(22,338)	—	15	(209,414)
Intangible assets, excluding software	702	(702)	—	—	—
Lease liabilities	176,218	32,468	—	—	208,686
Derivative financial instruments	1,896	1,116	(3,080)	—	(68)
Other financial assets and other assets	271	(5,620)	—	—	(5,349)
Provisions	13,088	(12,896)	—	—	192
Employee benefits	12,451	(8,614)	(3,837)	—	—
Deferred donation	(2,211)	2,211	—	—	—
Deferred tax	18,396	(12,168)	(6,917)	15	(674)

The net deferred tax assets are detailed below:

	2021	**2020**
	$	**$**
Deferred tax assets	**—**	—
Deferred tax liabilities	**(613)**	(674)
Net deferred tax assets	**(613)**	(674)

Non-capital losses recorded in various jurisdictions expire as follows:

Year of expiry	**Unrecognize**	**Recognized**
	$	**$**
2022 - 2026	**5,050**	**—**
2027 - 2031	**10,152**	**—**
2032 - 2036	**706**	**—**
2037 - 2041	**634,804**	**17,719**
With no expiry	**4,414**	**1,650**
	655,126	**19,369**

As at October 31, 2021, non-capital losses carried forward and other unrecognized temporary differences were as follows:

	Canada				
	Federal	**Quebec**	**Mexico**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Non-capital losses	628,955	633,088	13,500	12,671	655,126
Capital losses	2,519	2,519	—	—	2,519
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	10,077	9,100	25,578	44	35,699
Intangible assets, excluding software	3,148	3,148	—	—	3,148
Lease liabilities	98,143	98,143	76	45	98,264
Other financial assets and other assets	17,142	17,142	—	—	17,142
Provisions	68,578	68,578	—	—	68,578
Employee benefits	27,120	27,120	—	—	27,120
Deferred donations	749	1,221	—	—	749
	856,431	**860,059**	**39,154**	**12,760**	**908,345**

The Corporation recognized a deferred tax liability of $4,900 on retained earnings of one of its foreign subsidiaries. The Corporation recognized no other deferred tax liability on retained earnings of its foreign subsidiaries and its joint venture as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad.

Note 23 Related party transactions and balances

The consolidated financial statements include those of the Corporation and those of its subsidiaries. The main subsidiaries and joint venture of the Corporation are listed below:

		Interest (%)	
	Country of incorporation	2021	2020
Air Transat A.T. inc.	Canada	**100.0**	100.0
Transat Tours Canada inc.	Canada	**100.0**	100.0
Transat Distribution Canada inc.	Canada	**100.0**	100.0
11061987 Florida Inc.	United States	**100.0**	100.0
Transat Holidays USA Inc.	United States	**100.0**	100.0
The Airline Seat Company Ltd.	United Kingdom	**100.0**	100.0
Air Consultants France S.A.S.	France	**100.0**	100.0
Caribbean Transportation Inc.	Barbados	**100.0**	70.0
CTI Logistics Inc.	Barbados	**100.0**	70.0
Sun Excursions Caribbean Inc.	Barbados	**100.0**	70.0
Propiedades Profesionales Dominicanas Carhel S.R.L.	Dominican Republic	**100.0**	70.0
Servicios y Transportes Punta Cana S.R.L.	Dominican Republic	**100.0**	70.0
TTDR Travel Company S.A.S.	Dominican Republic	**100.0**	70.0
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	**100.0**	70.0
Turissimo Jamaica Ltd.	Jamaica	**100.0**	70.0
Laminama S.A. de C.V.	Mexico	**100.0**	100.0
Promociones Residencial Morelos S.A. de C.V.	Mexico	**100.0**	100.0
Promotora Turística Regional S.A. de C.V.	Mexico	**100.0**	100.0
Trafictours de Mexico S.A. de C.V.	Mexico	**100.0**	70.0
Desarrollo Transimar S.A. de C.V.	Mexico	**50.0**	50.0

On May 31, 2021, the Corporation, which held 70% of the shares of Trafictours, acquired the 30% interest held by the minority shareholder following a mutual agreement between the two parties *[note 7]*.

Compensation of key senior executives

The annual compensation and related compensation costs of directors and key senior executives, namely the President and Chief Executive Officer and the Senior Vice Presidents of the Corporation were as follows:

	2021 $	2020 $
Salaries and other employee benefits	**5,876**	7,264
Long-term employee benefits	**4,655**	1,567

Note 24 Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees.

Defined benefit arrangements and post-employment benefits

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $30,728 letter of credit to the trustee *[see note 5]*. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation as at October 31, 2021 and 2020:

	2021 **$**	**2020** **$**
Present value of obligations, beginning of year	**49,862**	46,986
Current service cost	**1,360**	1,567
Cost of plan amendments	**3,295**	—
Financial costs	**1,099**	1,442
Benefits paid	**(29,094)**	(960)
Experience losses (gains)	**2,350**	(656)
Actuarial loss (gain) on obligation	**(1,752)**	1,483
Present value of obligations, end of year	**27,120**	49,862

The following table provides the components of retirement benefit expense for the years ended October 31:

	2021 **$**	**2020** **$**
Current service cost	**1,360**	1,567
Cost of plan amendments	**3,295**	—
Interest cost	**1,099**	1,442
Total cost of retirement benefits	**5,754**	3,009

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2021:

	$
1 year and less	**1,135**
1 to 5 years	**5,195**
5 to 10 years	**7,039**
10 to 15 years	**7,878**
15 to 20 years	**7,422**
	28,669

The weighted average duration of the defined benefit obligation related to pension arrangements was 15.0 years as at October 31, 2021.

The significant actuarial assumptions used to determine the Corporation's retirement benefit obligation and expense were as follows:

	2021 %	2020 %
Retirement benefit obligation		
Discount rate	**3.25**	2.75
Rate of increase in eligible earnings	**2.75**	2.75
Retirement benefit expense		
Discount rate	**2.75**	3.00
Rate of increase in eligible earnings	**2.75**	2.75

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

Increase (decrease)	**Retirement benefit expense for the year ended October 31, 2021** **$**	**Retirement benefit obligations as at October 31, 2021** **$**
Discount rate	**(6)**	**(931)**
Rate of increase in eligible earnings	**18**	**109**

The funded status of the benefits and the amounts recorded in the statement of financial position under other liabilities were as follows:

	2021 $	2020 $
Plan assets at fair value	**—**	—
Accrued benefit obligation	**27,120**	49,862
Retirement benefit deficit	**27,120**	49,862

Changes in the cumulative amount of net actuarial losses recognized in other comprehensive income (loss) and presented as a separate component of retained earnings were as follows:

Gains (losses)	**$**
October 31, 2019	(10,590)
Actuarial losses	(827)
Income taxes	(3,837)
October 31, 2020	**(15,254)**
Actuarial losses	**(597)**
October 31, 2021	**(15,851)**

Defined contribution pension plans

The Corporation offers defined contribution pension plans to certain employees with contributions based on a percentage of salary.

Contributions to defined contribution pension plans, which correspond to the cost recognized, amounted to $6,114 for the year ended October 31, 2021 [$10,656 for the year ended October 31, 2020].

Note 25 Commitments and contingencies

Leases and other commitments

As at October 31, 2021, the Corporation was party to agreements to lease seven Airbus A321neos for delivery up to 2023. The Corporation also had leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, in particular related to information technology service contracts entered into in the normal course of business. The following table presents the minimum payments due under leases for aircraft to be delivered over the next few years and leases with a term of less than 12 months and/or for low value assets, as well as the purchase obligations:

Year ended October 31	2022 $	2023 $	2024 $	2025 $	2026 $	2027 and up $	Total $
Leases (aircraft)	7,516	17,630	32,198	45,198	45,198	394,657	**542,397**
Purchase obligations	9,091	4,555	2,948	4,750	—	—	**21,344**
	16,607	**22,185**	**35,146**	**49,948**	**45,198**	**394,657**	**563,741**

Litigation

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

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

Other

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15,100 to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount was recognized as income taxes receivable as at October 31, 2021 and 2020.

Note 26 Guarantees

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

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

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

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2021, the total amount of these guarantees unsecured by deposits was $425. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2021, no amounts had been accrued with respect to the above-mentioned agreements.

Irrevocable credit facility unsecured by deposits

Following the Government of Canada funding and amendments to the existing revolving credit facility agreement and subordinated credit facility agreement, on May 28, 2021, the lender terminated the guarantee facility that allowed the Corporation to issue letters of credit to certain of its service providers, for a maximum term of three years and for a total amount of $13,000, without pledging cash for the total amount of the letters of credit issued. As at October 31, 2021, an amount of $5,985 was drawn down under this credit facility maturing on February 28, 2022.

Note 27 Segmented disclosure

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