TRANSAT A.T INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2021

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TSX: TRZ

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended April 30, 2021, compared with the quarter ended April 30, 2020, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2020 and the accompanying notes and the 2020 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second-quarter update to the information contained in the MD&A section of our 2020 Annual Report. The risks and uncertainties set out in the MD&A of the 2020 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of June 9, 2021. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended April 30, 2021 and the Annual Information Form for the year ended October 31, 2020.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

As at April 30, 2021, there exists material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. The Financial position, liquidity and capital resources section of the MD&A and note 2 to the interim condensed consolidated financial statements contain more detail on this issue.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. 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. The Corporation currently expects to resume its operations on July 30th. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. 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 the availability of a vaccine makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2020 Annual Report.

This MD&A also contains certain forward-looking statements about the Corporation concerning a potential transaction involving the acquisition of all the shares of the Corporation. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of a transaction will be subject to certain closing conditions that are customary in this type of transaction, including regulatory approvals as well as other customary closing conditions.The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

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

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.
- The outlook whereby, subject to going concern uncertainty as discussed in the Basis of Preparation and Going Concern Uncertainty section in this MD&A and note 2 to the interim condensed consolidated financial statements, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Adjusted operating income (loss)	Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss) and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus the amount for lease liabilities and the liability related to warrants, net of deferred financing cost related to the $312.0 million non-revolving and unsecured credit facility. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.
Total net debt	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30		Six-month periods ended April 30	
	2021	2020	2021	2020
	$	$	$	$
Operating income (loss)	**(86,480)**	(29,551)	**(184,528)**	(54,617)
Special items	**245**	(2,495)	**7,171**	1,679
Depreciation and amortization	**35,272**	53,154	**72,762**	101,439
Adjusted operating income (loss)	**(50,963)**	21,108	**(104,595)**	48,501
Income (loss) before income tax expense	**(69,425)**	(157,852)	**(129,730)**	(201,816)
Special items	**245**	(2,495)	**7,171**	1,679
Change in fair value of fuel-related derivatives and other derivatives	**(3,433)**	89,067	**(8,629)**	99,851
Revaluation of liability related to warrants	**757**	—	**757**	—
Gain on asset disposals	**(1,525)**	—	**(18,897)**	—
Foreign exchange (gain) loss	**(29,770)**	32,455	**(62,643)**	35,943
Adjusted pre-tax income (loss)	**(103,151)**	(38,825)	**(211,971)**	(64,343)
Net income (loss) attributable to shareholders	**(69,561)**	(179,548)	**(130,095)**	(213,353)
Special items	**245**	(2,495)	**7,171**	1,679
Change in fair value of fuel-related derivatives and other derivatives	**(3,433)**	89,067	**(8,629)**	99,851
Revaluation of liability related to warrants	**757**	—	**757**	—
Gain on asset disposals	**(1,525)**	—	**(18,897)**	—
Foreign exchange (gain) loss	**(29,770)**	32,455	**(62,643)**	35,943
Tax impact	**—**	21,729	**—**	16,785
Adjusted net income (loss)	**(103,287)**	(38,792)	**(212,336)**	(59,095)
Adjusted net income (loss)	**(103,287)**	(38,792)	**(212,336)**	(59,095)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,747**	37,747	**37,747**	37,747
Adjusted net income (loss) per share	**(2.74)**	(1.03)	**(5.63)**	(1.57)

(in thousands of dollars)	As at April 30, 2021 $	As at October 31, 2020 $
Long-term debt	**208,331**	49,980
Liability related to warrants	**42,249**	—
Deferred financing costs	**(30,853)**	—
Lease liabilities	**800,037**	853,906
Total debt	**1,019,764**	903,886
Total debt	**1,019,764**	903,886
Cash and cash equivalents	**(346,141)**	(426,433)
Total net debt	**673,623**	477,453

FINANCIAL HIGHLIGHTS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of Canadian dollars, except per share amounts)	2021 $	2020 $	Difference $	Difference %	2021 $	2020 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**7,569**	571,298	(563,729)	(98.7)	**49,489**	1,264,097	(1,214,608)	(96.1)
Operating income (loss)	**(86,480)**	(29,551)	(56,929)	(192.6)	**(184,528)**	(54,617)	(129,911)	(237.9)
Net income (loss) attributable to shareholders	**(69,561)**	(179,548)	109,987	61.3	**(130,095)**	(213,353)	83,258	39.0
Basic earnings (loss) per share	**(1.84)**	(4.76)	2.92	61.3	**(3.45)**	(5.65)	2.20	38.9
Diluted earnings (loss) per share	**(1.84)**	(4.76)	2.92	61.3	**(3.45)**	(5.65)	2.20	38.9
Adjusted operating income (loss)(1)	**(50,963)**	21,108	(72,071)	(341.4)	**(104,595)**	48,501	(153,096)	(315.7)
Adjusted net income (loss)(1)	**(103,287)**	(38,792)	(64,495)	(166.3)	**(212,336)**	(59,095)	(153,241)	(259.3)
Adjusted net income (loss) per share(1)	**(2.74)**	(1.03)	(1.71)	(166.0)	**(5.63)**	(1.57)	(4.06)	(258.6)
Consolidated Statements of Cash Flows								
Operating activities	**(100,635)**	49,594	(150,229)	(302.9)	**(206,930)**	222,801	(429,731)	(192.9)
Investing activities	**(5,114)**	(33,170)	28,056	84.6	**(6,988)**	(66,268)	59,280	89.5
Financing activities	**150,112**	34,213	115,899	338.8	**134,969**	10,147	124,822	1,230.1
Effect of exchange rate changes on cash and cash equivalents	**(1,068)**	861	(1,929)	(224.0)	**(1,343)**	2,155	(3,498)	(162.3)
Net change in cash and cash equivalents	**43,295**	51,498	(8,203)	(15.9)	**(80,292)**	168,835	(249,127)	(147.6)

	As at April 30, 2021 $	As at October 31, 2020 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**346,141**	426,433	(80,292)	(18.8)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**308,562**	308,647	(85)	(0.0)
	654,703	735,080	(80,377)	(10.9)
Total assets	**1,862,318**	2,016,071	(153,753)	(7.6)
Debt (current and non-current)	**208,331**	49,980	158,351	316.8
Total debt(1)	**1,019,764**	903,886	115,878	12.8
Total net debt(1)	**673,623**	477,453	196,170	41.1

1 See non-IFRS financial measures

HIGHLIGHTS OF THE QUARTER

TERMINATION OF THE DEFINITIVE ARRANGEMENT AGREEMENT WITH AIR CANADA

On April 2, 2021, the Corporation announced that the contemplated arrangement with Air Canada under the terms of the revised arrangement agreement between Transat and Air Canada dated October 9, 2020 (the "arrangement agreement") had been terminated by mutual consent of Transat and Air Canada. The parties reached this agreement after having been advised by the European Commission that it would not approve the transaction. A copy of the termination agreement has been filed on SEDAR at www.sedar.com.

In connection with the termination of the arrangement agreement, Air Canada paid a $12.5 million termination payment to the Corporation and agreed to waive its entitlement to a $10.0 million termination fee in the event of an acquisition of Transat by a third party in the twelve months following termination of the arrangement agreement.

DISCUSSIONS RELATING TO THE SALE OF THE CORPORATION

Since the termination of the arrangement agreement with Air Canada, Transat is implementing its strategic plan. Besides, discussions with Mr. Pierre Karl Péladeau are continuing. There is no certainty that a transaction will result from them. On April 7, 2021, Mr. Péladeau delivered to the Corporation a non-binding proposal contemplating a transaction pursuant to which his management company Gestion MTRHP inc. would acquire all of the shares of Transat for a consideration of $5.00 per share, payable in cash.

FUNDING OF $700.0 MILLION FROM THE GOVERNMENT OF CANADA

As described in the Financing section, on April 29, 2021, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $700.0 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF). In addition to the new funding, the amounts already drawn on the existing facilities remain in place and are extended for a period of two years from the implementation of the new financing. The ratios applicable to the existing facilities will be suspended for a period of 18 months. The undrawn credit under the short-term subordinated facility is cancelled. In total, the available financing therefore represents a maximum of $820.0 million, of which $220.0 million was drawn as at April 30, 2021.

CHANGE IN LEADERSHIP

On May 26, 2021, the Corporation announced the implementation of the succession plan for Mr. Jean-Marc Eustache, who is retiring and handing over the leadership of the Corporation to Ms. Annick Guérard, who is appointed President and Chief Executive Officer effective May 27, 2021. Ms. Guérard served as Chief Operating Officer since November 2017.

Mr. Eustache also stepped down from his role on the Board of Directors. Mr. Raymond Bachand, Lead Director, takes over as Chair of the Board and Ms. Guérard joins the Board of Directors. These changes were effective May 27, 2021.

DISCONTINUATION OF THE HOTEL DIVISION

On May 20, 2021, due to 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. During the six-month period ended April 30, 2021, the hotel division's operations generated a net loss of $2.1 million.

IMPACT OF THE COVID-19 PANDEMIC

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. 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. The Corporation currently expects to resume its operations on July 30th. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. 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 the availability of a vaccine makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

Preserving cash is a priority for the Corporation; with respect to the COVID-19 pandemic, the Corporation has taken the actions discussed in the Overview section of the MD&A included in our 2020 Annual Report. Other opportunities are being evaluated to achieve this objective and the following additional actions in response to the COVID-19 pandemic were taken during the first half of 2021:

- The Corporation completed its efforts to obtain long-term financing. As described in the Financing section, the available financing therefore represents a maximum of $820.0 million, of which $220.0 million was drawn as at April 30, 2021.
- During the quarter ended January 31, 2021, two Airbus A330s and one Boeing 737-800 were returned to lessors early.
- The Corporation continuously adjusts its flight program as the situation evolves. Before the suspension of its airline operations on January 29, 2021, Transat offered a reduced winter program of international flights departing from Montréal, Toronto and Québec City.
- The Corporation is negotiating with its suppliers, including aircraft lessors to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.
- The Corporation is continuing to make use of the Canada Emergency Wage Subsidy ("CEWS") for its Canadian workforce, which enabled it to finance part of the salaries of its staff still at work and to propose employees temporarily laid off to receive a part of their salary equivalent to the amount of the grant received, with no work required.
- As at April 30, 2021, cash and cash equivalents totalled $346.1 million.

OVERVIEW

CORE BUSINESS

Transat is a leading integrated international tourism company specializing in holiday travel, which operates and markets its services in the Americas and Europe. It develops and markets holiday travel services in packages or à la carte, including air travel and hotel stays, and air-only formats. Transat operates under the Transat and Air Transat brands mainly in Canada, France, the United Kingdom and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. It offers destination services in Mexico, the Dominican Republic and Jamaica.

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

STRATEGIC PLAN

The Corporation has developed its plan for future years, setting the following objectives:

- During 2021, stabilize the business by streamlining operations and laying the foundations for a recovery that will ensure the Corporation's long-term viability after the pandemic;
- During the 2022-2026 period, make the Corporation profitable again and complete its transformation to achieve a level of profitability that exceeds pre-pandemic levels, as well as grow in new markets;
- After 2026: leverage those achievements to propel Transat toward a new growth phase.

To that end, Transat will implement or continue certain changes:

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

And continue to rely on and leverage its strengths:

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

CONSOLIDATED OPERATIONS

	Quarters ended April 30				Six-month periods ended April 30			
	2021	2020	Difference	Difference	2021	2020	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**7,569**	571,298	(563,729)	(98.7)	**49,489**	1,264,097	(1,214,608)	(96.1)
Operating expenses								
Costs of providing tourism services	**4,768**	196,674	(191,906)	(97.6)	**14,787**	432,137	(417,350)	(96.6)
Aircraft fuel	**1,723**	92,582	(90,859)	(98.1)	**9,271**	196,121	(186,850)	(95.3)
Salaries and employee benefits	**20,978**	78,646	(57,668)	(73.3)	**49,190**	181,649	(132,459)	(72.9)
Sales and distribution costs	**508**	41,299	(40,791)	(98.8)	**2,456**	93,193	(90,737)	(97.4)
Aircraft maintenance	**13,236**	33,830	(20,594)	(60.9)	**29,684**	84,184	(54,500)	(64.7)
Airport and navigation fees	**1,026**	31,080	(30,054)	(96.7)	**5,816**	69,076	(63,260)	(91.6)
Aircraft rent	**—**	15,162	(15,162)	(100.0)	**—**	24,234	(24,234)	(100.0)
Other airline costs	**3,838**	41,858	(38,020)	(90.8)	**12,168**	92,096	(79,928)	(86.8)
Other	**11,754**	19,244	(7,490)	(38.9)	**27,431**	43,160	(15,729)	(36.4)
Share of net loss (income) of a joint venture	**701**	(185)	886	478.9	**3,281**	(254)	3,535	1,391.7
Depreciation and amortization	**35,272**	53,154	(17,882)	(33.6)	**72,762**	101,439	(28,677)	(28.3)
Special items	**245**	(2,495)	2,740	109.8	**7,171**	1,679	5,492	327.1
	94,049	600,849	(506,800)	(84.3)	**234,017**	1,318,714	(1,084,697)	(82.3)
Operating income (loss)	**(86,480)**	(29,551)	(56,929)	(192.6)	**(184,528)**	(54,617)	(129,911)	(237.9)
Financing costs	**18,025**	11,245	6,780	60.3	**37,170**	21,332	15,838	74.2
Financing income	**(1,109)**	(4,466)	3,357	75.2	**(2,556)**	(9,927)	7,371	74.3
Change in fair value of fuel-related derivatives and other derivatives	**(3,433)**	89,067	(92,500)	(103.9)	**(8,629)**	99,851	(108,480)	(108.6)
Revaluation of liability related to warrants	**757**	—	757	100.0	**757**	—	757	100.0
Gain on business disposals	**(1,525)**	—	(1,525)	100.0	**(18,897)**	—	(18,897)	100.0
Foreign exchange (gain) loss	**(29,770)**	32,455	(62,225)	(191.7)	**(62,643)**	35,943	(98,586)	(274.3)
Income (loss) before income tax expense	**(69,425)**	(157,852)	88,427	56.0	**(129,730)**	(201,816)	72,086	35.7
Income taxes (recovery)								
Current	**112**	(4,037)	4,149	102.8	**235**	(5,927)	6,162	104.0
Deferred	**—**	25,897	(25,897)	(100.0)	**75**	16,785	(16,710)	(99.6)
	112	21,860	(21,748)	(99.5)	**310**	10,858	(10,548)	(97.1)
Net income (loss) for the period	**(69,537)**	(179,712)	110,175	61.3	**(130,040)**	(212,674)	82,634	38.9
Net income (loss) attributable to:								
Shareholders	**(69,561)**	(179,548)	109,987	61.3	**(130,095)**	(213,353)	83,258	39.0
Non-controlling interests	**24**	(164)	188	114.6	**55**	679	(624)	(91.9)
	(69,537)	(179,712)	110,175	61.3	**(130,040)**	(212,674)	82,634	38.9

REVENUES

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

Compared with 2020, our revenues decreased by $563.7 million (98.7%) for the quarter ended April 30, 2021 and by $1,214.6 million (96.1%) for the six-month period. Since mid-March of 2020, restrictions on international travel and government-imposed quarantine measures have made travel sales very difficult. Due to the global COVID-19 pandemic, the Corporation suspended its airline operations on January 29, 2021 for the second time since March 2020. For the first half of winter 2021, demand was very weak and the Corporation's capacity represented a fraction of the 2020 level. These factors caused the fall in revenues.

OPERATING EXPENSES

Compared with 2020, total operating expenses decreased by $506.8 million (84.3%) for the quarter and by $1,084.7 million (82.3%) for the six-month period. These decreases were attributable to the suspension of airline operations for the second quarter of 2021 and a significant reduction in capacity deployed in the first half of winter 2021 due to demand remaining well below prior year level because of the COVID-19 pandemic.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2020, these costs were down $191.9 million (97.6%) for the quarter and $417.4 million (96.6%) for the six-month period. These decreases resulted primarily from a sharp decline in the number of packages sold compared with 2020 due to the COVID-19 pandemic.

AIRCRAFT FUEL

Aircraft fuel expense was down $90.9 million (98.1%) for the quarter and $186.9 million (95.3%) for the six-month period. These decreases were attributable to the suspension of airline operations for the second quarter of 2021 and a significant reduction in capacity deployed in the first half of winter 2021 due to demand remaining well below prior year level because of the COVID-19 pandemic.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were down $57.7 million (73.3%) for the quarter and $132.5 million (72.9%) for the six-month period, compared with 2020. The decreases resulted from significant temporary layoffs. In addition, during the quarter and six-month period ended April 30, 2021, the Corporation made use of the CEWS for its Canadian workforce; amounts of $8.1 million and $19.7 million, respectively. were recognized related to the active employees, compared with $12.2 million for the corresponding quarter and six-month period of 2020. Lastly, amounts of $26.1 million and $47.7 million, respectively, were recorded during the quarter and six-month period for inactive employees, which corresponds to the salaries paid to them.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were down $40.8 million (98.8%) for the quarter and $90.7 million (97.4%) for the six-month period, compared with 2020. These decreases resulted from the sharp decline in revenues.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. Compared with 2020, these costs decreased by $20.6 million (60.9%) for the quarter and by $54.5 million (64.7%) for the six-month period. These decreases were mainly attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations. Moreover, during the quarter ended April 30, 2021, in connection with future repairs that will not take place, the Corporation wrote off maintenance deposits with lessors and reversed provisions for return conditions, resulting in a net unfavourable effect of $9.1 million. Aircraft maintenance costs also take into account changes in assumptions.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees decreased by $30.1 million (96.7%) for the quarter and by $63.3 million (91.6%) for the six-month period, compared with 2020. These decreases were attributable to a significant reduction in capacity deployed due to the COVID-19 pandemic and the suspension of our airline operations.

AIRCRAFT RENT

Aircraft rent decreased by $15.2 million (100.0%) during the quarter and by $24.2 million (100.0%) for the six-month period. As part of its cost reduction program and in connection with the significant reduction in capacity deployed due to the COVID-19 pandemic, the Corporation did not enter into leases for a seasonal fleet in winter 2021.

OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were down $38.0 million (90.8%) for the quarter and $79.9 million (86.8%) for the six-month period, compared with 2020. These decreases were attributable to a significant reduction in capacity due to the COVID-19 pandemic and the suspension of our airline operations.

OTHER

Other costs declined $7.5 million (38.9%) for the quarter and $15.7 million (36.4%) for the six-month period, compared with 2020. These decreases resulted from the cost reduction measures implemented by the Corporation in connection with the COVID-19 pandemic.

SHARE OF NET INCOME (LOSS) OF A JOINT VENTURE

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net loss for the second quarter amounted to $0.7 million, compared with a share of net income of $0.2 million for the corresponding quarter of 2020. Our share of net loss for the six-month period amounted to $3.3 million, compared with a share of net income of $0.3 million for 2020. Operations at our hotel joint venture were substantially scaled down due to the COVID-19 pandemic. Moreover, certain assets were impaired during the first half of 2021.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. This expense was down $17.9 million (33.6%) for the second quarter and $28.7 million (28.3%) for the six-month period, compared with 2020. The decreases were due primarily to the decline in the carrying amount of right-of-use assets related to the fleet. During the last quarter of 2020, the carrying amount of right-of-use assets related to the fleet declined following the recognition of impairment charges in respect of 10 leased aircraft, namely five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, as well as the early return of three Boeing 737-800s and one Airbus A330. The lower amortization expense was partially offset by the commissioning of one Airbus A321neoLR in 2021 and three in summer 2020.

SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. During the quarter ended April 30, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, $1.0 million in professional fees as well as $6.2 million in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada, compared with $1.8 million in professional fees and $4.3 million in reversals of compensation expenses during the quarter ended April 30, 2020. During the six-month period ended April 30, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, $6.1 million in professional fees as well as $4.4 million in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada, compared with $3.0 million in professional fees and $1.3 million in reversals of compensation expenses for the six-month period ended April 30, 2020. 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 impairment expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

For the quarter ended April 30, 2021, special items included $17.9 million for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers.

OPERATING RESULTS

Given the above, we reported an operating loss of $86.5 million (1,142.6%) for the second quarter, compared with $29.6 million (5.2%) in 2020. For the six-month period, we reported an operating loss of $184.5 million (372.9%), compared with $54.6 million (4.3%) in 2020. The decline in operating results was attributable to the suspension of airline operations for the second quarter of 2021 and a significant reduction in capacity deployed in the first half of winter 2021 due to demand remaining well below prior year level because of the COVID-19 pandemic. Despite the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs; as a result, the fall in revenues was more pronounced than the decrease in operating expenses.

For the quarter, the Corporation recorded an adjusted operating loss of $51.0 million (673.3%), compared with an adjusted operating income of $21.1 million (3.7%) in 2020. For the six-month period, the Corporation recorded an adjusted operating loss of $104.6 million (211.3%), compared with an adjusted operating income of $48.5 million (3.8%) in 2020.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses. Financing costs increased by $6.8 million (60.3%) for the second quarter and by $15.8 million (74.2%) for the six-month period, compared with 2020. The increase resulted mainly from interest expenses, standby and arrangement fees related to the $70.0 million subordinated credit facility as well as interest on lease liabilities related to aircraft following the commissioning of an Airbus A321neoLR in 2021 and three in summer 2020.

FINANCING INCOME

Financing income was down $3.4 million (75.2%) during the second quarter and $7.4 million (74.3%) for the six-month period, compared with 2020, as a result of the decrease in cash and cash equivalents and interest rates compared with 2020.

CHANGE IN FAIR VALUE OF FUEL-RELATED DERIVATIVES AND OTHER DERIVATIVES

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives increased $3.4 million, compared with an $89.1 million decrease in 2020. For the six-month period, the fair value of fuel-related derivatives and other derivatives was up $8.6 million, compared with a decrease in fair value of $99.9 million in 2020. The increase in the fair value of fuel-related derivatives and other derivatives was attributable to the maturing of fuel-related derivatives. As at April 30, 2021, all fuel-related derivatives and foreign exchange derivates held by the Corporation matured. The Corporation no longer holds any fuel-related derivatives or foreign exchange derivatives.

REMEASUREMENT OF THE LIABILITY RELATED TO WARRANTS

The remeasurement of the liability related to warrants represents the change in fair value of warrants between the date of their initial recognition and the reporting date. During the quarter ended April 30, 2021, remeasurement of the liability related to warrants resulted in an unfavourable amount of $0.8 million mainly due to the increase in the closing price of the share from $4.80 to $4.88 between the date of initial recognition of warrants, that is April 29, 2021, and April 30, 2021.

GAIN ON ASSET DISPOSALS

The gain on asset disposals relates to asset disposals and lease terminations. During the quarter ended April 30, 2021, the Corporation partially terminated a real estate lease, giving rise to a gain on lease termination of $1.6 million. For the six-month period ended April 30, 2021, the $18.9 million gain was primarily attributable to the termination of aircraft leases for two Airbus A330s and one Boeing 737-800. The gain on termination of aircraft leases resulted from the reversal of lease liabilities of $13.2 million, the provision for return conditions of $3.9 million and other assets of $0.1 million. The carrying amount of right-of-use assets for these aircraft leases were fully impaired during the year ended October 31, 2020.

FOREIGN EXCHANGE LOSS (GAIN)

During the quarter, the Corporation recognized a $29.8 million foreign exchange gain, compared with a foreign exchange loss of $32.5 million in 2020. For the six-month period, the Corporation recognized a $62.6 million foreign exchange gain, compared with a foreign exchange loss of $35.9 million in 2020. During the quarter and the six-month period, the foreign exchange gain resulted mainly from the favourable exchange effect on lease liabilities related to aircraft, following the strengthening of the dollar against the U.S. dollar.

INCOME TAXES

Income tax expense for the second quarter totalled $0.1 million, compared with $21.9 million for the corresponding quarter of last year. For the six-month period, the income tax expense amounted to $0.3 million, compared with $10.9 million in 2020. Excluding the gain on asset disposals and the share of net income (loss) of a joint venture, the effective tax rate was 0.2% for the quarter and 0.2% for the six-month period, compared with 13.8% and 5.4%, respectively, for the corresponding periods of 2020.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the high level of uncertainty related to demand for the remaining part of fiscal 2020 and at least for fiscal 2021. Accordingly, during the six-month period ended April 30, 2021, no deferred tax assets were recognized. For the quarter and the six-month period, the change in tax rate resulted primarily from the non-recognition of deferred tax assets in fiscal 2021.

NET LOSS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $69.5 million for the quarter ended April 30, 2021, compared with $179.7 million in 2020. For the six-month period ended April 30, 2021, we reported a net loss of $130.0 million, compared with $212.7 million in 2020.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

Net loss attributable to shareholders amounted to $69.6 million or $1.84 per share (basic and diluted) compared with $179.5 million or $4.76 per share (basic and diluted) for the corresponding quarter of last year. Net loss attributable to shareholders amounted to $130.1 million or $3.45 per share (basic and diluted) compared with $213.4 million or $5.65 per share (basic and diluted) for the corresponding six-month period of last year. For the second quarter and first half of 2021, the weighted average number of outstanding shares used to compute per share amounts was 37,747,000 (basic and diluted), compared with 37,747,000 (basic and diluted) for the corresponding quarter and six-month period of 2020.

For the quarter and six-month period ended April 30, 2021, adjusted net loss was $103.3 million ($2.74 per share) and $212.3 million ($5.63 per share), respectively, compared with an adjusted net loss of $38.8 million ($1.03 per share) and $59.1 million ($1.57 per share), respectively, for the corresponding periods of 2020.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues decreased compared with the corresponding quarters. For the quarters reported, the collapse in revenues was attributable to the suspension of our airline operations from April 1 to July 22, 2020 and since January 29, 2021, combined with a sharp decline in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic.

The increase in operating loss was mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 and since January 29, 2021, combined with a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. For the summer season, the decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information (in thousands of dollars, except per share data)	Q3-2019 $	Q4-2019 $	Q1-2020 $	Q2-2020 $	Q3-2020 $	Q4-2020 $	Q1-2021 $	Q2-2021 $
Revenues	698,916	693,235	692,799	571,298	9,546	28,426	41,920	7,569
Operating income (loss)	1,728	37,072	(25,066)	(29,551)	(132,013)	(239,332)	(98,048)	(86,480)
Net income (loss)	(1,197)	22,820	(32,962)	(179,712)	(45,721)	(238,370)	(60,503)	(69,537)
Net income (loss) attributable to shareholders	(1,505)	23,049	(33,805)	(179,548)	(45,115)	(238,077)	(60,534)	(69,561)
Basic earnings (loss) per share	(0.04)	0.61	(0.90)	(4.76)	(1.20)	(6.31)	(1.60)	(1.84)
Diluted earnings (loss) per share	(0.04)	0.62	(0.90)	(4.76)	(1.20)	(6.31)	(1.60)	(1.84)
Adjusted operating income (loss)(1)	62,098	97,537	27,393	21,108	(79,941)	(90,735)	(53,632)	(50,963)
Adjusted net income (loss)(1)	6,166	30,065	(20,303)	(38,792)	(139,848)	(156,392)	(109,049)	(103,287)
Adjusted net income (loss) per share(1)	0.16	0.80	(0.54)	(1.03)	(3.70)	(4.14)	(2.89)	(2.74)

1 See non-IFRS financial measures

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from April 30, 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 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 incurred a net loss of $130.0 million for the six-month period ended April 30, 2021 and, as at that date, the Corporation's current liabilities exceeded the total of its current assets by $127.8 million. However, as discussed in note 9, 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 $700.0 million 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. Undrawn credit under the subordinated facility is cancelled. Therefore, available credit amounts to a maximum of $820.0 million.

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 enabling it to borrow additional cash resources up to a maximum of $700.0 million through LEEFF, bringing total available financing to a maximum of $820.0 million. Management is also continuing to monitor possible government assistance programs. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

Given the suspension 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 interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at April 30, 2021 do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

CONSOLIDATED FINANCIAL POSITION

As at April 30, 2021, cash and cash equivalents totalled $346.1 million compared with $426.4 million as at October 31, 2020. Cash and cash equivalents in trust or otherwise reserved amounted to $308.6 million at the end of the second quarter of 2021, compared with $308.6 million as at October 31, 2020. The Corporation's statement of financial position reflected $127.8 million in negative working capital, for a ratio of 0.85, compared with $163.2 million in negative working capital and a ratio of 0.84 as at October 31, 2020.

Total assets decreased by $153.8 million (7.6%) from $2,016.1 million as at October 31, 2020 to $1,862.3 million as at April 30, 2021. This decrease is explained in the financial position table provided below. Equity decreased by $132.3 million, from $66.3 million as at October 31, 2020 to negative equity of $66.0 million as at April 30, 2021. This decrease resulted from a $130.1 million net loss attributable to shareholders, combined with a $2.4 million loss on the translation of the financial statements of foreign subsidiaries, partially offset by a $0.5 million unrealized foreign exchange gain on cash flow hedges.

(in thousands of dollars)	April 30, 2021 $	October 31, 2020 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**346,141**	426,433	(80,292)	See Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**308,562**	308,647	(85)	No significant difference
Trade and other receivables	**79,102**	95,334	(16,232)	Offset of cash security deposits receivable from lessors by deferred rent payments related to aircraft leases
Income taxes receivable	**15,951**	17,477	(1,526)	Collection of income taxes recoverable
Inventories	**11,902**	10,024	1,878	Increase in inventory of consumable parts for the A321neoLRs
Prepaid expenses	**24,222**	47,164	(22,942)	Impairment of prepaid expenses and decrease in prepaid amounts due to the passage of time
Deposits	**116,028**	153,375	(37,347)	Decrease due to write-offs of non-recoverable deposits related to future repairs that will not take place and strengthening of the dollar against the U.S. dollar
Property, plant and equipment	**894,424**	916,382	(21,958)	Amortization for the period and renegotiation of a real estate lease, partially offset by a new aircraft lease
Intangible assets	**20,877**	25,509	(4,632)	Amortization for the period
Derivative financial instruments	**—**	964	(964)	Maturing of foreign exchange derivatives during the
Investment	**10,771**	14,509	(3,738)	Share of net loss of a joint venture
Other assets	**34,338**	253	34,085	Deferred financing costs related to the $312.0 million non-revolving credit facility
Liabilities				
Trade and other payables	**145,600**	232,243	(86,643)	Decrease due to repayments made during the period and suspension of airline operations
Long-term debt and lease liabilities	**1,008,368**	903,886	104,482	Increase due to drawdowns on credit facilities and a new aircraft lease, partially offset by strengthening of the dollar against the U.S. dollar, renegotiation of a lease, repayments of principal and early return of three aircraft
Liability related to warrants	**42,249**	—	42,249	Issuance of warrants during the period
Provision for return conditions	**119,588**	143,598	(24,010)	Decrease due to future repairs that will not take place, maturity of two aircraft leases, the early return of three aircraft and strengthening of the dollar against the U.S. dollar
Income taxes payable	**256**	203	53	No significant difference
Customer deposits and deferred revenues	**560,442**	608,890	(48,448)	Refund of travel credits and airline operations in the first quarter
Derivative financial instruments	**—**	10,055	(10,055)	Maturing of fuel-related derivatives and foreign exchange derivatives
Other liabilities	**51,193**	50,215	978	Increase in the defined benefit obligation
Deferred tax liabilities	**623**	674	(51)	No significant difference
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Retained earnings	**(294,575)**	(164,138)	(130,437)	Net loss
Unrealized gain (loss) on cash flow hedges	**—**	(522)	522	No significant difference
Cumulative exchange differences	**(8,386)**	(5,993)	(2,393)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
	2021	2020	Difference	2021	2020	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	**(100,635)**	49,594	(150,229)	**(206,930)**	222,801	(429,731)
Cash flows related to investing activities	**(5,114)**	(33,170)	28,056	**(6,988)**	(66,268)	59,280
Cash flows related to financing activities	**150,112**	34,213	115,899	**134,969**	10,147	124,822
Effect of exchange rate changes on cash	**(1,068)**	861	(1,929)	**(1,343)**	2,155	(3,498)
Net change in cash and cash equivalents	**43,295**	51,498	(8,203)	**(80,292)**	168,835	(249,127)

OPERATING ACTIVITIES

Operating activities used cash flows of $100.6 million during the second quarter, compared with generated cash flows of $49.6 million in 2020. This $150.2 million decrease resulted from the $88.2 million deterioration in net loss before operating items not involving an outlay (receipt) of cash, the $68.6 million decline in the net change in non-cash working capital balances related to operations, combined with a $23.9 million decrease in the net change in the provision for return conditions. The decrease was partially offset by a $30.5 million increase in the net change in other assets and liabilities related to operations.

Cash flows used in operating activities amounted to $206.9 million for the six-month period compared with cash inflows of $222.8 million in 2020. This decrease resulted from the $265.2 million decline in the net change in non-cash working capital balances related to operations, the $184.4 million deterioration in net loss before operating items not involving an outlay (receipt) of cash, combined with a $31.5 million decrease in the net change in the provision for return conditions. The decrease was partially offset by a $51.3 million increase in the net change in other assets and liabilities related to operations.

The deterioration in cash flows related to operating activities resulted mainly from the suspension of airline operations since January 29, 2021, combined with a significant reduction in capacity deployed in the first half of winter, due to demand remaining well below prior year level because of the COVID-19 pandemic.

INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $5.1 million for the second quarter compared with $33.2 million in 2020, representing a decrease of $28.1 million. For the six-month period, cash flows used in investing activities amounted to $7.0 million compared with $66.3 million in 2020, representing a decrease of $59.3 million. For the quarter and the six-month period ended April 30, 2021, additions to property, plant and equipment and intangible assets amounted to $1.5 million and $3.8 million, respectively, consisting primarily in leasehold improvements to aircraft, compared with $27.1 million and $60.2 million, respectively, for the corresponding periods of 2020. The decreases in additions to property, plant and equipment and intangible assets resulted primarily from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic. During the six-month period ended April 30, 2020, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $16.6 million.

FINANCING ACTIVITIES

Cash flows generated from financing activities increased from $34.2 million for the second quarter of 2020 to $150.1 million in 2021, representing an increase of $115.9 million. During the quarter ended April 30, 2021, the Corporation drew down $100.0 million under credit facilities related to the Large Employer Emergency Financing Facility (LEEFF) program and $69.9 million under its subordinated credit facility for operating purposes. In March 2020, the Corporation drew down $50.0 million under its revolving credit facility. During the quarter ended April 30, 2021, the Corporation made repayments on its lease liabilities amounting to $16.5 million compared with $14.9 million in 2020.

For the six-month period, financing activities generated cash flows of $135.0 million, compared with $10.1 million in 2020. During the six-month period ended April 30, 2021, in addition to the drawdowns under credit facilities totalling $169.9 million, the Corporation made repayments on its lease liabilities amounting to $31.6 million compared with $39.0 million in 2020. The $7.3 million decrease in repayments was attributable to deferred payments, as well as early returns and matured leases since April 30, 2020. Since March 2020, the Corporation has been renegotiating with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments. Since April 30, 2020, the Corporation early returned to lessors three Airbus A330s and four Boeing 737-800s, including two Airbus A330s and one Boeing 737-800 during the quarter ended January 31, 2021. Furthermore, the aircraft leases for two Airbus A330s matured during the quarter ended January 31, 2021.

FINANCING

FUNDING OF $700.0 MILLION 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 $700.0 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF). The new fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation under the LEEF, which Transat would use only on an as-needed basis, are as follows:

- An amount of $390 million, which can be drawn down up to October 29, 2022, representing the liquidity needed to support Transat until its business has recovered to a level where it can generate cash once again, broken down as follows:
    - An amount of $78.0 million in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of Canadian, Mexican, Caribbean and European subsidiaries of the Corporation, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR in US$ 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. As at April 30, 2021, $20.0 million was drawn down under the credit facility, which has a carrying amount of $19.8 million.
    - An amount of $312.0 million in the form of a non-revolving and unsecured credit facility maturing on April 29, 2026, bearing interest at a rate of 5% in the first year, increasing to 8% in the second year, and by 2% 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 April 30, 2021, $80.0 million was drawn down under the credit facility, which has a carrying amount of $68.8 million.
    - In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share (representing the volume-weighted average trading price for the five trading days preceding the issuance of the warrants) over a 10-year period, representing 18.75% of the total commitment available under the above non-revolving and unsecured credit facility. 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 in full in the first year.
- An amount of $310.0 million 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 of a change of control, these credit facilities could become immediately payable 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 April 30, 2021, the credit facility was undrawn.

In connection with the arrangement of these credit facilities, Transat 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 will need 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.

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 credit facility 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.

RENEWAL OF EXISTING CREDIT FACILITIES

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

Accordingly, on April 29, 2021,the Corporation amended its $50 million 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 credit facility bears interest at the bankers' acceptance rate or LIBOR in U.S. dollars, plus a 4.5% premium, or at the financial institution's prime rate, plus a 3.5% premium. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at April 30, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

On April 29, 2021, the Corporation amended its subordinated credit facility for operating purposes, reducing the amount from $250 million to $70 million. 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 conditions. As at April 30, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $747.8 million as at April 30, 2021 ($872.2 million as at October 31, 2020) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at April 30, 2021** **$**	**As at October 31, 2020** **$**
Guarantees		
Irrevocable letters of credit	**12,161**	23,813
Collateral security contracts	**421**	468
Leases		
Lease obligations	**735,260**	847,872
	747,842	872,153

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

As at April 29, 2021, the Corporation amended its annually renewable revolving credit facility agreement for issuing letters of credit, reducing the amount from $75.0 million to $65.0 million. Under this agreement, the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit. As at April 30, 2021, $60.8 million had been drawn down, including $59.1 million to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executives defined benefit pension agreements will be drawn down.

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 $13.0 million, without pledging cash for the total amount of letters of credit issued. As at April 30, 2021, an amount of $11.2 million was drawn down under this credit facility maturing on February 28, 2022.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.9 million ($5.0 million), which has been fully drawn down.

As at April 30, 2021, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $124.3 million compared with October 31, 2020. This decrease resulted primarily from the addition of an Airbus A321neoLR to our fleet in 2021, combined with the strengthening of the dollar against the U.S. dollar, partially offset by the revised estimate of future lease payments related to undelivered aircraft for which commitments have been made.

Subject to going concern uncertainty discussed in the Basis of Preparation and Going Concern Uncertainty section in this MD&A and note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

DEBT LEVELS

The Corporation reported $208.3 million in long-term debt on the consolidated statement of financial position.

The Corporation's total debt, which corresponds to the balance of long-term debt, lease liabilities and the liability related to warrants, stood at $1,019.8 million as at April 30, 2021, up $115.9 million from October 31, 2020. This increase was mainly due to $169.9 million in drawdowns on credit facilities during the second quarter of 2021, combined with the addition of an Airbus A321neoLR to our fleet during the six-month period. The increase was partially offset by the strengthening of the dollar against the U.S. dollar, the early return to lessors of two Airbus A330s and a Boeing 737-800 during the six-month period, and the payment of lease liabilities.

Total net debt increased by $196.2 million from $477.5 million as at October 31, 2020 to $673.6 million as at April 30, 2021. The increase in total net debt resulted from the increase in total debt as well as lower cash and cash equivalent balances than as at October 31, 2020.

OUTSTANDING SHARES

As at April 30, 2021, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at June 4, 2021, there were 37,747,090 total voting shares outstanding.

STOCK OPTIONS

As at June 4, 2021, there was a total of 1,650,785 stock options outstanding, 1,567,468 of which were exercisable.

WARRANTS

As at April 30, 2021 and as at June 4, 2021, a total of 13,000,000 warrants was issued. As at April 30, 2021 and as at June 4, 2021, a total of 3,333,333 warrants had vested following drawdowns on the credit facility and no warrants had been exercised.

OTHER

FLEET

As at April 30, 2021, Air Transat's fleet consisted of fifteen Airbus A330s (332, 345 or 375 seats), seven Airbus A321neoLRs (199 seats), seven Airbus A321ceos (199 seats) and one Boeing 737-800 (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, two Airbus A330s and one Boeing 737-800 were returned to lessors early during the six-month period ended April 30, 2021. In addition, five leased aircraft, consisting of one Airbus A330, three Airbus A321ceos and one Boeing 737-800 will no longer be used until they are returned to the lessors; the carrying amount of these leased aircraft was fully written down during the quarter ended October 31, 2020.

The Corporation took delivery of one Airbus A321neoLR during the six-month period ended April 30, 2021 and two Airbus A321neoLR in June 2021, which is central to the transformation of its fleet.

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 items mentioned in note 24 to the consolidated financial statements for the year ended October 31, 2020 and 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 all lawsuits related to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

During the six-month period ended April 30, 2021 and the year ended October 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant disbursements and costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. 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.

SUBSEQUENT EVENT

On May 31, 2021, the Corporation, which held 70% of the shares of TraficToursCanada inc. ("TraficTours"), acquired the 30% interest held by the minority shareholder following a mutual agreement between the two parties. 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 $24.5 million, which is lower than the amount of $34.9 million recorded in the Corporation's interim condensed consolidated financial statements as at April 30, 2021, $15.0 million of which was paid on May 31, 2021; the balance of $9.5 million is payable on October 31, 2022. The minority shareholder had the option to require Transat to purchase its minority interest since 2019. The manager of TraficTours and its subsidiaries remains in place to ensure the successful rollout of its operations.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2020. There have been no significant changes to the Corporation's accounting policies since that date.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

IMPACT OF COVID-19 PANDEMIC ON SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment exists when the carrying amount of an asset or cash-generating unit ["CGU"], 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 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 April 30, 2021, the Corporation determined that the declines in revenues and demand due to the COVID-19 pandemic and the resulting significant capacity reductions are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on fair value less costs to sell, using the closing price of $4.88 per share as at April 30, 2021. The other assumptions used in impairment testing as at October 31, 2020 remained unchanged. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

As at April 29, 2021, after reaching a financing agreement with the Canada Enterprise Emergency Funding Corporation (CEEFC), the Corporation announced that it could make refunds to eligible travellers upon request. Following this announcement, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers consisting of commission costs, costs related to the global distribution system and credit card fees. These costs are capitalized upon payment and expensed when the related revenue is recognized. Contract balances related to the amounts that will be refunded to travellers are not recoverable by the Corporation. Accordingly, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. This impairment test gave rise to the recognition of an impairment charge of $17.9 million in special items. 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.

Impairment testing of the fleet of aircraft that will not be used between now and the expiry of their lease was performed independently of the test performed on the Corporation's CGUs. This testing did not give rise to the recognition of any impairment charges. Given that various assumptions are used in determining the recoverable amounts of non-financial assets, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Since October 31, 2020, no new evidence of impairment has arisen to indicate the need to perform impairment testing of the land held in Mexico, the investment in a joint venture, and trademarks.

PROVISION FOR RETURN CONDITIONS

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

LIABILITY RELATED TO WARRANTS

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $41.5 million, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the $312.0 million non-revolving and unsecured credit facility.

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.

CONTROLS AND PROCEDURES

In accordance with the National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer who, among other things, deem adequate as at April 30, 2021 the design of:

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended April 30, 2021 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Impact of the coronavirus on outlook - In the current situation, despite some encouraging signs such as the increase in the rate of vaccination, it remains impossible for the moment to predict the impact of the COVID-19 pandemic on future bookings, the partial resumption of flight operations and financial results.

The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation continues to monitor the situation daily to adjust these measures as it evolves. Please see the Risks and Uncertainties section of the Corporation's MD&A for the year ended October 31, 2020 for a more detailed discussion of the main risks and uncertainties facing the Corporation.

Consequently, for now the Corporation is not providing an outlook for summer 2021

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

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	Notes	As at April 30, 2021 $	As at October 31, 2020 $
ASSETS			
Cash and cash equivalents		**346,141**	426,433
Cash and cash equivalents in trust or otherwise reserved	4	**249,462**	252,379
Trade and other receivables	5	**79,102**	95,334
Income taxes receivable		**851**	2,377
Inventories		**11,902**	10,024
Prepaid expenses		**24,222**	47,164
Derivative financial instruments		**—**	964
Current portion of deposits	6	**11,036**	16,471
Current assets		**722,716**	851,146
Cash and cash equivalents reserved	4	**59,100**	56,268
Deposits	6	**104,992**	136,904
Income taxes receivable		**15,100**	15,100
Property, plant and equipment	7	**894,424**	916,382
Intangible assets		**20,877**	25,509
Investment	8	**10,771**	14,509
Other assets	10	**34,338**	253
Non-current assets		**1,139,602**	1,164,925
		1,862,318	2,016,071
LIABILITIES			
Trade and other payables		**145,600**	232,243
Income taxes payable		**256**	203
Customer deposits and deferred revenues		**560,442**	608,890
Derivative financial instruments		**—**	10,055
Current portion of lease liabilities	9	**141,605**	147,980
Current portion of provision for return conditions	11	**2,579**	14,963
Current liabilities		**850,482**	1,014,334
Long-term debt and lease liabilities	9	**866,763**	755,906
Liability related to warrants	10	**42,249**	—
Provision for return conditions	11	**117,009**	128,635
Other liabilities	12	**51,193**	50,215
Deferred tax liabilities		**623**	674
Non-current liabilities		**1,077,837**	935,430
EQUITY			
Share capital	13	**221,012**	221,012
Share-based payment reserve		**15,948**	15,948
Retained earnings (deficit)		**(294,575)**	(164,138)
Unrealized gain (loss) on cash flow hedges		**—**	(522)
Cumulative exchange differences		**(8,386)**	(5,993)
		(66,001)	66,307
		1,862,318	2,016,071

See accompanying notes to interim condensed consolidated financial statements

NOTICE

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

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

		Quarters ended April 30		Six-month periods ended April 30	
		2021	**2020**	**2021**	**2020**
(in thousands of Canadian dollars, except per share amounts)	*Notes*	**$**	**$**	**$**	**$**
Revenues	*14*	**7,569**	571,298	**49,489**	1,264,097
Operating expenses					
Costs of providing tourism services		**4,768**	196,674	**14,787**	432,137
Aircraft fuel		**1,723**	92,582	**9,271**	196,121
Salaries and employee benefits	*14*	**20,978**	78,646	**49,190**	181,649
Sales and distribution costs		**508**	41,299	**2,456**	93,193
Aircraft maintenance		**13,236**	33,830	**29,684**	84,184
Airport and navigation fees		**1,026**	31,080	**5,816**	69,076
Aircraft rent	*9*	**—**	15,162	**—**	24,234
Other airline costs		**3,838**	41,858	**12,168**	92,096
Other		**11,754**	19,244	**27,431**	43,160
Share of net loss (income) of a joint venture		**701**	(185)	**3,281**	(254)
Depreciation and amortization		**35,272**	53,154	**72,762**	101,439
Special items	*15*	**245**	(2,495)	**7,171**	1,679
		94,049	600,849	**234,017**	1,318,714
Operating income (loss)		**(86,480)**	(29,551)	**(184,528)**	(54,617)
Financing costs	*9*	**18,025**	11,245	**37,170**	21,332
Financing income		**(1,109)**	(4,466)	**(2,556)**	(9,927)
Change in fair value of fuel-related derivatives and other derivatives		**(3,433)**	89,067	**(8,629)**	99,851
Revaluation of liability related to warrants	*10*	**757**	—	**757**	—
Gain on asset disposals	*16*	**(1,525)**	—	**(18,897)**	—
Foreign exchange (gain) loss		**(29,770)**	32,455	**(62,643)**	35,943
Income (loss) before income tax expense		**(69,425)**	(157,852)	**(129,730)**	(201,816)
Income taxes (recovery)					
Current		**112**	(4,037)	**235**	(5,927)
Deferred		**—**	25,897	**75**	16,785
		112	21,860	**310**	10,858
Net income (loss) for the period		**(69,537)**	(179,712)	**(130,040)**	(212,674)
Net income (loss) attributable to:					
Shareholders		**(69,561)**	(179,548)	**(130,095)**	(213,353)
Non-controlling interests		**24**	(164)	**55**	679
		(69,537)	(179,712)	**(130,040)**	(212,674)
Earnings (loss) per share	*13*				
Basic		**(1.84)**	(4.76)	**(3.45)**	(5.65)
Diluted		**(1.84)**	(4.76)	**(3.45)**	(5.65)

See accompanying notes to interim condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

	Quarters ended April 30		Six-month periods ended April 30	
	2021	**2020**	**2021**	**2020**
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**
Net income (loss) for the period	**(69,537)**	(179,712)	**(130,040)**	(212,674)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	**—**	273	**—**	(1,519)
Reclassification to net income (loss)	**—**	11,795	**447**	12,928
Deferred taxes	**—**	(3,188)	**75**	(3,024)
	—	8,880	**522**	8,385
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	**(1,657)**	2,028	**(2,393)**	4,745
Total other comprehensive income	**(1,657)**	10,908	**(1,871)**	13,130
Comprehensive income (loss) for the period	**(71,194)**	(168,804)	**(131,911)**	(199,544)
Comprehensive income (loss) attributable to:				
Shareholders	**(69,687)**	(170,886)	**(128,666)**	(202,728)
Non-controlling interests	**(1,507)**	2,082	**(3,245)**	3,184
	(71,194)	(168,804)	**(131,911)**	(199,544)

See accompanying notes to interim condensed 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)				
	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
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2019	221,012	15,948	336,993	(9,176)	(7,326)	557,451	—	557,451
Net income (loss) for the period	—	—	(213,353)	—	—	(213,353)	679	(212,674)
Other comprehensive income (loss)	—	—	—	8,385	2,240	10,625	2,505	13,130
Comprehensive income (loss) for the period	—	—	(213,353)	8,385	2,240	(202,728)	3,184	(199,544)
Dividends	—	—	—	—	—	—	(849)	(849)
Fair value changes of non-controlling interest liabilities	—	—	203	—	—	203	(203)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	373	373
Reclassification of non-controlling interest exchange difference	—	—	—	—	2,505	2,505	(2,505)	—
	—	—	203	—	2,505	2,708	(3,184)	(476)
Balance as at April 30, 2020	221,012	15,948	123,843	(791)	(2,581)	357,431	—	357,431
Net income (loss) for the period	—	—	(283,192)	—	—	(283,192)	(899)	(284,091)
Other comprehensive income (loss)	—	—	(4,664)	269	(1,570)	(5,965)	(1,842)	(7,807)
Comprehensive income (loss) for the period	—	—	(287,856)	269	(1,570)	(289,157)	(2,741)	(291,898)
Fair value changes of non-controlling interest liabilities	—	—	(125)	—	—	(125)	125	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	774	774
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,842)	(1,842)	1,842	—
	—	—	(125)	—	(1,842)	(1,967)	2,741	774
Balance as at October 31, 2020	221,012	15,948	(164,138)	(522)	(5,993)	66,307	—	66,307
Net income (loss) for the period	—	—	(130,095)	—	—	(130,095)	55	(130,040)
Other comprehensive income (loss)	—	—	—	522	907	1,429	(3,300)	(1,871)
Comprehensive income (loss) for the period	—	—	(130,095)	522	907	(128,666)	(3,245)	(131,911)
Fair value changes of non-controlling interest liabilities	—	—	(342)	—	—	(342)	342	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(397)	(397)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(3,300)	(3,300)	3,300	—
	—	—	(342)	—	(3,300)	(3,642)	3,245	(397)
Balance as at April 30, 2021	**221,012**	**15,948**	**(294,575)**	**—**	**(8,386)**	**(66,001)**	**—**	**(66,001)**

See accompanying notes to interim condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

	Quarters ended April 30		Six-month periods ended April 30	
	2021	**2020**	**2021**	**2020**
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**
OPERATING ACTIVITIES				
Net income (loss) for the period	**(69,537)**	(179,712)	**(130,040)**	(212,674)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	**35,272**	53,154	**72,762**	101,439
Change in fair value of fuel-related derivatives and other derivatives	**(3,433)**	89,067	**(8,629)**	99,851
Revaluation of liability related to warrants	**757**	—	**757**	—
Gain on asset disposals	**(1,525)**	—	**(18,897)**	—
Foreign exchange (gain) loss	**(29,770)**	32,455	**(62,643)**	35,943
Share of net loss (income) of a joint venture	**701**	(185)	**3,281**	(254)
Deferred taxes	**—**	25,897	**75**	16,785
Employee benefits	**768**	753	**1,537**	1,507
	(66,767)	21,429	**(141,797)**	42,597
Net change in non-cash working capital balances related to operations	**(52,120)**	16,512	**(88,231)**	176,922
Net change in provision for return conditions	**(10,060)**	13,843	**(13,375)**	18,093
Net change in other assets and liabilities related to operations	**28,312**	(2,190)	**36,473**	(14,811)
Cash flows related to operating activities	**(100,635)**	49,594	**(206,930)**	222,801
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	**(1,461)**	(27,083)	**(3,757)**	(60,181)
Increase in cash and cash equivalents reserved	**(2,832)**	(5,044)	**(2,832)**	(5,044)
Proceeds from sale of assets	**—**	—	**422**	—
Capital contribution to a joint venture	**(821)**	(1,043)	**(821)**	(1,043)
Cash flows related to investing activities	**(5,114)**	(33,170)	**(6,988)**	(66,268)
FINANCING ACTIVITIES				
Proceeds from borrowings	**169,851**	49,973	**169,851**	49,973
Transaction costs	**(3,242)**	—	**(3,242)**	—
Repayment of lease liabilities	**(16,497)**	(14,911)	**(31,640)**	(38,977)
Dividends paid by a subsidiary to a non-controlling shareholder	**—**	(849)	**—**	(849)
Cash flows related to financing activities	**150,112**	34,213	**134,969**	10,147
Effect of exchange rate changes on cash and cash equivalents	**(1,068)**	861	**(1,343)**	2,155
Net change in cash and cash equivalents	**43,295**	51,498	**(80,292)**	168,835
Cash and cash equivalents, beginning of period	**302,846**	682,181	**426,433**	564,844
Cash and cash equivalents, end of period	**346,141**	733,679	**346,141**	733,679
Supplementary information (as reported in operating activities)				
Net income taxes paid (recovered)	**(1,139)**	63	**(1,297)**	1,072
Interest paid	**11,176**	99	**11,922**	320

See accompanying notes to interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended April 30, 2021 were approved by the Corporation's Board of Directors on June 9, 2021.

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

Note 2 UNCERTAINTY RELATED TO GOING CONCERN

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from April 30, 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 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 incurred a net loss of $130,040 for the six-month period ended April 30, 2021 and, as at that date, the Corporation's current liabilities exceeded the total of its current assets by $127,766. However, as discussed in note 9, 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. Undrawn credit under the subordinated facility is cancelled. Therefore, available credit amounts to a maximum of $820,000.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. 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. The Corporation currently expects to resume its operations on July 30th. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. 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 the availability of a vaccine makes it possible to hope for the resumption of 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 enabling it to borrow additional cash resources up to a maximum of $700,000 through LEEFF, bringing total available financing to a maximum of $820,000. Management is also continuing to monitor possible government assistance programs. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

Given the suspension 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 interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at April 30, 2021 do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

Note 3 Significant accounting policies

BASIS OF PREPARATION

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2020.

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash-generating unit ["CGU"], 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 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 April 30, 2021, the Corporation determined that the declines in revenues and demand due to the COVID-19 pandemic and the resulting significant capacity reductions are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on fair value less costs to sell, using the closing price of $4.88 per share as at April 30, 2021. The other assumptions used in impairment testing as at October 31, 2020 remained unchanged. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

As at April 29, 2021, after reaching a financing agreement with the Canada Enterprise Emergency Funding Corporation (CEEFC) *[note 9],* the Corporation announced that it could make refunds to eligible travellers upon request. Following this announcement, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers consisting of commission costs, costs related to the global distribution system and credit card fees. These costs are capitalized upon payment and expensed when the related revenue is recognized. Contract balances related to the amounts that will be refunded to travellers are not recoverable by the Corporation. Accordingly, the Corporation performed an impairment test on the contract balances with customers included in Prepaid expenses. This impairment test gave rise to the recognition of an impairment charge of $17,945 in special items *[note 15]*. 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.

Impairment testing of the fleet of aircraft that will not be used between now and the expiry of their lease was performed independently of the test performed on the Corporation's CGUs. This testing did not give rise to the recognition of any impairment charges. Given that various assumptions are used in determining the recoverable amounts of non-financial assets, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Since October 31, 2020, no new evidence of impairment has arisen to indicate the need to perform impairment testing of the land held in Mexico, the investment in a joint venture, and trademarks.

Provision for return conditions

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

LIABILITY RELATED TO WARRANTS

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $41,492, 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 $312,000 non-revolving and unsecured credit facility.

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.

Note 4 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at April 30, 2021, cash and cash equivalents in trust or otherwise reserved included $242,701 [$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 $65,861, $59,100 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 5 TRADE AND OTHER RECEIVABLES

	As at April 30, 2021 $	As at October 31, 2020 $
Trade receivables	**613**	5,565
Government receivables	**35,715**	26,017
Cash receivable from lessors	**5,266**	18,970
Other receivables	**37,508**	44,782
	79,102	95,334

As at April 30, 2021, government receivables included an amount of $25,783 related to the Canada Emergency Wage Subsidy ["CEWS"] program *[note 14]* [$16,061 as at October 31, 2020]. In addition, other receivables included receivables from two credit card processors totalling $26,647 [$19,177 as at October 31, 2020].

Note 6 DEPOSITS

	As at April 30, 2021 $	As at October 31, 2020 $
Deposits for maintenance to lessors	**74,852**	103,638
Deposits on leased aircraft and engines	**33,741**	40,470
Deposits with suppliers	**7,435**	9,267
	116,028	153,375
Less current portion	**11,036**	16,471
	104,992	136,904

Note 7 PROPERTY, PLANT AND EQUIPMENT

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2020	**162,773**	**136,183**	**58,649**	**82,966**	**1,457,559**	**148,971**	**2,047,101**
Additions	**2,891**	**402**	**240**	**—**	**62,512**	**231**	**66,276**
Disposals	**—**	**—**	**(174)**	**—**	**—**	**(16,008)**	**(16,182)**
Write-offs	**(35,029)**	**(1,292)**	**(240)**	**(481)**	**(218,802)**	**(7,665)**	**(263,509)**
Exchange difference	**—**	**—**	**(140)**	**(4,065)**	**—**	**(390)**	**(4,595)**
Balance as at April 30, 2021	**130,635**	**135,293**	**58,335**	**78,420**	**1,301,269**	**125,139**	**1,829,091**
Accumulated depreciation							
Balance as at October 31, 2020	**102,260**	**71,272**	**39,844**	**29,591**	**806,496**	**81,256**	**1,130,719**
Depreciation	**5,585**	**4,777**	**2,663**	**736**	**50,486**	**3,700**	**67,947**
Disposals	**—**	**—**	**(60)**	**—**	**—**	**—**	**(60)**
Write-offs	**(35,029)**	**(1,292)**	**(240)**	**(481)**	**(218,802)**	**(7,665)**	**(263,509)**
Exchange difference	**—**	**—**	**(105)**	**(50)**	**—**	**(275)**	**(430)**
Balance as at April 30, 2021	**72,816**	**74,757**	**42,102**	**29,796**	**638,180**	**77,016**	**934,667**
Net book value as at April 30, 2021	**57,819**	**60,536**	**16,233**	**48,624**	**663,089**	**48,123**	**894,424**

	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

During the quarter ended April 30, 2021, the Corporation renegotiated the lease on its head office, resulting in a $15,337 reduction in real estate right-of-use assets. During the six-month period ended April 30, 2021, the Corporation early returned to lessors three leased aircraft, namely two Airbus A330s and one Boeing 737-800, while two Airbus A330 leases expired. These returns resulted in write-offs of property, plant and equipment and accumulated amortization in the amount of $248,831.

Note 8 INVESTMENT

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

	$
Balance as at October 31, 2020	**14,509**
Capital contribution	**821**
Share of net loss	**(3,281)**
Translation adjustment	**(1,278)**
Balance as at April 30, 2021	**10,771**

The investment was translated at the USD/CAD closing rate of 1.2295 as at April 30, 2021 [1.3336 as at October 31, 2020].

Note 9 LONG-TERM DEBT AND LEASE LIABILITIES

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 Large Employer Emergency Financing Facility (LEEFF). The new fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation under the LEEF, which Transat would use only on an as-needed basis, are as follows:

- An amount of $390,000, which can be drawn down up to October 29, 2022, broken down as follows:
  - An amount of $78,000 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 or at LIBOR in US dollars 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. As at April 30, 2021, $20,000 was drawn down under the credit facility, which has a carrying amount of $19,849.
  - An amount of $312,000 in the form of a non-revolving and unsecured credit facility maturing on April 29, 2026, bearing interest at a rate of 5% in the first year, increasing to 8% in the second year, and by 2% 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 April 30, 2021, $80,000 was drawn down under the credit facility, which has a carrying amount of $68,758;
  - In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants *[note 10]*.
- 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 of a change of control, these credit facilities could become immediately payable 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 April 30, 2021, the credit facility was undrawn.

In connection with the arrangement of these credit facilities, Transat 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 will need 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.

Accordingly, 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 credit facility bears interest at the bankers' acceptance rate or LIBOR in U.S. dollars, plus a 4.5% premium, or at the financial institution's prime rate, plus a 3.5% premium. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at April 30, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

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 conditions. As at April 30, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn down.

As at April 29, 2021, the Corporation amended its annually renewable revolving credit facility agreement for issuing letters of credit, reducing the amount from $75,000 to $65,000. Under this agreement, the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit. As at April 30, 2021, $60,780 [60,266 as at October 31, 2020] had been drawn down, including $59,100 to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executives defined benefit pension agreements will be drawn down.

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at April 30, 2021 and October 31, 2020. The current portion of lease liabilities includes deferred rent payments related to aircraft leases and real estate leases of $57,071 and $3,345, respectively:

	Final Maturity	Weighted Average Effective Interest Rate %	As at April 30, 2021 $	As at October 31, 2020 $
Long-term debt				
Secured debt - LEEFF	2023	5.95	**19,849**	—
Unsecured debt - LEEFF	2026	13.35	**68,758**	—
Revolving credit facility	2023	4.91	**49,873**	49,980
Subordinated credit facility	2023	10.20	**69,851**	—
Long-term debt		9.57	**208,331**	49,980
Lease liabilities				
Fleet	2021-2031	5.62	**741,028**	772,925
Real estate and other	2021-2037	5.36	**59,009**	80,981
Lease liabilities		5.60	**800,037**	853,906
Total long-term debt and lease liabilities		6.42	**1,008,368**	903,886
Current portion of lease liabilities			**(141,605)**	(147,980)
Long-term debt and lease liabilities			**866,763**	755,906

Interest expense for the periods ended April 30, 2021 and 2020 is detailed as follows:

	Quarters ended April 30, 2021		Six-month periods ended April 30, 2021	
	2021 $	2020 $	2021 $	2020 $
Interest on lease liabilities	**11,055**	9,971	**22,414**	18,910
Accretion on provision for return conditions	**188**	596	**337**	1,226
Interest on long-term debt	**1,196**	268	**1,806**	268
Other interest	**5,586**	410	**12,613**	928
Financing costs	**18,025**	11,245	**37,170**	21,332

Other interest for the quarter and six-month period ended April 30, 2021 resulted mainly from interest expense and standby and arrangement fees related to the $70,000 subordinated credit facility.

Rent expense for the periods ended April 30, 2021 and 2020 is detailed as follows:

	Quarters ended April 30, 2021		Six-month periods ended April 30, 2021	
	2021 $	2020 $	2021 $	2020 $
Variable lease payments	**—**	2,170	**—**	4,810
Short-term leases	**—**	12,992	**—**	19,424
Aircraft rent	**—**	15,162	**—**	24,234
Variable lease payments	**—**	743	**—**	1,870
Short-term leases	**407**	1,311	**895**	2,587
Low value leases	**113**	148	**229**	310
	520	17,364	**1,124**	29,001

CASH FLOWS RELATED TO LEASE LIABILITIES

The following table details cash flows related to repayment of lease liabilities for the six-month period ended April 30, 2021:

	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2020			**853,906**
Repayments	(31,640)	—	**(31,640)**
New lease liabilities (new contracts and amendments)	—	62,743	**62,743**
Interest portion of deferred rent payments	—	14,297	**14,297**
Offset of rent payments and lease terminations	—	(36,547)	**(36,547)**
Exchange difference	—	(62,722)	**(62,722)**
Balance as at April 30, 2021	**(31,640)**	**(22,229)**	**800,037**

MATURITIES OF LEASE LIABILITIES

Repayment of principal and interest on lease liabilities as at April 30, 2021 is detailed as follows. Lease liabilities denominated in U.S. dollars are translated at the USD/CAD closing rate of 1.2295 as at April 30, 2021:

Year ended October 31	2021 $	2022 $	2023 $	2024 $	2025 $	2026 and up $	Total $
Fleet	110,520	117,204	116,079	97,614	90,966	389,110	**921,493**
Real estate and other	9,131	9,461	4,224	3,577	6,011	47,365	**79,769**
Lease liabilities	**119,651**	**126,665**	**120,303**	**101,191**	**96,977**	**436,475**	**1,001,262**

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

Note 10 LIABILITY RELATED TO WARRANTS

In the context of the financing arrangement related to the $312,000 non-revolving and unsecured credit facility *[note 9],* 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 non-revolving and unsecured credit facility. The warrants are to vest in proportion to the drawings that will be made, and 50% of vested warrants would be forfeited if the loan were to be repaid in full in the first year.

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 credit facility 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 shares;
- 3,563,228 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

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

As at April 30, 2021, a total of 3,333,333 warrants had vested following drawdowns on the credit facility 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 $41,492 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 is also recorded under other assets as a deferred financing cost related to the $312,000 non-revolving and unsecured credit facility. Upon drawdown of the $312,000 non-revolving and unsecured credit facility, 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 remeasurement of the liability related to warrants for the three- and six-month periods ended April 30, 2021 showed an unfavourable amount of $757. 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 55.8% as at April 30, 2021. A 5% increase in the expected volatility used in the pricing model would result in an increase of $2,306 in the liability related to the warrants as at April 30, 2021.

Note 11 PROVISION FOR RETURN CONDITIONS

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under pre-determined maintenance conditions. The change in the provision for return conditions for the six-month period ended April 30 is detailed as follows:

	As at April 30, 2021 $	As at October 31, 2020 $
Opening balance	**143,598**	155,120
Additional provisions	**8,712**	35,791
Change in estimate	**(7,633)**	1,638
Utilization of provision	**(2,667)**	—
Unused amounts reversed	**(22,759)**	(51,405)
Accretion	**337**	2,454
Closing balance	**119,588**	143,598
Current provisions	**2,579**	14,963
Non-current provisions	**117,009**	128,635
Closing balance	**119,588**	143,598

Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at April 30, 2021, the Corporation updated the discount rate for the provision for return conditions, resulting in a favourable change in estimate of $6,126. In addition, the unused amounts recovered included $13,099 related to future repairs to aircraft that will not be made, $5,760 related to the leases that matured during the six-month period and $3,900 related to reversals of provisions for return conditions for aircraft whose leases had been terminated.

Note 12 OTHER LIABILITIES

	As at April 30, 2021 $	As at October 31, 2020 $
Employee benefits	**50,905**	49,862
Other liabilities	**288**	353
	51,193	50,215

Note 13 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

During the quarter ended April 30, 2021 and the year ended October 31, 2020, no changes were made to the Class A and Class B shares.

As at April 30, 2021, the number of Class A Shares and Class B Shares stood at 3,100,978 and 34,646,112, 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.

STOCK OPTION PLAN

	Number of options	Weighted average price ($)
Balance as at October 31, 2020	1,738,570	10.13
Cancelled	(14,000)	19.24
Balance as at April 30, 2021	**1,724,570**	**10.05**
Options exercisable as at April 30, 2021	**1,595,617**	**9.98**

WARRANTS

No warrants were exercised during the quarter and six-month period ended April 30, 2021. Accordingly, the Corporation issued no shares related to the exercise of warrants *[note 10]*.

LOSS PER SHARE

Basic and diluted loss per share were calculated as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2021	**2020**	**2021**	**2020**
(in thousands of dollars, except per share data)	**$**	**$**	**$**	**$**
NUMERATOR				
Net income (loss) attributable to shareholders of the Corporation used in computing basic earnings (loss) per share	**(69,561)**	(179,548)	**(130,095)**	(213,353)
Revaluation of liability related to warrants	**—**	—	**—**	—
Net income (loss) attributable to shareholders of the Corporation used in computing diluted earnings (loss) per share	**(69,561)**	(179,548)	**(130,095)**	(213,353)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**37,747**	37,747	**37,747**	37,747
Effect of dilutive securities				
Stock options	**—**	—	**—**	—
Warrants	**—**	—	**—**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,747	**37,747**	37,747
Earnings (loss) per share				
Basic	**(1.84)**	(4.76)	**(3.45)**	(5.65)
Diluted	**(1.84)**	(4.76)	**(3.45)**	(5.65)

Given the losses recorded for the quarter and six-month period ended April 30, 2021, all 1,724,570 outstanding stock options [1,746,570 for the quarter and six-month period ended April 30, 2020] were excluded from the calculation due to their anti-dilutive effect. In addition, the revaluation of liability related to warrants of $757 and the 13,000,000 warrants issued [nil for the quarter and six-month period ended April 30, 2020] were excluded from the calculation due to their anti-dilutive effect.

Note 14 ADDITIONAL DISCLOSURE ON REVENUE AND EXPENSES

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Quarters ended April 30		Six-month periods ended April 30	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Customers				
Transatlantic	**218**	54,988	**6,288**	142,437
Americas	**5,847**	499,940	**37,428**	1,089,040
Other	**1,504**	16,370	**5,773**	32,620
Total revenues	**7,569**	571,298	**49,489**	1,264,097

GOVERNMENT GRANTS

During the quarter and six-month period ended April 30, 2021, the Corporation recognized deductions of $34,172 and $67,516 from Salaries and employee benefits related to the CEWS program, including $8,106 and $19,791, respectively for active employees. During the quarter and six-month period ended April 30, 2020, the Corporation recognized a deduction of $12,200 from Salaries and employee benefits related to the CEWS program for active employees.

Note 15 SPECIAL ITEMS

	Quarters ended April 30, 2021		Six-month periods ended April 30, 2021	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Special items related to the transaction with Air Canada				
Termination payment	**(12,500)**	—	**(12,500)**	—
Professional fees	**963**	1,763	**6,106**	2,969
Compensation (reversal of compensation) expense	**(6,163)**	(4,258)	**(4,380)**	(1,290)
	(17,700)	(2,495)	**(10,774)**	1,679
Other special items				
Impairment of contract costs	**17,945**	—	**17,945**	—
	17,945	—	**17,945**	—
	245	(2,495)	**7,171**	1,679

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. 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 result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of impairment 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 include a $17,945 impairment of contract balances related to commissions, costs related to the worldwide distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds to travelers *[note 3]*.

Note 16 GAIN ON ASSET DISPOSALS

The gain on asset disposals relates to asset disposals and lease terminations. During the quarter ended April 30, 2021, the Corporation recorded, among others, a $1,638 gain on lease termination related to the partial termination of a real estate lease. During the six-month period ended April 30, 2021, due to the significant reduction in capacity related to the COVID-19 pandemic, the Corporation early returned three leased aircraft to the lessors: two Airbus A330s and one Boeing 737-800. The gain on asset disposals of $18,897 recognized during the six-month period ended April 30, 2021 is mainly attributable to these lease terminations, which led to the recognition of a $17,042 gain, since the total carrying amount of assets related to these leased aircraft was written off during the year ended October 31, 2020.

Note 17 COMMITMENTS AND CONTINGENCIES

LEASES AND OTHER COMMITMENTS

As at April 30, 2021, the Corporation was party to agreements to lease 10 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	2021	2022	2023	2024	2025	2026 and up	Total
	$	$	$	$	$	$	$
Leases (aircraft)	4,036	34,612	61,651	61,651	61,651	511,659	**735,260**
Purchase obligations	4,153	6,581	3,467	1,957	4,750	—	**20,908**
	8,189	**41,193**	**65,118**	**63,608**	**66,401**	**511,659**	**756,168**

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 items mentioned in note 24 to the consolidated financial statements for the year ended October 31, 2020 and 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 all lawsuits related to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

During the six-month period ended April 30, 2021 and the year ended October 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant disbursements and costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. 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.

Note 18 GUARANTEES

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

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

Notes 7, 9, 14, 23 and 24 to the consolidated financial statements for the year ended October 31, 2020 provide information about some of these agreements. The following constitutes additional disclosure.

LEASES

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

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at April 30, 2021, the total amount of these guarantees unsecured by deposits amounted to $421. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2021, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

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 April 30, 2021, an amount of $11,181 was drawn down under this credit facility maturing on February 28, 2022.

Note 19 SEGMENT DISCLOSURES

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

Note 20 SUBSEQUENT EVENTS

On May 20, 2021, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. For the six-month period ended April 30, 2021, the hotel division's operations generated a net loss of $2,124.

On May 31, 2021, the Corporation, which held 70% of the shares of TraficToursCanada inc. ("TraficTours"), acquired the 30% interest held by the minority shareholder following a mutual agreement between the two parties. 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 $34,900 recorded in the Corporation's interim condensed consolidated financial statements as at April 30, 2021, $15,000 of which was paid on May 31, 2021; the balance of $9,500 is payable on October 31, 2022. The minority shareholder had the option to require Transat to purchase its minority interest since 2019. The manager of TraficTours and its subsidiaries remains in place to ensure the successful rollout of its operations.

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