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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2020, compared with the year ended October 31, 2019, and should be read in conjunction with the audited consolidated financial statements and notes thereto. Unless otherwise indicated, the information contained herein is dated as of December 11, 2020. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2020 and the Annual Information Form.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements.

As at October 31, 2020, there exists material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. Section 7 of this MD&A, Financial position, liquidity and capital resources and note 2 to the 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 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. In response to the first wave of the pandemic, the Corporation temporarily suspended its airline operations from April 1 to July 22, 2020. Subsequently, the Corporation implemented reduced summer and winter programs and is continuously making adjustments based on the level of demand and decisions made by health and state authorities. 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 cost reduction, 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 likelihood of the availability of a vaccine in the near future 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 this MD&A.

This MD&A also contains certain forward-looking statements about the Corporation concerning a transaction involving the acquisition of all the shares of the Corporation by Air Canada [the "transaction with Air Canada" or the "arrangement"]. 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 the transaction with Air Canada is subject to certain closing conditions that are customary in this type of transaction, including regulatory approvals, particularly authorities in Canada and the European Union. Notably, a public interest assessment of the arrangement regarding national transportation is being undertaken by the Canadian authorities. The Commissioner of Competition released on March 27, 2020 his advisory report to the Minister of Transport further to the Minister's determination that the proposed arrangement raises issues with respect to the public interest regarding national transportation. On May 1, 2020, Transport Canada in turn provided its assessment report to the Minister of Transport. To proceed, the transaction with Air Canada will have to receive approval from the Governor in Council, on the Minister of Transport’s recommendation. The Governor in Council does not have a deadline for issuing a decision and there can be no assurance that the transaction with Air Canada will be approved before the outside date. On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada with regard to European Union antitrust regulations. The move to Phase II is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval when there are concerns that a transaction may effectively reduce competition. On September 28, 2020, the European Commission released a statement of objections to the arrangement. The provisional deadline by which the Commission must render its decision is now February 9, 2021. The competition authorities’ assessment process is currently complicated by the COVID 19 pandemic and the impact it is having on the international commercial aviation market.

Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of approvals from regulatory authorities, especially regarding the appropriate package of remedies aimed at obtaining those approvals. Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the arrangement agreement). If Air Canada is unable to come to an agreement with the regulatory authorities and obtain the required approvals before the outside date of February 15, 2021, the arrangement agreement may be terminated in accordance with its terms.

Under the revised arrangement agreement, the deadline for obtaining the regulatory approvals is set at February 15, 2021 [the "outside date"]. If the required approvals are obtained and the conditions are met, it is now expected that the arrangement will be completed before that date.

Moreover, although the Corporation has been able to put in place a new subordinated short-term credit facility and make amendments to its senior revolving term credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated on or before the new outside date of February 15, 2021. In particular, the new short-term loan facility matures on the earlier of March 31, 2021 and the closing of the arrangement. Furthermore, the temporary suspension of the application of certain financial ratios under the Corporation’s revolving term credit facility and the new short-term loan facility expires on January 30, 2021, after which time, absent of any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. Pursuant to the terms of the arrangement agreement, the Corporation’s ability to put in place new sources of financing is restricted and requires Air Canada’s consent. As a result, if the requisite shareholder and regulatory approvals are not obtained and the arrangement is not consummated on or prior to the outside date, the Corporation will need to address the challenges posed by its cash position and the maturing lending facilities. If the Corporation is not able to renew maturing facilities at acceptable conditions or find financing alternatives, its financial position and business prospects could be materially and adversely affected. Furthermore, if the arrangement is not approved by the shareholders and otherwise not consummated, there is a risk that Transat’s lenders, lessors, credit card processors, clients and other trade partners become more preoccupied by Transat’s financial position, prospects and ability to execute its strategic plan as a going concern, which could result in more onerous credit terms, repayment obligations, an inability to refinance maturing indebtedness or find new sources of financing, restricted access to goods and services, and/or reduced business, all of which could significantly and adversely affect Transat’s cash flows and ability to continue as a going concern.

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 situation will affect its operating results and cash position.
- The outlook whereby Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is expected that the transaction with Air Canada will close prior to February 15, 2021.
- The outlook whereby, subject to obtaining additional financing as discussed in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, the Corporation has the resources it needs to meet its 2021 objectives and to continue building on its long-term strategies.
- The outlook whereby, subject to obtaining additional financing as discussed in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.
- The outlook whereby travel credits will be used by customers and not reimbursed in cash.
- The outlook whereby the Corporation will be able to favourably negotiate concessions and deferrals with its aircraft lessors, owners of premises, suppliers, credit card processors and the extension of the temporary suspension of the application of certain financial ratios granted by the lenders of its revolving term credit facility and its subordinated short-term credit facility.

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.

2. NON-IFRS FINANCIAL MEASURES

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

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our 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, 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, 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. 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)	2020 $	2019 Restated[1] $	2018 Not restated[2] $
Operating income (loss)	**(425,962)**	(13,588)	(50,593)
Special items	**99,675**	23,875	8,962
Depreciation and amortization	**204,112**	182,321	59,125
Premiums related to fuel-related derivatives and other derivatives matured during the year	**—**	(167)	(299)
Adjusted operating income (loss)	**(122,175)**	192,441	17,195
Income (loss) before income tax expense	**(488,973)**	(37,736)	5,044
Special items	**99,675**	23,875	8,962
Change in fair value of fuel-related derivatives and other derivatives	**13,715**	8,664	(8,360)
Loss (gain) on asset disposals	**11,271**	(9)	(31,064)
Foreign exchange loss (gain)	**3,601**	(1,110)	(339)
Premiums related to fuel-related derivatives and other derivatives matured during the year	**—**	(167)	(299)
Adjusted pre-tax income (loss)	**(360,711)**	(6,483)	(26,056)
Net income (loss) attributable to shareholders	**(496,545)**	(32,347)	6,451
Special items	**99,675**	23,875	8,962
Change in fair value of fuel-related derivatives and other derivatives	**13,715**	8,664	(8,360)
Loss (gain) on asset disposals	**11,271**	(9)	(31,064)
Foreign exchange loss (gain)	**3,601**	(1,110)	(339)
Premiums related to fuel-related derivatives and other derivatives matured during the year	**—**	(167)	(299)
Tax impact	**12,948**	(8,304)	367
Adjusted net income (loss)	**(355,335)**	(9,398)	(24,282)
Adjusted net income (loss)	**(355,335)**	(9,398)	(24,282)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,673	37,562
Adjusted net income (loss) per share	**(9.41)**	(0.25)	(0.65)

[1] The Corporation adopted IFRS 16, Leases, on November 1, 2019, and restated the figures for 2019 and as at November 1, 2018. See section 9. Accounting.
[2] The figures in the consolidated statement of income (loss) for the year ended October 31, 2018 have not been restated under IFRS 16, as discussed in Section 9. Accounting, which makes the comparison with figures for 2019 and 2020 not meaningful.

	October 31, 2020 $	October 31, 2019 Restated[1] $	November 1, 2018 Restated[1] $
Long-term debt	**49,980**	—	—
Lease liabilities	**853,906**	665,929	565,170
Total debt	**903,886**	665,929	565,170
Total debt	**903,886**	665,929	565,170
Cash and cash equivalents	**(426,433)**	(564,844)	(593,654)
Total net debt	**477,453**	101,085	(28,484)

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the figures for 2019 and as at November 1, 2018. See section 9. Accounting.
[2] The figures in the consolidated statement of income (loss) for the year ended October 31, 2018 have not been restated under IFRS 16, as discussed in Section 9. Accounting, which makes the comparison with figures for 2019 and 2020 not meaningful.

3. FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2020 $	2019 Restated[1] $	2018 Not restated[2] $	Change 2020 %	Change 2019 %
Consolidated Statements of Income (Loss)					
Revenues	**1,302,069**	2,937,130	2,848,955	(55.7)	3.1
Operating loss	**(425,962)**	(13,588)	(50,593)	(3,034.8)	73.1
Net income (loss) attributable to shareholders	**(496,545)**	(32,347)	6,451	(1,435.1)	(601.4)
Basic earnings (loss) per share	**(13.15)**	(0.86)	0.17	(1,429.1)	(605.9)
Diluted earnings (loss) per share	**(13.15)**	(0.86)	0.17	(1,429.1)	(605.9)
Adjusted operating income (loss)[3]	**(122,175)**	192,441	17,195	(163.5)	1,019.2
Adjusted net income (loss)[3]	**(355,335)**	(9,398)	(24,282)	(3,681.0)	61.3
Adjusted net income (loss) per share[3]	**(9.41)**	(0.25)	(0.65)	(3,664.0)	61.5
Consolidated Statements of Cash Flows					
Operating activities	**(46,136)**	216,021	68,804	(121.4)	214.0
Investing activities	**(60,414)**	(163,779)	(93,644)	63.1	(74.9)
Financing activities	**(33,374)**	(81,993)	(430)	59.3	(18,968.1)
Effect of exchange rate changes on cash and cash equivalents	**1,513**	941	(982)	60.8	195.8
Net change in cash and cash equivalents	**(138,411)**	(28,810)	(26,252)	(380.4)	(9.7)

	As at October 31, 2020 $	As at October 31, 2019 Restated[1] $	As at November 1, 2018 Restated[1] $	Change 2020 %	Change 2019 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**426,433**	564,844	593,654	(24.5)	(4.9)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**308,647**	352,771	338,919	(12.5)	4.1
	735,080	917,615	932,573	(19.9)	(1.6)
Total assets	**2,016,071**	2,324,490	2,174,215	(13.3)	6.9
Debt (current and non-current)	**49,980**	–	–	100.0	–
Total debt[3]	**903,886**	665,929	565,170	35.7	17.8
Total net debt[3]	**477,453**	101,085	(28,484)	372.3	454.9

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the figures for 2019 and as at November 1, 2018. See section 9. Accounting.
[2] The figures in the consolidated statement of income (loss) for the year ended October 31, 2018 have not been restated under IFRS 16, as discussed in Section 9. Accounting, which makes the comparison with figures for 2019 and 2020 not meaningful.
[3] See section 2. Non-IFRS financial measures.

4. OVERVIEW

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 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. In response to the first wave of the pandemic, the Corporation temporarily suspended its airline operations from April 1 to July 22, 2020. Subsequently, the Corporation implemented reduced summer and winter programs and is continuously making adjustments based on the level of demand and decisions made by health and state authorities. 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 cost reduction, 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 likelihood of the availability of a vaccine in the near future 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; the Corporation has taken the following actions with respect to the COVID-19 pandemic and other opportunities are being evaluated to achieve this objective:

Airline and commercial operations

- On July 23, 2020, the Corporation partially resumed airline operations after four months of inactivity. Effective August 2, 2020, a reduced summer program consisting of 23 routes to some 17 destinations was implemented.

- For the winter program (from November to April 2021), to adapt to the low demand resulting from the COVID-19 second wave and to continued border restrictions and requirements in Canada and elsewhere, Transat will gradually offer a reduced program of international flights departing from Montréal, Toronto et Québec City.

- Transat is committed to providing a simple and safe travel experience at every step. To this end, it has launched its *Traveller Care* program regarding health measures, which are regularly updated in compliance with recommendations issued by regulatory authorities. It has also assembled a new comprehensive practical guide full of tips to help travellers prepare for their trips and travel with peace of mind.

Cost reduction measures

- In March, the Corporation decided to early retire all of its Airbus A310s from the fleet. Subsequently, the Corporation accelerated the expected retirement of its Boeing 737 fleet as well as some of its Airbus A330 to expedite the transformation of its fleet and make it more uniform (comprising only Airbus aircraft with the same cockpit layout) and more adapted to the post-COVID-19 market, in terms of both aircraft size and overall capacity.

- Management and the Board of Directors, agreed on a voluntary temporary reduction in their compensation ranging from 10% to 20%, which was in place until November 1, 2020, with the exception of Executive Officers whose reductions, ranging from between 15% to 20%, are maintained until December 31, 2020 and members of the Board of Directors whose reduction of 20% is maintained until February 15, 2021.

- The Corporation has also been negotiating with its suppliers to benefit from cost reductions and changes in payment terms, and has implemented measures to reduce expenses and investments.

- The Corporation has also reduced its investment expenditures where possible without jeopardizing its future development.

- As of the end of March, the Corporation proceeded with the gradual temporary layoff of a large part of its personnel, reaching approximately 85% at the height of the crisis. Following the resumption of airline operations, the Corporation was able to recall a certain number of employees, thereby adjusting its workforce to 25% of its pre-pandemic level.

- As of March 15, 2020, the Corporation made 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 October 31, 2020, approximately two-thirds of the subsidy received corresponded to compensation paid to employees who were not working.

Financing and cash flows

- In March, as a precautionary measure, the Corporation drew down on its $50.0 million revolving credit facility agreement for operating purposes.

- Since March, the Corporation has been renegotiating with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments.

- On October 9, 2020, Transat put in place a $250.0 million subordinated short-term credit facility with the National Bank of Canada as the lead arranger. This loan facility may be drawn down in tranches at any time before February 28, 2021, subject to the satisfaction of pre-requisites and applicable borrowing conditions. These conditions include certain requirements relating to unrestricted cash before and after a drawdown on the facility. The new loan facility matures on the earlier of March 31, 2021 and the closing of the arrangement with Air Canada.

- As part of the implementation of the revised arrangement agreement and the new loan facility, Transat has also been able to make certain amendments to its existing senior revolving term credit facility, including the temporary suspension of the application certain financial ratios, providing Transat with additional flexibility in the context of the current business and economic environment. The amended terms and conditions also include a new requirement to maintain certain minimum levels of unrestricted cash as well as restrictions on the capacity to contract additional loans.

- In order to protect its cash position and allow recovery after the restrictions have been lifted, the Corporation granted its customers a fully transferable travel credit valid without expiry date for flights and packages cancelled due to the exceptional situation and, in particular, to the travel restrictions imposed by governments.

- As at October 31, 2020, cash and cash equivalents totalled $426.4 million.

THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists of tour operators, traditional and online travel agencies, destination service providers, hotel operators, and air carriers. Each of these subsectors includes companies with different operating models.

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets through travel agencies or via the Web. Incoming tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground, maritime or flight transfers between airports and hotels or ports and hotels. Travel agencies, operating independently, in networks or online, are distributors serving as intermediaries between suppliers and consumers. Hotel operators sell accommodation, on an all-inclusive basis or not, either directly, through travel agencies or through tour operators. Air carriers sell seats through travel agencies or directly to tour operators that use them in building packages, or directly to consumers.

Core Business, Vision and Strategy

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. Recently, Transat started setting up a division with a mission to operate hotels in the Caribbean and Mexico and to market them, particularly in the United States, Europe and Canada.

Strategy

As part of its 2018–2022 strategic plan, Transat set a two-pronged objective of building sustainable profitability: improve and strengthen its current business model and pursue hotel development.

Transat will strengthen its current model by maintaining its focus on satisfying the expectations of leisure customers with user-friendly service for an affordable price. This will be made possible by greater synergy between the Corporation's various divisions in Canada, continued efforts to increase efficiency and reduce costs, continuous improvement in the Corporation's digital footprint and a special focus on the development of certain functions, such as revenue management or air network planning.

Lastly, corporate responsibility, whether in terms of the environment, customers, employees, partners, or governance, will remain a key part of Transat's strategy.

As of August 23, 2019, Transat's shareholders approved an arrangement agreement with Air Canada, under which Air Canada is to acquire all issued and outstanding shares of Transat. On October 9, 2020, a new arrangement agreement with revised conditions was signed to replace the previous agreement. If this new arrangement agreement is approved by the shareholders on December 15, 2020, the regulatory approvals are obtained, the other conditions are satisfied and the transaction takes place, Transat's business will be integrated into Air Canada's strategic plan. Meanwhile, the Corporation has continued to implement its plan, but has slowed down investment in hotel development. The Corporation has continued its cost reduction and service enhancement efforts, as well as to maintain its ability to fully implement its plan should the transaction not close.

By dramatically disrupting airline and travel businesses, the COVID-19 global pandemic has forced Transat to focus on adapting to the situation in the short term by targeting cost reduction and cash preservation. At the same time, Transat has nonetheless strived to move forward with parts of its strategic plan where possible, and to best position itself for recovery when demand picks up.

Accordingly, for fiscal 2021, Transat has set the following objectives and performance drivers:

1. Obtain the regulatory authorizations necessary to close the transaction with Air Canada, operate in full compliance with the conditions set by Air Canada, and if applicable, complete the transaction

2. Continue efforts to reduce costs, preserve cash and tailor the offering to the volatile situation triggered by the COVID-19 pandemic

3. Maintain intact the capacity to operate independently and develop a medium to long-term post-COVID-19 recovery plan.

4. Secure the long-term financing required for that purpose

5. Continue to resize the company in terms of fleet, workforce, installations and resources in line with the plan in the medium and long term.

6. Redefine the financial structure of the hotel chain based on the new economic environment.

REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2020

The main objectives and achievements for fiscal 2020 were as follows:

Obtain the regulatory authorizations necessary to complete the transaction with Air Canada, while maintaining its capacity to operate independently

Since the approval of the initial arrangement agreement with Air Canada by the shareholders on August 23, 2019, Transat has made every effort, in cooperation with Air Canada, to obtain the required regulatory approvals.

The COVID-19 pandemic and the deeply disruptive impacts it had on the market has made the assessment of the transaction by the authorities more complex, creating delays in their analysis process. Accordingly, Transat has used all the deferrals available in the 2019 arrangement agreement to take the time required to obtain the approvals before the outside date. Finally, the new arrangement agreement postponed the outside date from December 27, 2020 to February 15, 2021. Efforts are currently underway to obtain the approvals before this final date. Meanwhile, Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the arrangement agreement). If Air Canada does not come to an agreement with the regulatory authorities and obtain the required approvals before the outside date of February 15, 2021, the arrangement agreement may be terminated in accordance with its terms.

At the same time, Transat has taken the necessary measures to maintain its capacity to operate as an independent company, particularly by continuing to improve its cost structure and profitability and by ensuring to retain the key employees required in such eventuality. In the specific context of the pandemic, Transat has made sure to preserve its cash position by taking a series of measures aimed at reducing or deferring its expenses, such as temporarily laying off a significant number of employees (up to 85% at one point in time), reducing management salaries, negotiating with aircraft lessors and building owners as well as with important suppliers, issuing travel credits for cancelled flights, and arranging for additional financial sources.

Improve financial performance

Up to mid-March, Transat continued its efforts to reduce costs and improve performance building on the measures initiated in previous years. These efforts were beginning to pay off, as the results recorded at the end of February put the Corporation on track to return to profitability for the winter season for the first time in many years.

As of mid-March, restrictions on international travel, government-imposed quarantine measures and more generally the fear of the pandemic made it very difficult to sell travel, to the point that the Corporation had to completely suspend operations from April 1 to July 22. Accordingly, efforts were focused on preserving cash using the measures discussed in the previous paragraphs.

Optimize flight programs in order to maximize revenues and profitability, including increased network density, fleet utilization and connectivity

While efforts in this respect continued at the beginning of the year according to the course set in previous years, since the outbreak of the pandemic, they have been focused on adapting the program in real time to the changing situation, based on travel restrictions, quarantine measures and observed demand.

Continue the transformation of revenue management practices and increase the revenue per unit

The efforts to transform revenue management practices continued at the beginning of the year, contributing to improved performance early in the year with the adjusted operating income until the beginning of March 2020 up $63.3 million compared with 2019, due to a significant improvement in the profitability of the sun destinations program, our main program during the winter season.

The situation since the beginning of the pandemic makes any comparison with prior results meaningless.

Continue cost control and cost reduction initiatives

The COVID-19 pandemic has forced Transat to take urgent and drastic cost reduction and cash preservation measures that far exceeded those that would have been implemented under normal circumstances. The effectiveness of these measures enabled the Corporation to very quickly reduce its cost base and improve its resilience to the crisis.

Some of these measures consisted in accelerating the implementation of previously planned actions. In particular, the pandemic allowed Transat to accelerate the transformation of its fleet by retiring its wide-body Airbus A310s, narrow-body Boeing 737s and certain Airbus A330s earlier than expected and retaining only Airbus A330s and Airbus A321neoLRs, deliveries of which continued during the period.

Continue to increase our share of direct distribution

The situation since the beginning of the pandemic makes any comparison with prior results meaningless.

Continue to improve the customer satisfaction and maintain a favourable brand perception

The first quarter results show that the improvement in customer satisfaction seen in previous years has continued.

Since introducing the new A321neoLRs, satisfaction rates of customers flying on these aircraft have been particularly high, an aspect that Transat intends to capitalize on in the future when this aircraft will play a more prominent role in its fleet.

Results measured following the resumption of operations on July 23 show an even higher level of satisfaction, including a significant increase in the Net Promoter Score. This shows, among other things, that the *Traveller Care* program implemented to reassure customers they can travel with Transat and have peace of mind in the specific context of the pandemic was well received.

Some negative perceptions may have been caused by the decision to issue travel credits for customers whose flights had to be cancelled due to the pandemic and government travel restrictions, but Transat remains confident in its brand's attractiveness.

Maintain the satisfaction and engagement of our teams and encourage retention

Despite the extraordinary circumstances, many efforts were made to maintain the commitment and retention of the teams that were very actively involved in managing the crisis, most of whom worked from home, as well as to preserve relationships with employees who were temporarily laid off.

Special attention was given to communication, notably through video-conferences including Q&A sessions with the senior executives for all staff. Training sessions on working from home and stress management have also been implemented.

The use of the CEWS to allow employees who wished to opt for a leave of absence with partial salary continuance in lieu of a layoff also helped to maintain commitment.

Finally, the retention plan put in place as part of the transaction has resulted in a voluntary departure rate among employees identified as key resources and covered by the plan that is significantly lower than in the population as a whole, providing Transat with the skills it needs to relaunch operations after the pandemic.

Ability to Deliver on our Objectives

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $426.4 million as at October 31, 2020.
Credit facilities	For operational purposes, we can also rely on, among other resources, a $50.0 million revolving term credit facility and a $250.0 million subordinated short-term credit facility maturing on March 31, 2021. Should the transaction with Air Canada not be completed, the Corporation will have to put in place overall financing totalling approximately $500.0 million in 2021 to ensure continuity of operations. Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements contain more detail on this issue.

Our non-financial resources include:

Brand	The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.
Structure	Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.
Employees	Our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. In addition, we believe that the Corporation has strong management.
Supplier relationships	We have exclusive access to certain hotels at sun destinations as well as over 30 years of privileged relationships with many hotels at these destinations and in Europe.

Subject to obtaining additional financing as discussed in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, Transat has the resources it needs to meet its 2021 objectives and continue building on its long-term strategies.

5. REVISED ARRANGEMENT AGREEMENT

On October 9, 2020, a revised arrangement agreement ["the revised arrangement agreement" or the "arrangement agreement"] was approved unanimously by Transat's Board of Directors, under which Air Canada will acquire all the issued and outstanding shares of Transat at the price of $5.00 share, payable at the holder's option in cash or in Air Canada shares or a combination thereof, and then form a combined world-class company based in Montréal. Air Canada shares issuable under the option of payment in shares will be issued on the basis of a price of $17.47 per Air Canada share, translating into an exchange ratio of 0.2862 Air Canada share per Transat share. The revised arrangement agreement terminates and replaces the original arrangement agreement between Transat and Air Canada dated June 27, 2019, as subsequently amended on August 11, 2019.

The transaction will be subject to shareholder approval, including approval by at least two thirds of votes cast by the shareholders present in person or represented by proxy at the special meeting of shareholders to be held on December 15, 2020 to approve the transaction.

Closing of the transaction with Air Canada is subject to customary closing conditions, including regulatory approvals, particularly authorities in Canada and the European Union. Notably, a public interest assessment of the arrangement regarding national transportation is being undertaken by the Canadian authorities. The Commissioner of Competition released on March 27, 2020 his advisory report to the Minister of Transport further to the Minister's determination that the proposed arrangement raises issues with respect to the public interest regarding national transportation. On May 1, 2020, Transport Canada in turn provided its assessment report to the Minister of Transport. To go ahead, the transaction with Air Canada will have to receive approval from the Governor in Council, on the Minister of Transport's recommendation. The Governor in Council does not have a deadline for issuing a decision and there can be no assurance that the transaction with Air Canada will be approved before the outside date. On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada with regard to European Union antitrust regulations. The move to Phase II is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval when there are concerns that a transaction may effectively reduce competition. The European Commission released on September 28, 2020 a statement of objections to the arrangement. The provisional deadline by which the Commission must render its decision is now February 9, 2021. The competition authorities' assessment process is currently complicated by the COVID 19 pandemic and the impact it is having on the international commercial aviation market.

Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of approvals from regulatory authorities, especially regarding the appropriate package of remedies aimed at obtaining those approvals. Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the arrangement agreement). If Air Canada does not come to an agreement with the regulatory authorities and obtain the required approvals before the outside date of February 15, 2021, the arrangement agreement may be terminated in accordance with its terms.

Under the revised arrangement agreement, the deadline for obtaining the regulatory approvals is set at February 15, 2021 [the "outside date"]. If the required approvals are obtained and the conditions are met, it is now expected that the arrangement will be completed before that date. These two circulars are available at www.sedar.com under Transat's profile.

The hotel development strategy and related objectives are affected by the arrangement as the Corporation has agreed to limit its commitments and expenses related to the execution of its hotel strategy in the period leading up to the closing of the arrangement.

The management information circular dated November 12, 2020 contains additional information regarding the revised arrangement agreement. The management information circular dated July 19, 2019 contains additional information regarding the previous arrangement.

6. CONSOLIDATED OPERATIONS

	2020	2019 Restated[1]	2018 Not restated[2]	Change	
(in thousands of dollars)	$	$	$	%	%
Revenues	**1,302,069**	2,937,130	2,848,955	(55.7)	3.1
Operating expenses					
Costs of providing tourism services	**431,562**	808,937	863,105	(46.7)	(6.3)
Aircraft fuel	**258,947**	517,588	498,512	(50.0)	3.8
Salaries and employee benefits	**239,250**	412,375	386,898	(42.0)	6.6
Aircraft maintenance	**110,413**	229,909	237,918	(52.0)	(3.4)
Sales and distribution costs	**97,086**	209,344	209,921	(53.6)	(0.3)
Airport and navigation fees	**77,622**	175,833	149,699	(55.9)	17.5
Aircraft rent	**23,358**	46,803	124,454	(50.1)	(62.4)
Other airline costs	**109,424**	251,560	263,272	(56.5)	(4.4)
Other	**75,410**	90,923	97,577	(17.1)	(6.8)
Share of net loss (income) of an associate and a joint venture	**1,172**	1,250	105	(6.2)	1,090.5
Depreciation and amortization	**204,112**	182,321	59,125	12.0	208.4
Special items	**99,675**	23,875	8,962	317.5	166.4
	1,728,031	2,950,718	2,899,548	(41.4)	1.8
Operating income (loss)	**(425,962)**	(13,588)	(50,593)	(3,034.8)	73.1
Financing costs	**48,049**	37,935	2,061	26.7	1,740.6
Financing income	**(13,625)**	(21,332)	(17,935)	(36.1)	18.9
Change in fair value of fuel-related derivatives and other derivatives	**13,715**	8,664	(8,360)	58.3	(203.6)
Loss (gain) on asset disposals	**11,271**	(9)	(31,064)	(125,333.3)	(100.0)
Foreign exchange loss (gain)	**3,601**	(1,110)	(339)	(424.4)	227.4
Income (loss) before income tax expense	**(488,973)**	(37,736)	5,044	(1,195.8)	(848.1)
Income taxes (recovery)					
Current	**(4,376)**	1,028	(6,494)	(525.7)	115.8
Deferred	**12,168**	(9,048)	1,545	234.5	(685.6)
	7,792	(8,020)	(4,949)	197.2	(62.1)
Net income (loss) for the year	**(496,765)**	(29,716)	9,993	(1,571.7)	(397.4)
Net income (loss) attributable to:					
Shareholders	**(496,545)**	(32,347)	6,451	(1,435.1)	(601.4)
Non-controlling interests	**(220)**	2,631	3,542	(108.4)	(25.7)
	(496,765)	(29,716)	9,993	(1,571.7)	(397.4)
Earnings (loss) per share					
Basic	**(13.15)**	(0.86)	0.17	(1,429.1)	(605.9)
Diluted	**(13.15)**	(0.86)	0.17	(1,429.1)	(605.9)

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See section 9. Accounting

[2] The figures in the consolidated statement of income (loss) for the year ended October 31, 2018 have not been restated under IFRS 16, as discussed in Section 9. Accounting, which makes the comparison with figures for 2019 and 2020 not meaningful.

RESTATEMENT OF COMPARATIVE FIGURES

IFRS 16, *Leases*, was adopted retrospectively on November 1, 2019 with restatement for each prior reporting period presented. Accordingly, the consolidated statement of income (loss) for the year ended October 31, 2019 has been restated. Aircraft maintenance costs, aircraft rent, rent included in other costs, depreciation and amortization, financing costs and foreign exchange effect for the year ended October 31, 2019 were restated to reflect the new accounting policies. The major changes related to the adoption of IFRS 16 are explained in note 5 to the consolidated financial statements for the year ended October 31, 2020.

Revenues

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

For the year ended October 31, 2020, revenues were down $1,635.1 million (55.7%). Starting in mid-March, restrictions on international travel and government-imposed quarantine measures made travel sales very difficult. The flights operated during the last two weeks of March were mainly intended for the repatriation of the Corporation's customers to Canada or their country of origin, resulting in very significant costs. Thereafter, the Corporation suspended all of its flights as of April 1 and therefore had no more sales from that date, until the partial resumption of airline operations on July 23, 2020. Since the resumption of airline operations, demand remains very weak due to the COVID-19 pandemic with the Corporation's capacity representing a fraction of the 2019 level. These factors caused the fall in revenues. For the winter season, the decline in revenues was partially offset by an increase in the number of travellers across our programs up to the beginning of March 2020 as a result of our decision to increase capacity.

Operating Expenses

Total operating expenses were down $1,222.7 million (41.4%) for the year compared with 2019. This decrease was mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic, followed by a weak resumption of operations owing to demand well below the last year's level.

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. The $377.4 million decrease (46.7%) resulted primarily from a sharp decline in the number of packages sold compared with 2019 due to the COVID-19 pandemic. To a lesser extent, the decrease was accentuated by lower hotel room costs during the winter season.

Aircraft fuel

The aircraft fuel expense decreased by $258.6 million (50.0%) during the year, mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020, combined with a sharp decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic. The decrease in the aircraft fuel expense was partially offset by the unfavourable settlement of fuel-related derivative contracts due to the collapse in fuel prices since the second quarter compared with the prices of contracted hedging instruments. For the winter season, the decrease was accentuated by the decline in fuel price indices compared with 2019.

Salaries and employee benefits

Salaries and employee benefits were down $173.1 million (42.0%) to $239.3 million for the year ended October 31, 2020. The decrease resulted mainly from significant temporary layoffs. Also, the Corporation made use of the CEWS for its Canadian workforce for the period from March 15 to October 31, 2020; accordingly, an amount of $113.6 million was recognized as a deduction from the salary expense during the year, including $38.8 million for active employees.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs amounted to $97.1 million, down $112.3 million (53.6%) compared with fiscal 2019. This decrease was attributable to fall 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 2019, these expenses decreased by $119.5 million (52.0%) during the year. This decrease was attributable to the suspension of our airline operations from April 1 to July 22, 2020, combined with a sharp decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic. The decrease was amplified by the lower number of aircraft in our seasonal fleet compared with 2019, as well as the early retirement of all our Airbus A310s.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees were down $98.2 million (55.9%) compared with 2019. This decrease was attributable to the suspension of our airline operations from April 1 to July 22, 2020, combined with a sharp decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic.

Aircraft rent

The $23.4 million (50.1%) decrease in aircraft rent for the year was attributable to the lower number of seasonal aircraft compared with 2019.

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 $142.1 million (56.5%) for the year, compared with 2019. This decrease was attributable to the suspension of our airline operations from April 1 to July 22, 2020, combined with the significant decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic.

Other

Other expenses were down $15.5 million (17.1%) during the year, compared with 2019. The decrease 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 of a joint venture for the current fiscal year totalled $1.2 million compared with $1.3 million for 2019. The operations of our hotel joint venture were suspended from the end of March 2020 until July 9, 2020 due to the COVID-19 pandemic.

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, excluding special items. Depreciation and amortization expense was up $21.8 million (12.0%) in fiscal 2020. This increase was mainly attributable to right-of-use assets related to the fleet, following the commissioning of four Airbus A321neoLRs and three A321ceos in 2020. The increase was partially offset by the early retirement of all our Airbus A310s.

Special items

	2020 $	2019 $
Special items related to the transaction with Air Canada		
Professional fees	**7,753**	10,302
Compensation (reversal of compensation) expense	**(4,491)**	13,573
	3,262	23,875
Other special items		
Impairment of the fleet (including right-of-use asset)	**50,817**	-
Impairment of the land in Mexico	**32,826**	-
Impairment of the invesment in a joint venture	**3,100**	-
Impairment of trademarks	**2,384**	-
Provision for return conditions of impaired leased aircraft	**6,395**	-
Severance	**891**	-
	96,413	-
	99,675	23,875

SPECIAL ITEMS RELATED TO THE TRANSACTION WITH AIR CANADA

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. For the year ended October 31, 2020, professional fees of $7.8 million and a compensation expense reversal of $4.5 million were recorded in connection with the transaction with Air Canada. 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 subsequent to the significant rise in the share price. 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. The share closing price of $4.65 as at October 31, 2020 was used to calculate expenses related to the stock-based compensation plans, when applicable.

Total arrangement costs incurred up to October 31, 2020 in connection with the transaction with Air Canada were $18.1 million compared to the estimate of $19.0 million as planned in the Management Proxy Circular of November 12, 2020. The arrangement costs include legal and accounting fees and financial advisory fees, some of which are conditional on the closing of the transaction.

For the year ended October 31, 2019, professional fees of $10.3 million and compensation expenses of $13.6 million were recorded in connection with the transaction with Air Canada. The share closing price of $15.37 as at October 31, 2019 was used to calculate expenses related to the stock-based compensation plans, when applicable.

OTHER SPECIAL ITEMS

Due to the COVID-19 pandemic occurring worldwide, the global tourism industry has faced a collapse in demand. As a result, the Corporation had to scale back its capacity significantly and recognize impairment charges accordingly. These impairment losses are included in Special items. Ten leased aircraft, namely five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, were written down and will no longer be used until they are returned to the lessors. The Corporation recognized an asset impairment charge of $50.8 million related to these leased aircraft, which is equal to the total carrying amount of the right-of-use assets, maintenance components and leasehold improvements of the aircraft. In addition, adjustments of $6.4 million were recorded in connection with the provision for return conditions of these aircraft. The Corporation is negotiating with the lessors of some of its aircraft in order to return them early.

The Corporation cannot currently forecast all the impacts of COVID-19 on its hotel development strategy, particularly the use of its land and the start of eventual construction work. However, the land in Mexico does not meet the required criteria to be presented as an asset held for sale. Given the uncertainty surrounding future use of the land, an assessment of the recoverable amount of the land in Mexico compared with its carrying amount has been made. The recoverable amount of the land was determined based on the fair value less costs to sell, according to a valuation prepared by an independent, external valuator as at October 12, 2020. The determined recoverable amount of the land in Mexico is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized an impairment charge of $32.8 million related to its land in

Mexico under Special items in order for the carrying amount of the land to be equal to its recoverable amount as at October 31, 2020.

Lastly, the Corporation recognized asset impairment charges of $3.1 million related to its investment in a joint venture and $2.4 million related to its trademarks as well as termination benefits of $0.9 million for employees permanently laid off during the year ended October 31, 2020.

Operating Results

Given the above, we recorded an operating loss of $426.0 million (32.7%) for the year, compared with $13.6 million (0.5%) for the previous year. Operating results by season are summarized as follows:

				Change	
	2020	2019	2018	2020	2019
		Restated[1]	Not restated[2]		
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	**1,264,097**	1,544,979	1,515,543	(18.2)	1.9
Operating expenses	**1,318,714**	1,597,367	1,562,251	(17.4)	2.2
Operating income (loss)	**(54,617)**	(52,388)	(46,708)	(4.3)	(12.2)
Operating income (loss) (%)	**(4.3)**	(3.4)	(3.1)	(27.4)	(10.0)
Summer season					
Revenues	**37,972**	1,392,151	1,333,412	(97.3)	4.4
Operating expenses	**409,317**	1,353,351	1,337,297	(69.8)	1.2
Operating income (loss)	**(371,345)**	38,800	(3,885)	(1,057.1)	1,098.7
Operating income (loss) (%)	**(977.9)**	2.8	(0.3)	(35,188.8)	1,056.6

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See section 9. Accounting

[2] The figures in the consolidated statement of income (loss) for the year ended October 31, 2018 have not been restated under IFRS 16, as discussed in Section 9. Accounting, which makes the comparison with figures for 2019 and 2020 not meaningful.

We recognized an operating loss for the winter season amounting to $54.6 million (4.3%) compared with $52.4 million (3.4%) in 2019. The increase in our operating loss was attributable to the significant reduction in capacity in the second half of the second quarter due to the COVID-19 pandemic as a result of which the decline in revenues was greater than the decrease in operating expenses. Up to the beginning of March 2020, before the COVID-19 pandemic adversely impacted our results, our adjusted operating income was up $63.3 million compared with 2019 due to an improvement in the profitability of the sun destinations program, our main program during the winter season.

During the summer season, the Corporation recorded an operating loss of $371.3 million (977.9%) compared with operating income of $38.8 million (2.8%) for the previous year. The fall in operating results was attributable to the suspension of our airline operations from April 1 to July 22, 2020, combined with the significant decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic. Since the resumption of airline operations, demand remains very weak due to the COVID-19 pandemic with the Corporation's capacity representing a fraction of the 2019 level. Despite the fall in revenues and the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs during the suspension of airline operations; as a result, the fall in revenues was more pronounced than the decrease in operating expenses. Since the resumption of airline operations, demand remained very weak and operating expenses exceeded revenues. The decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts.

During the winter season, we reported an adjusted operating income of $48.5 million (3.8%), compared with $32.8 million (2.1%) in 2019. For the summer season, we recorded an adjusted operating loss of $170.7 million (449.5%) compared with adjusted operating income of $159.6 million (11.5%) in 2019. Overall, for the fiscal year, the Corporation recorded an adjusted operating loss of $122.2 million (9.4%), compared with an adjusted operating income of $192.4 million (6.6%) in 2019.

Other Expenses and Revenues

Financing costs

Financing costs include interest on lease liabilities, long-term debt, the accretion expense of the provision for return conditions and other interest, standby fees, as well as financial expenses. Financing costs increased by $10.1 million in 2020, compared with 2019. The increase resulted mainly from interest on the aircraft lease obligation following the commissioning of four Airbus A321neoLRs in 2020, the costs related to our $250.0 million subordinated short-term credit facility arranged on October 9, 2020 as well as interest on long-term debt due to the drawdown of our $50.0 million revolving term credit facility agreement in March 2020.

Financing income

Financing income was down $7.7 million during the year compared with 2019, as a result of decreases in cash and cash equivalents and interest rates since the prior fiscal year.

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 fiscal year, 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. For the year, the fair value of fuel-related derivatives and other derivatives was down $13.7 million, compared with $8.7 million in 2019. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any new fuel-related derivatives since March 2020. The decrease in fair value of fuel-related derivatives and other derivatives was attributable to the maturing of unfavourable foreign exchange derivatives and the fall in oil price indices compared with 2019.

Loss (gain) on asset disposals

The loss (gain) on asset disposals relates to asset disposals and lease terminations. Due to the global COVID-19 pandemic, the global tourism industry has faced a collapse in demand and as a result, the Corporation has early terminated certain leases. The loss of $11.3 million for the year ended October 31, 2020 was mainly attributable to the loss on the termination of certain aircraft leases and travel agencies of $18.8 million and $0.6 million, respectively. The loss on termination of aircraft leases resulted from the reversal of lease liabilities of $12.8 million, property, plant and equipment of $31.3 million and other assets of $0.3 million. The loss was partially offset by an $8.1 million gain on the disposal of Airbus A310 engines.

Foreign exchange loss (gain)

For the year, we recognized a foreign exchange loss of $3.6 million, compared with a foreign exchange gain of $1.1 million in 2019. This loss resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar compared with as at October 31, 2019.

Income Taxes

For the year ended October 31, 2020, income tax expense amounted to $7.8 million compared with an income tax recovery of $8.0 million for the previous year. The effective tax rate was -1.6% for the year ended October 31, 2020 and 21.3% for the previous year.

Owing to the unfavourable impact of the COVID-19 pandemic on our results and the high level of uncertainty related to the timing of the recovery in demand for leisure travel, during the second quarter of the year ended October 31, 2020, the Corporation ceased to recognize deferred tax assets and wrote down deferred tax asset balances whose recognition could no longer be justified under IFRS. The Corporation also reduced the balance of his deferred tax assets by $18.4 million. The tax deductions underlying these deferred tax assets remain available for subsequent use against taxable income. The deferred income tax expense recognized in other comprehensive income (loss) related to the change in fair value of derivative financial instruments designated as cash flow hedges is offset by a deferred income tax recovery recognized through profit or loss.

Net Income (Loss)

Considering the items discussed in the Consolidated operations section, net loss for the year ended October 31, 2020 was $496.8 million compared with $29.7 million in 2019.

Net Income (Loss) Attributable to Shareholders and Adjusted Net Income (Loss)

Net loss attributable to shareholders amounted to $496.5 million or $13.15 per share (basic and diluted) compared with $32.3 million or $0.86 per share (basic and diluted) for the previous year. The weighted average number of outstanding shares used to compute basic per share amounts was 37,747,000 for fiscal 2020 and 37,673,000 for fiscal 2019 (37,747,000 and 37,673,000, respectively, for diluted per share amounts).

For the year ended October 31, 2020, adjusted net loss amounted to $355.3 million ($9.41 per share) compared with $9.4 million ($0.25 per share) in 2019.

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, with the exception of the first part of winter (Q1). For the first part of winter (Q1), the higher revenues were mainly attributable to the 10.8% increase in the number of travellers in the sun destinations program, our main program for the winter season. For the second half of winter (Q2) and the summer, the sharp decline in revenues was attributable to the suspension of our airline operations from April 1 to July 22, 2020, combined with a sharp decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic.

In terms of operating results, for the first part of winter (Q1), the decrease in our operating loss was primarily due to higher profitability of the sun destinations program, our main program for the winter season. For the second part of winter (Q2) and the summer, the increase in operating loss was mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 combined with a significant decrease in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. The 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)	Q1-2019	Q2-2019	Q3-2019	Q4-2019	**Q1-2020**	**Q2-2020**	**Q3-2020**	**Q4-2020**
	Restated[2]							
	$	$	$	$	**$**	**$**	**$**	**$**
Revenues	647,566	897,413	698,916	693,235	**692,799**	**571,298**	**9,546**	**28,426**
Operating income (loss)	(48,620)	(3,768)	1,728	37,072	**(25,066)**	**(29,551)**	**(132,013)**	**(239,332)**
Net income (loss)	(51,970)	631	(1,197)	22,820	**(32,962)**	**(179,712)**	**(45,721)**	**(238,370)**
Net income (loss) attributable to shareholders	(52,952)	(939)	(1,505)	23,049	**(33,805)**	**(179,548)**	**(45,115)**	**(238,077)**
Basic earnings (loss) per share	(1.41)	(0.02)	(0.04)	0.61	**(0.90)**	**(4.76)**	**(1.20)**	**(6.31)**
Diluted earnings (loss) per share	(1.41)	(0.02)	(0.04)	0.62	**(0.90)**	**(4.76)**	**(1.20)**	**(6.31)**
Adjusted operating income (loss)[1]	(7,550)	40,356	62,098	97,537	**27,393**	**21,108**	**(79,941)**	**(90,735)**
Adjusted net income (loss)[1]	(39,208)	(6,421)	6,166	30,065	**(20,303)**	**(38,792)**	**(139,848)**	**(156,392)**
Adjusted net income (loss) per share[1]	(1.04)	(0.17)	0.16	0.80	**(0.54)**	**(1.03)**	**(3.70)**	**(4.14)**

[1] See section 2. Non-IFRS financial measures
[2] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See section 9. Accounting

Fourth-Quarter Highlights

For the fourth quarter, the Corporation generated $28.4 million in revenues, down $664.8 million (95.9%) from $693.2 million for the corresponding period of 2019. This decrease was attributable to the significant reduction in the Corporation's capacity compared with 2019 due to the COVID-19 pandemic, with demand remaining very weak since the resumption of airline operations suspension on July 23, 2020. Operations generated an operating loss of $239.3 million compared with operating income of $37.1 million in 2019. The deterioration in our operating results was mainly attributable to a decline in revenues that was greater than the decrease in operating expenses. Despite the fall in revenues and the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs. The decline in operating results was accentuated by special items totalling $96.7 million and the unfavourable settlement of fuel-related derivative contracts. The special items include impairment charges totalling $86.7 million, comprising $50.8 million for assets related to leased aircraft that will no longer be used until they are returned to the lessors, $32.8 million for the land in Mexico and $3.1 million for the investment in a joint venture. The special items also include additional provisions for return conditions of $6.4 million for leased aircraft that will no longer be used until they are returned to the lessors, professional fees and reversal of compensation expenses of $2.7 million related to the transaction with Air Canada and termination benefits of $0.9 million.

We recorded a net loss of $238.4 million in the fourth quarter, compared with net income of $22.8 million in 2019. Net loss attributable to shareholders was $238.1 million ($6.31 per share, basic and diluted), compared with net income $23.0 million ($0.61 per share, basic and $0.62 per share, diluted) in 2019.

For the fourth quarter, adjusted net loss amounted to $156.4 million ($4.14 per share) compared with adjusted net income of $30.1 million ($0.80 per share) in 2019.

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Basis of Preparation and Going Concern Uncertainty

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from October 31, 2020. 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 $496.8 million for the year ended October 31, 2020 and, as at that date, the Corporation's current liabilities exceeded the total of its current assets by $163.2 million. However, as it is described in note 14 to the consolidated financial statements, the Corporation has a new $250.0 million subordinated short-term credit facility. This new credit facility may be drawn down in tranches at any moment prior to February 28, 2021, subject to certain pre-requisites and borrowing requirements. These conditions include certain requirements related to minimum unrestricted cash before and after a drawdown on the facility. Furthermore, the suspension of the application of financial ratios under the Corporation's revolving term credit facility and the new short-term loan facility expires on January 30, 2021, after which time, absent of any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. The new short-term credit facility will mature at the earliest date between March 31, 2021 and the closing of the arrangement with Air Canada.

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 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. In response to the first wave of the pandemic, the Corporation temporarily suspended its airline operations from April 1 to July 22, 2020. Subsequently, the Corporation implemented reduced summer and winter programs and is continuously making adjustments based on the level of demand and decisions made by health and state authorities. 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 cost reduction, 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 likelihood of the availability of a vaccine in the near future 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.

While the Corporation is making every effort and remains confident that the transaction with Air Canada will be completed, it cannot be certain of this outcome. Should the transaction not be completed, the Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on its ability to obtain financing in the aggregate amount of approximately $500.0 million, 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 suppliers, lessors, credit card processors and other creditors. Should the transaction not take place, management is therefore seeking to secure financing that would be required before the maturity of the new subordinated short-term credit facility (currently, the maturity date is March 31, 2021) and is currently discussing with potential lenders, including government authorities. These discussions include a possible application under the Large Employer Emergency Financing Facility (LEEFF). Management could also try to extend the maturity of the new subordinated short-term credit facility to give itself more time to arrange the required overall financing. Management is also continuing to monitor possible government assistance programs, including sectoral financial support that could include loans and possibly other types of support announced by Canada's Minister of Transport. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

There can be no assurance that additional funds available under the existing short-term credit facility will be sufficient to finance the Corporation's operations until the maturity of the credit facilities, that the Corporation will be able to borrow sufficient amounts to meet its needs again, or that it will be able to do so on acceptable terms, or that suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. Therefore, there can be no assurance that the Corporation will be able to generate positive cash flow from operating activities in the next twelve months.

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

The consolidated financial statements as at October 31, 2020 have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. The consolidated financial statements as at October 31, 2020 and for the year then ended do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

CONSOLIDATED FINANCIAL POSITION

As at October 31, 2020, cash and cash equivalents totalled $426.4 million, compared with $564.8 million as at October 31, 2019. Cash and cash equivalents in trust or otherwise reserved amounted to $308.6 million as at the end of fiscal 2020, compared with $352.8 million in 2019. The Corporation's statement of financial position reflected $163.2 million in negative working capital, for a ratio of 0.84, compared with $131.8 million in working capital and a ratio of 1.13 as at October 31, 2019.

Total assets decreased by $308.4 million (13.3%) from $2,324.5 million as at October 31, 2019 to $2,016.1 million as at October 31, 2020. This decrease is explained in the financial position table provided below. Equity decreased by $491.1 million, from $557.5 million as at October 31, 2019 to $66.3 million as at October 31, 2020. This decrease resulted primarily from the $496.5 million net loss attributable to shareholders, partially offset by an $8.7 million unrealized gain on cash flow hedges and a $1.3 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

	October 31, 2020 $	**October 31, 2019 Restated[(1)]** $	**Difference** $	**Main reasons for significant differences**
Assets				
Cash and cash equivalents	**426,433**	564,844	(138,411)	See the *Cash flows* section
Cash and cash equivalents in trust or otherwise reserved	**308,647**	352,771	(44,124)	Lower business volume due to the COVID-19 pandemic, partially offset by the issuance of travel credits
Trade and other receivables	**95,334**	137,944	(42,610)	Collection of cash security deposits receivable from lessors and lower business volume due to the COVID-19 pandemic, partially offset by CEWS receivable and withholdings by credit card processors
Income taxes receivable	**17,477**	16,523	954	Increase in income taxes recoverable given losses carried back
Inventories	**10,024**	15,847	(5,823)	Decrease in fuel inventory
Prepaid expenses	**47,164**	74,489	(27,325)	Decrease in prepayments to hotel operators due to the COVID-19 pandemic
Deposits	**153,375**	183,902	(30,527)	Decrease in deposits for hotel stays and aircraft maintenance
Deferred tax assets	**—**	28,148	(28,148)	Write-down of deferred tax assets
Property, plant and equipment	**916,382**	891,445	24,937	New aircraft and real estate leases, partially offset by impairment and depreciation
Intangible assets	**25,509**	36,852	(11,343)	Impairment and amortization for the year, partially offset by additions
Derivative financial instruments	**964**	4,870	(3,906)	Maturing of foreign exchange derivatives and fuel related derivatives during the year
Investments	**14,509**	16,533	(2,024)	Impairment and share of net loss of a joint venture, partially offset by capital contributions
Other assets	**253**	322	(69)	No significant difference

[1]The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See section 9. Accounting

	October 31, 2020	October 31, 2019 Restated[(1)]	Difference	Main reasons for significant differences
	$	$	$	
Liabilities				
Trade and other payables	**232,243**	311,065	(78,822)	Decrease in business volume due to the COVID-19 pandemic
Long-term debt and lease liabilities	**903,886**	665,929	237,957	New aircraft and real estate leases and drawdown of the revolving term credit facility, partially offset by principal repayments on lease obligations
Provision for return conditions	**143,598**	155,120	(11,522)	Increase related to the passage of time and increase in the number of leased aircraft, partially offset by reversals related to lease terminations
Income taxes payable	**203**	4,244	(4,041)	Increase in income taxes recoverable given losses carried back
Derivative financial instruments	**10,055**	12,081	(2,026)	Maturing of foreign exchange derivatives, partially offset by unfavourable change in fuel prices related to contracted derivatives
Customer deposits and deferred revenues	**608,890**	561,404	47,486	Increase in travel credits offset by a decrease in reservations
Other liabilities	**50,215**	47,444	2,771	Increase in the defined benefit obligation following the decrease in the discount rate
Deferred tax liabilities	**674**	9,752	(9,078)	Increase in deferred non-capital losses
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Retained earnings (deficit)	**(164,138)**	336,993	(501,131)	Net loss
Unrealized gain on cash flow hedges	**(522)**	(9,176)	8,654	Reclassification of net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(5,993)**	(7,326)	1,333	Foreign exchange gain on translation of financial statements of foreign subsidiaries

[1]The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See section 9. Accounting

CASH FLOWS

				Change	
	2020	2019	2018	2020	2019
		Restated[1]	Not restated[2]		
(in thousands of dollars)	$	$	$	%	%
Cash flows related to operating activities	**(46,136)**	216,021	68,804	(121.4)	214.0
Cash flows related to investing activities	**(60,414)**	(163,779)	(93,644)	63.1	(74.9)
Cash flows related to financing activities	**(33,374)**	(81,993)	(430)	59.3	(18,968.1)
Effect of exchange rate changes on cash	**1,513**	941	(982)	60.8	195.8
Net change in cash and cash equivalents	**(138,411)**	(28,810)	(26,252)	(380.4)	(9.7)

[1]The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Section 9. Accounting.
[2] The figures in the consolidated statement of income (loss) for the year ended October 31, 2018 have not been restated under IFRS 16, as discussed in Section 9. Accounting, which makes the comparison with figures for 2019 and 2020 not meaningful.

Operating activities

Operating activities used $46.1 million in cash flows, compared with $216.0 million in 2019. The decrease resulted from a $315.5 million decline in the net loss before operating items not involving an outlay (receipt) of cash, combined with a $38.1 million decrease in the net change in the provision for return conditions. The decrease was partially offset by a $61.2 million increase in the net change in non-cash working capital balances related to operations and a $30.2 million increase in the net change in other assets and liabilities related to operations.

The deterioration in cash from operating activities resulted mainly from the suspension of our airline operations from April 1 to July 22, 2020, combined with a significant decline in our capacity following the partial resumption of airline operations due to the COVID-19 pandemic.

Investing activities

Cash flows used in investing activities totalled $60.4 million for the year, down $103.4 million compared with 2019. Our additions to property, plant and equipment and intangible assets decreased $102.5 million in 2020 compared with last year, resulting primarily from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic, as well as lower maintenance and leasehold improvements capitalized on aircraft than in 2019. In 2020, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $16.6 million. In 2019, the Corporation acquired a second parcel of land in Puerto Morelos, Mexico, adjacent to the first parcel acquired in 2018, for $15.8 million, as well as acquisitions related to fleet expansion, including the purchase of an Airbus A321neoLR replacement engine for $16.8 million. In 2020, our cash and cash equivalents reserved balance increased by $5.0 million.

Financing activities

Cash flows used in financing activities amounted to $33.4 million compared with $82.0 million in 2019. In March 2020, the Corporation drew down $50.0 million under its revolving term credit facility agreement. The payments on lease liabilities increased by $2.2 million in 2020, primarily as a result of the commissioning of four Airbus A321neoLRs and three Airbus A321ceos in 2020. In 2020, payments on lease liabilities included lease cancellation penalties totalling $9.9 million made in 2020. The increase was partially offset by deferred payments on aircraft and other leases. During the year ended October 31, 2019, the Corporation received $27.2 million in lease incentives.

FINANCING

As at December 11, 2020, the Corporation had several types of funding, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

On October 9, 2020, the Corporation amended its $50 million revolving credit facility agreement for operating purposes. The amended agreement, which expires in 2022, 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, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at October 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until January 30, 2021 and $50 million was drawn down under this credit facility.

On October 9, 2020, the Corporation entered into a $250 million subordinated short-term credit agreement for operating purposes. Under the agreement, which expires on March 31, 2021, or becomes immediately due in the event of a change of control, drawdowns may be made until February 28, 2021 in the form of bankers' acceptances or bank loans, in Canadian dollars, subject to certain conditions, including certain cash and cash equivalent requirements before and after a drawdown under the credit facility. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate, plus a premium. As at October 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until January 30, 2021 and the credit facility was undrawn.

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 liquidity, some of which are reflected as liabilities in the consolidated financial statements and others in the notes to the 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 (see notes 14 and 25 to the audited consolidated financial statements)
- 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 (see note 25 to the audited consolidated financial statements)
- Purchase obligations (see note 25 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $872.2 million as at October 31, 2020 ($1,286.4 million as at October 31, 2019) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS	**2020**	**2019**
		Restated[(1)]
(in thousands of dollars)	**$**	**$**
Guarantees		
Irrevocable letters of credit	**23,813**	25,375
Collateral security contracts	**468**	472
Operating leases		
Obligations under operating leases	**847,872**	1,260,579
	872,153	1,286,426
Agreements with suppliers	**28,659**	56,830
	900,812	1,343,256

[1]The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Section 9. Accounting.

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2020, $60.3 million had been drawn down under the facility, of which $56.3 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2021. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $35.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at October 31, 2020, $22.8 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £3.3 million [$5.6 million], which has been fully drawn down.

As at October 31, 2020, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $414.3 million compared with October 31, 2019. This decrease resulted primarily from the addition of four Airbus A321neoLRs to our fleet in 2020, the revision of rents to be paid and the payments made in connection with our seasonal fleet during the period, partially offset by the weakening of the dollar against the U.S. dollar.

Subject to obtaining additional financing as discussed in section 7. Financial position, liquidity and capital resources and note 2 to the consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

CONTRACTUAL OBLIGATIONS BY YEAR Years ending October 31	2021 $	2022 $	2023 $	2024 $	2025 $	2026 and beyond $	Total $
Contractual obligations							
Long-term debt	—	49,980	—	—	—	—	49,980
Lease liabilities	190,989	136,447	128,076	107,365	99,442	416,551	1,078,870
Leases (off-balance sheet)	20,344	48,738	70,718	70,618	70,618	566,836	847,872
Agreements with suppliers and other obligations	10,649	10,267	7,138	5,648	7,845	36,974	78,521
	221,982	**245,432**	**205,932**	**183,631**	**177,905**	**1,020,361**	**2,055,243**

Debt levels

The Corporation reported $50.0 million in long-term debt on the statement of financial position.

The Corporation's total debt amounted to $903.9 million, up $238.0 million compared with 2019, due mainly to additions of aircraft to our fleet over the past 12 months, the drawdown of our $50.0 million revolving credit facility in March 2020 and the weakening of the dollar against the U.S. dollar.

Total net debt increased by $376.4 million, from $101.1 million as at October 31, 2019 to $477.5 million as at October 31, 2020. The increase in total net debt resulted from the increase in total debt, combined with higher cash and cash equivalent balances than as at October 31, 2019.

Outstanding shares

As at October 31, 2020, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 4, 2020, there were 37,747,090 total voting shares outstanding. Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single ticker symbol: "TRZ."

Stock options

As at December 4, 2020, there were a total of 1,738,570 stock options outstanding, 1,557,042 of which were exercisable.

8. OTHER

FLEET

As at October 31, 2020, Air Transat's fleet consisted of nineteen Airbus A330s (332, 345 or 375 seats), six Airbus A321neoLRs (199 seats), seven Airbus A321ceos (199 seats) and two Boeing 737-800s (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, three Boeing 737-800s and one Airbus A330 were returned to lessors early and the Corporation made the decision to retire all of its Airbus A310 aircraft early during the fiscal year ended October 31, 2020. In addition, ten leased aircraft, consisting of five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, will no longer be used until they are returned to the lessors.

During winter 2020, the Corporation also had seasonal rentals for five Airbus A321ceos (190 seats) and five Boeing 737-800s (189 seats).

During the year ended October 31 October 2020, the Corporation took delivery of four Airbus A321neoLRs, which are central to the transformation of its feet. On November 10, 2020, the Corporation took delivery of an additional Airbus A321neoLR.

9. ACCOUNTING

Critical Accounting Estimates

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

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

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

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

Due to the 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.

Depreciation and impairment of non-financial assets

Depreciation of property, plant and equipment

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

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

Impairment of non-financial assets

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

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

As at October 31, 2020, 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 transaction price of $5.00 per share under the arrangement with Air Canada dated October 9, 2020. There can be no assurance that the transaction with Air Canada will be completed on the terms and conditions described in the circular or at all. Should the transaction not be completed, the Corporation's share price could fall. No impairment in the carrying amount of the Corporation's CGUs was recognized, as their recoverable amount remains higher than their carrying amount.

Due to significant reductions in capacity related to the COVID-19 pandemic, ten leased aircraft, consisting of five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, will no longer be used until they are returned to the lessors. An impairment charge representing the entire carrying amount of the right-of-use assets, maintenance components and leasehold improvements for these aircraft was recognized in the consolidated statement of loss under Special items; these impairment charges totalled $50.8 million.

Due to the COVID-19 pandemic occurring worldwide, the global tourism industry has faced a collapse in demand. The Corporation cannot currently forecast all the impacts of COVID-19 on its hotel development strategy, particularly the use of its land and the start of eventual construction work. However, the land in Mexico does not meet the required criteria to be presented as an asset held for sale. Given the uncertainty surrounding future use of the land, an assessment of the recoverable value of the land held in Mexico compared with its carrying amount was performed. The recoverable amount of the land was measured using fair value less costs of disposal. The fair value less costs of disposal was estimated based on Level 3 inputs, a valuation prepared by an external and independent valuator as at October 12, 2020. The recoverable amount determined for the land in Mexico is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized a $32.8 million impairment charge related to the land in Mexico under Special items in order for the carrying amount of the land to be equal to its recoverable amount of $50.7 million as at October 31, 2020.

As at October 31, 2020, the Corporation determined that the declines in Desarrollo Transimar's revenues and demand due to the COVID-19 pandemic were objective evidence of impairment of its investment in a joint venture. Accordingly, the Corporation performed an impairment test on its investment to compare its recoverable amount with its carrying amount. The recoverable amount of the investment was determined based on the fair value less costs to sell. Fair value less costs to sell was established based on a valuation prepared by an external and independent appraiser as at October 31, 2020, using a discounted cash flow model based on Level 3 inputs. The cash flows used are management's most plausible projections given current and expected market conditions. The recoverable amount of the investment determined is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized a $3.1 million impairment charge related to its investment under Special items in order for the carrying amount of the investment to be equal to its recoverable amount as at October 31, 2020.

As at October 31, 2020, the pre-tax discount rate used for the investment's impairment test was 7.1%.

The Corporation performed its annual impairment test to determine whether the carrying amount of trademarks was higher than their recoverable amount. After performing the test, the Corporation recognized $2.4 million in asset impairment charges in respect of its trademarks.

No event or change in situation arising during the year ended October 31, 2020 could have required an additional impairment loss in respect of non-current assets.

Fair value of derivative financial instruments

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved.

Discount rate of lease liabilities

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

Provision for return conditions

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

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

The estimates used to determine the provision for return conditions are based on historical experience, 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.

Employee future benefits

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

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

Increase (decrease)	Cost of retirement benefits for the year ended October 31, 2020 $	Retirement benefit obligations as at October 31, 2020 $
Discount rate	(6)	(1,483)
Rate of increase in eligible earnings	15	75

Taxes

Due to the COVID-19 pandemic, its adverse impact on our results and the significant uncertainty related to the timing of the return of demand for leisure travel, during the second quarter of the year ended October 31, 2020, the Corporation ceased to recognize deferred tax assets and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. In addition, the Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the deferred tax assets recorded before the second quarter of the year ended October 31, 2020. As discussed in Section 7. Financial position, liquidity and capital resources of this MD&A and note 2 to the consolidated financial statements, due to the COVID-19 pandemic, the losses generated during the fiscal year ended October 31, 2020 and the significant uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the year ended October 31, 2020, these adverse indications outweighed the historical favourable indications and the Corporation reduced the balance of its deferred tax assets by $18.4 million. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15.1 million to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount is recognized as income taxes receivable as at October 31, 2020 and 2019.

FINANCIAL INSTRUMENTS

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

Foreign exchange risk management

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 64% [74% in 2019] of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 13% [19% in 2019] of revenues are earned in a currency other than the measurement currency of the reporting unit making the sale. To safeguard the value of commitments and anticipated transactions, the Corporation has a foreign currency risk management policy that authorizes the use of forward exchange forward contracts and other types of derivative financial instruments for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends, expiring in generally less than 18 months. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any new foreign exchange derivatives since March 2020. The Corporation will reassess the situation periodically.

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

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive loss. Any ineffectiveness within a cash flow hedge is recognized through profit or loss as it arises in the account Change in fair value of fuel-related derivatives and other derivatives. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within Unrealized gain (loss) on cash flow hedges until the hedged item is settled and future changes in value of the derivative are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same item in the consolidated statement of income (loss) in which the hedged item is recognized.

Management of fuel price risk

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

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $5.6 million as at October 31, 2020. Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No other customer represented more than 10% of total accounts receivable. As at October 31, 2020, approximately 18% of accounts receivable were over 90 days past due, whereas approximately 77% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

The other receivables include receivables from two credit card processors totalling $19.2 million. The credit risk for these receivables is insignificant.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As of October 31, 2020, these deposits totalled $9.3 million. These deposits are offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $40.5 million as at October 31, 2020 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation following receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2020, the cash security deposits with lessors that had been claimed totalled $19.0 million and were included under Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is insignificant.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2020 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2020.

Liquidity risk

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

Interest rate risk

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

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

CHANGES IN ACCOUNTING POLICIES

IFRS 16, *Leases*

IFRS 16, *Leases*, supersedes IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

Considering that the Corporation is committed under numerous leases, the adoption of IFRS 16 has a significant impact on its consolidated financial statements. Under its leases, the Corporation recognizes a right-of-use asset and a liability at the present value of future lease payments. Depreciation and amortization of the right-of-use asset and interest expense on the lease liability replaces rent expense related to leases.

IFRS 16 was applied retrospectively on November 1, 2019 with an adjustment to the opening consolidated statement of financial position as at November 1, 2018 and the consolidated statement of income (loss) for the quarter and nine-month period ended on July 31, 2019. The accounting policies and the main changes related to the adoption of IFRS 16 are explained in note 4 to the consolidated financial statements for the year ended October 31, 2020.

On May 28, 2020, the IASB issued *COVID-19-Related Rent Concessions – Amendment to IFRS 16*. Under certain conditions, this amendment allows a lessee to recognize any COVID-19 related rent concession in the same way it would account for the change under IFRS 16 if the change were not a lease modification. The Corporation applied the provisions of this amendment to all of its leases in its consolidated financial statements for the year ended October 31, 2020. The adoption of this new amendment had no significant impact on the Corporation's consolidated statement of income (loss).

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to consider in the assessment of an uncertain tax treatment to determine whether it is probable that a taxation authority will accept the treatment. Application of IFRIC 23 is effective for the Corporation's annual reporting period beginning on November 1, 2019. The adoption of this new IFRIC interpretation has no significant impact on the Corporation's consolidated financial statements.

10. RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation’s financial position, operating results and activities. Since the beginning of the COVID-19 pandemic, a number of risks have materialized and are discussed first in this section. The risks related to the transaction with Air Canada are also presented separately due to the significance of this transaction for the Corporation. This section concludes by elaborating on the other risks that are still present, regardless of the extraordinary circumstances that the Corporation is currently experiencing.

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

RISK GOVERNANCE

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

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

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

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

Managing these risks is also shared between members of the Corporation’s management and the members of the Board of Directors using consistent mapping and language in order to eliminate a silo approach to risk management. As a result of the COVID-19 pandemic, all risks to which the Corporation is exposed have been re-assessed in detail by the Corporation’s officers. As part of this essential process, risks were reprioritized based on their level of probability of occurrence and their quantitative and qualitative impact on the Corporation’s business. The outcome comprised a total of 57 risks, rated in order of importance: red for the 16 high-priority risks, orange for the 6 priority risks, yellow for the 15 moderate risks and green for the 20 low risks. These risks were then grouped according to the subject matter for ease of reference, as set out in the following paragraphs.

KEY RISKS

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

RISKS RELATING TO THE ABILITY TO CONTINUE AS A GOING CONCERN

As indicated in note 2 to the consolidated financial statements, there are material uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements as at October 31, 2020, have been prepared on a going concern basis which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and meet its obligations in the normal course of business. The consolidated financial statements as at October 31, 2020 and for the year then ended do not include any adjustments to the carrying amounts and classification of assets, liabilities and recorded expenses that would otherwise be necessary if the going concern basis of presentation were inappropriate. Such adjustments may be significant.

While the Corporation is making every effort and remains confident that the transaction with Air Canada will be completed, it cannot be certain of this outcome. Should the transaction not be completed, the Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on its ability to obtain financing in the aggregate amount of approximately $500.0 million, 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 suppliers, lessors, credit card processors and other creditors. Should the transaction not take place, management is therefore seeking to secure financing that would be required before the maturity of the new subordinated short-term credit facility (currently, the maturity date is March 31, 2021) and is currently discussing with potential lenders, including government authorities. These discussions include a possible application under the Large Employer Emergency Financing Facility (LEEFF). Management could also try to extend the maturity of the new subordinated short-term credit facility to give itself more time to arrange the required overall financing. Management is also continuing to monitor possible government assistance programs, including sectoral financial support that could include loans and possibly other types of support announced by Canada's Minister of Transport. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

There can be no assurance that additional funds available under the existing short-term credit facility will be sufficient to finance the Corporation's operations until the maturity of the credit facilities, that the Corporation will be able to borrow sufficient amounts to meet its needs again, or that it will be able to do so on acceptable terms, or that suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. Therefore, there can be no assurance that the Corporation will be able to generate positive cash flow from operating activities in the next twelve months.

COVID-19-RELATED RISKS

This section provides an overview of the specific risks to which Transat and its subsidiaries have been and/or will be exposed as a result of the COVID-19 pandemic. Since government authorities imposed various restrictions on cross-border travel, the Corporation's airline operations were suspended from April 1 to July 22, 2020 and its tour operator's activities have been reduced to a minimum. This resulted in a significant reduction in cash flow from operations despite the mitigation measures taken by the Corporation. This situation is likely to continue until a normal recovery in consumer travel demand. While the likelihood of the availability of a vaccine in the near future 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 crisis surrounding the COVID-19 pandemic is rapidly evolving and is affecting the entire global tourism industry as well as the air transportation sector. The extent of the potential impact of COVID-19 on the Corporation and its operations will depend on the evolution of the pandemic, which is still highly uncertain and cannot be accurately predicted, including the spread of the virus, the duration of the outbreak, its impact on the discretionary spending of our customers, government travel and border restrictions, and the effectiveness of measures taken by the governments of various countries to manage the pandemic. The outlook for travel demand to destinations served by the Corporation for early 2021 remains very difficult to determine given the restrictions imposed by governments and concerns about cross-border travel related to the COVID-19 virus. The Corporation is monitoring the situation very closely and continues to take appropriate measures as the COVID-19 pandemic evolves.

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

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

- Disruptions in operations related to the inability of the Corporation's employees, its subcontractors or other business partners to work in a normal manner as a result of COVID-19 restrictions, including quarantines;

- Refund of customer deposits pursuant to legislative and regulatory enforcement actions or litigation, including class action lawsuits, seeking refunds for cancelled airline tickets and trips subject to travel credit offers and any resulting material adverse impact on the Corporation's cash position. Recently, Canadian federal authorities have indicated their willingness to financially support the Canadian airline industry subject to the refunding of travel credits. The Corporation would thus be exposed to the risk of having to make refunds or of not having access to financial support;

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

- Negative impact on global credit and capital markets that could limit the Corporation's ability to refinance or renew its obligations and other agreements that are maturing at pre-pandemic or otherwise reasonable terms and conditions;

- The Corporation's inability to meet the financial ratios required under its credit facilities and commitments made to its credit card processors or obtain an extension of the suspension of their application, resulting in more onerous credit terms or repayment obligations that could adversely affect its cash flows;

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

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

- Significant volatility in fuel prices and exchange rates and the resulting negative impact on the value of the Corporation's derivative contracts used to manage fuel-price and foreign exchange risk;

- Given the large number of early terminations completed to date, and the decision to pay only legal indemnities, the Corporation is more exposed to a risk of legal action by these employees;

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

- Inability to reach an agreement with the regulatory authorities in terms of solutions or remedies to the concerns raised regarding competition as part of the regulatory approval process for the arrangement with Air Canada given the current widespread context where a large number of travel industry players have announced capacity reductions and requested financial assistance measures, which could adversely affect the ability to obtain the regulatory approvals necessary for the arrangement.

Among other things, following the suspension of all its flights from April 1, 2020 and despite a very small-scale resumption of certain flights as of July 23, 2020, the Corporation, like many other air transportation and travel players affected by government travel and border restrictions resulting from COVID-19, decided to offer travel credits to affected consumers, included in Customer deposits and deferred revenue. These measures were rejected by many consumers, who would have preferred to receive refunds. In some jurisdictions, such as Europe and the United States, governments have adopted measures to force airlines to refund airline tickets and travel for affected consumers who request so. As a result, the Corporation reimbursed consumers who booked on a web platform in certain European countries, and only for the flight segment departing from Europe, representing a minimal portion of the Corporation's customer deposits. The majority of the Corporation's customer deposits were made by Canadian consumers in connection with flight and travel reservations for the upcoming fall and winter seasons. If the Corporation is unable to offer the flights or trips covered by these reservations, it could face refund requests for a significant portion of its customer deposits, which would have a material adverse effect on its liquidity position. Canadian government authorities have not adopted similar measures, but if they do, substantially all of the Corporation's customer deposits could be subject to such claims, which would have an equivalent impact on the Corporation's liquidity. During 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 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 a very unfavourable effect on cash.

In addition, in the normal course of business, the Corporation is facing a number of short-term maturities related to service contracts with credit card processors, as well as its $50.0 million guarantee facility. These agreements will have to be renewed or replaced under market conditions prevailing at the time of their expiry, which could result in more onerous borrowing and operating terms and conditions for the Corporation or an inability to renew or replace such instruments. Since March, the Corporation has been negotiating with its aircraft lessors as well as with the owners of the premises it occupies to defer a certain number of monthly rent payments. In addition, the Corporation is negotiating with its suppliers to obtain cost reductions and changes to its payment terms, and has implemented measures to reduce expenses and investments. The Corporation has obtained a temporary suspension of the application of certain financial ratios from lenders under its $50.0 million revolving term credit facility. The Corporation has also been subject to tighter credit conditions by some credit card processors. The Corporation cannot guarantee that it will be able to favourably negotiate concessions and deferrals with its aircraft lessors, owners of premises, suppliers, lenders and other partners or, if applicable, that it will be able to extend the maintenance of such measures.

If the suspension of operations is extended, the lack of operating revenues resulting therefrom could also jeopardize the Corporation's ability to meet its financial ratios under its credit facilities and agreements with its credit card processors or obtain an extension of the suspension of their application, leading to more onerous and restrictive credit terms or repayment obligations if it cannot come to an agreement on adjustments to existing agreements. Such repayment obligations could have a material adverse effect on the Corporation's financial position. Furthermore, the exercise of the option by its holder after October 31, 2020, the non-controlling interest in Trafictours Canada could also affect the Corporation's cash.

The COVID-19 pandemic started adversely impacting the Corporation as early as March 2020, resulting in a significant reduction in cash flows from operations. The Corporation also had to continue to absorb fixed costs such as those related to employee salaries and benefits, leasing and maintenance of its fleet of aircraft, engines and other equipment, leasing of office and airport space and financing costs. Although the Corporation has implemented certain measures to mitigate these impacts, as described in greater detail in this MD&A, the situation will affect its liquidity position until it is able to resume operations at a sufficient level. The Corporation may have to take supplementary measures, including borrowing in addition to its existing facilities. The Corporation may have difficulty in accessing sources of financing or reasonable terms and conditions of financing due to, among other things, the significant reduction in its operations, the outlook for the airline and travel industry, market conditions, the Corporation's current debt level and the availability of assets to secure borrowings. Similarly to the vast majority of air carriers and other travel industry players in the normal course of their operations following the impacts of COVID-19, the Corporation continues to review various financing options to increase its cash position in order to deal with possible disruption resulting from COVID-19, including obtaining financing from private and government financial institutions and the Large Employer Emergency Financing Facility (LEEFF). The Corporation cannot guarantee it will have access to such sources of financing or acceptable financing terms, or that such supplementary measures will enable it to mitigate the risks arising from the COVID-19 pandemic, including those mentioned above.

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.

Risks Related to the Transaction with Air Canada

On June 27, 2019, Transat concluded a definitive arrangement agreement that provides for Air Canada's acquisition of all issued and outstanding shares of Transat, which was amended first on August 11, 2019 by the conclusion of an amending agreement, and second on October 9, 2020, by a downward revision to the purchase price. This transaction involves many risks which have been presented in the arrangement Circular of November 12, 2020 [the "circular"], which is available at www.sedar.com.

The main risks are as follows:

Conditions precedent and required approvals

There can be no certainty, nor can Transat provide any assurance, that all conditions precedent to the arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver. Failure to complete the arrangement could have a material adverse effect on the trading price of the voting shares.

The completion of the arrangement is subject to a number of conditions precedent, some of which are outside Transat's control, including receipt of the final court order authorizing the arrangement and receipt of the key regulatory approvals. Other conditions precedent which are outside of Transat's control include, without limitation, the receipt of the required shareholder approval, holders of no more than 10% of the issued and outstanding voting shares having exercised dissent rights and the receipt of the other regulatory approvals.

Concerning the key regulatory approvals, the Competition Bureau released on March 27, 2020 its advisory report to the Minister further to the Minister's determination that the proposed arrangement raises issues with respect to the public interest. The European Commission released on September 28, 2020 a statement of objections to the arrangement.

The Corporation is working with Air Canada to address the concerns raised by the Canadian and European agencies with a view of obtaining their approval of the arrangement, including with respect to remedies that may be proposed by Air Canada to address such concerns. However, Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the arrangement agreement). If Air Canada does not come to an agreement with the regulatory authorities and obtain the key regulatory approvals before the outside date, the arrangement agreement may be terminated in accordance with its terms with the payment by Air Canada of the reverse termination fee (provided the other conditions required for such payment are otherwise met, including that all other conditions precedent to closing have been complied with).

The process to obtain the key regulatory approvals is complicated by the COVID-19 pandemic and the impact it is having on the international commercial aviation market. The market conditions of the global industry have been completely transformed. Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of the key regulatory approvals, especially regarding the appropriate package of remedies aimed at obtaining those approvals.

The revised arrangement agreement also contains a new closing condition that Transat's level of net indebtedness, consisting of certain liabilities less certain assets as agreed with Air Canada, not exceed a certain specified threshold. Many factors could impact the level of net indebtedness during the period leading up to the effective time, and there can be no certainty that Transat will comply with the requisite threshold as of the effective time.

There are no assurances that the transaction will be completed on the terms and conditions described in the circular or at all. If the transaction proposed under the arrangement is not completed for any reason, there is a risk that Transat's lenders, lessors, credit card processors, clients and other trade partners become more preoccupied by Transat's financial position, prospects and ability to execute its strategic plan as a going concern, which could result in more onerous credit terms, repayment obligations, an inability to refinance maturing indebtedness or find new sources of financing, restricted access to goods and services, and/or reduced business, all of which could significantly and adversely affect Transat's cash flows and ability to continue as a going concern.

In addition, failure to complete the transaction proposed under the arrangement for any reason could materially negatively impact the market price of the Corporation's securities. If the transaction proposed under the arrangement is not completed for any reason, there can be no assurance that management will be successful in its efforts to identify and implement other strategic alternatives that would be in the best interests of the Corporation and its stakeholders within the context of existing economic, market, regulatory and competitive conditions in the industries in which the Corporation operates, on favourable terms and timing or at all, and, if implemented, that such actions would have the intended results. We also have incurred significant transaction and related costs in connection with the transaction proposed under the arrangement, and additional significant or unanticipated costs may be incurred.

Restrictive covenants of the Corporation until the effective time and uncertainty may adversely affect the Corporation's business

Since having entered into the 2019 arrangement agreement, the Corporation has been subject to certain restrictive covenants which have been maintained or enhanced under the revised arrangement agreement, including investments relating to its hotel strategy. These restrictions have prevented and may continue to prevent the Corporation from pursuing other business opportunities. Moreover, the uncertainty regarding the satisfaction of all required conditions, including the key regulatory approvals, may bring clients and suppliers to delay or defer decisions concerning their business with the Corporation, which may adversely affect the business and operations of the Corporation, regardless of whether the arrangement is ultimately completed. Similarly, this uncertainty may adversely affect the Corporation's ability to attract or retain key personnel. Given the length of time lapsed since the 2019 arrangement agreement was entered into and the length of time anticipated before the key regulatory approvals are obtained, and the risks that such approvals may not be obtained, a termination of the arrangement agreement could materially and adversely affect the business of the Corporation and its ability to carry out its strategic plan.

Moreover, although the Corporation has been able to put in place the subordinated short-term credit facility and amendments to its revolving term credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated on or before the outside date. In particular, the subordinated short-term credit facility matures on the earlier of March 31, 2021 and the closing of the arrangement. Furthermore, the suspension of the application of financial ratios under the Corporation's revolving term credit facility and the subordinated short-term credit facility expires on January 30, 2021, after which time, absent any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. Pursuant to the terms of the arrangement agreement, the Corporation's ability to put in place new sources of financing is restricted and requires Air Canada's consent. As a result, if the requisite shareholder and regulatory approvals are not obtained and the arrangement is not consummated on or prior to the outside date, the Corporation will need to address the challenges posed by its cash position and the maturing lending facilities. If the Corporation is not able to renew maturing facilities at acceptable conditions or find financing alternatives, its financial position and business prospects could be materially and adversely affected.

Termination in certain circumstances, including if the arrangement resolution is not approved by the shareholders, and termination fee

Each of Transat and Air Canada has the right, in certain circumstances, including if the arrangement resolution is not approved by shareholders, in addition to termination rights relating to the failure to satisfy the conditions of closing, to terminate the arrangement agreement. Accordingly, there can be no certainty, nor can Transat provide any assurance, that the arrangement agreement will not be terminated by either of Transat or Air Canada prior to the completion of the arrangement. Transat's business, financial condition or results of operations could also be subject to various material adverse consequences, including that Transat may remain liable for significant costs relating to the arrangement including, among others, financial advisory, legal, accounting and printing expenses. Under the arrangement agreement, Transat is required to pay to Air Canada the termination fee in the event that the arrangement agreement is terminated following the occurrence of a termination fee event and Air Canada is required to pay to Transat the reverse termination fee in the event that the arrangement agreement is terminated following the occurrence of a reverse termination fee event.

Moreover, although the Corporation has been able to put in place the subordinated short-term credit facility and amendments to its revolving term credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated on or before the outside date. In particular, the subordinated short-term credit facility matures on the earlier of March 31, 2021 and the closing of the arrangement. Furthermore, the suspension of the application of financial ratios under the Corporation's revolving term credit facility and the subordinated short-term credit facility expires on January 30, 2021, after which time, absent any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. Pursuant to the terms of the arrangement agreement, the Corporation's ability to put in place new sources of financing is restricted and requires Air Canada's consent. As a result, if the requisite shareholder and regulatory approvals are not obtained and the arrangement is not consummated on or prior to the outside date, the Corporation will need to address the challenges posed by its cash position and the maturing lending facilities. If the Corporation is not able to renew maturing facilities at acceptable conditions or find financing alternatives, its financial position and business prospects could be materially and adversely affected, and there may be a significant risk as to the viability of the Corporation and its ability to continue operating as a going concern, which could force Transat to proceed with a reorganization of operations that could reduce substantially all of the value of its equity.

Furthermore, if the arrangement is not approved by shareholders and otherwise not consummated, there is a risk that Transat's lenders, lessors, credit card processors, clients and other trade partners become more preoccupied by Transat's financial position, prospects and ability to execute its strategic plan as a going concern, which could result in more onerous credit terms, repayment obligations, an inability to refinance maturing indebtedness or find new sources of financing, restricted access to goods and services, and/or reduced business, all of which could significantly and adversely affect Transat's cash flows and ability to continue as a going concern.

Uncertainty surrounding the arrangement

As the arrangement is dependent upon satisfaction of a number of conditions precedent, its completion is uncertain. In response to this uncertainty, Transat's clients may delay or defer decisions concerning Transat. Any delay or deferral of those decisions by clients could adversely affect the business and operations of Transat, regardless of whether the arrangement is ultimately completed. Similarly, uncertainty may adversely affect Transat's ability to attract or retain key personnel. In the event the arrangement agreement is terminated, the Corporation's relationships with customers, suppliers, creditors, lessors, employees and other stakeholders may be adversely affected. Changes in such relationships could adversely affect the business and operations of the Corporation.

Risks Related to Hotel Development

Transat had started investing in the hotel industry in 2018 to take advantage of this activity's currently favourable position in its tourism chain. However, as a result of the arrangement agreement with Air Canada, the investments required for such hotel development were suspended. If the said transaction does not occur, the delayed resumption of hotel development could reduce the positive impacts expected initially and, consequently, the results of operations of the Corporation could be adversely affected. The decision to pursue hotel development will also depend on the Corporation's cash position and its financing capacity in the current environment affected by the COVID-19 pandemic. Also, in the event that the Corporation decides to develop its hotel business, we may be exposed to risks which may include, among others: construction delays and cost overruns which may increase the cost of the project; difficulties in obtaining zoning, occupancy and other required governmental permits and authorizations; strikes or other local labour issues; development fees incurred for projects that are not completed; significant investments with no immediate corresponding revenues; natural risks such as earthquakes, hurricanes, floods or fires which may negatively impact a resort; the ability to raise capital, including construction financing; and government restrictions with respect to the nature and size of a hotel project.

As a result of the foregoing, the Corporation cannot guarantee that any hotel development project would be completed on time or within the budget limits. In addition, there is a risk that the rate of return on investments will be inferior to the returns expected when the project is undertaken. Consequently, the results of operations from such hotel development could be negatively affected, which could in turn have a material adverse effect on the Corporation's business, financial position, liquidity, results of operations and prospects.

Economic and General Risks

The holiday travel industry is sensitive to global, national, regional and local economic conditions. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. To date, signs of recovery in the tourism industry are weak for the destinations served by the Corporation, and financial markets could continue their negative economic growth.

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

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

Competition Risks

Regardless of the risks arising from the transaction with Air Canada, Transat operates in an industry in which competition has always been intense. Air carriers and tour operators have expanded their presence in markets long served by Transat. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. The Corporation could thus be unable to compete successfully against existing or potential competitors, and intense competition could have a material adverse effect on its operations, prospects, revenues and profit margin.

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

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

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

Reputation Risk

The ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control, such as the COVID-19 pandemic, will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

In addition, the market and travellers are increasingly demanding that a public company, such as Transat, be recognized as a socially responsible company in all respects. Over the years, the Corporation has adopted multiple measures to obtain such recognition, including its Travelife certification program, its agreement with SAF+ Consortium, its new fleet of more efficient, less polluting Airbus A321neoLR aircraft, its support for local populations in the countries in which the Corporation operates, and its ISO and LEED certifications. Despite these initiatives, it is possible that, in the eyes of certain organizations, institutions or shareholders, the Corporation may not fully meet the definition of a socially responsible company, which could also tarnish the Corporation's reputation.

Financial Risks

The travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, comparisons of our operating results between quarters or between six-month periods are not necessarily meaningful and should not be relied on as indicators of future performance. Furthermore, due to the economic and general factors described herein, as well as those discussed in the Risks section in relation to COVID-19, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

The availability of financing under our existing credit facilities is subject to compliance with certain financial ratios and conditions. There can be no guarantee that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

Transat is particularly exposed to fluctuations in fuel costs. Due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any such fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

Transat has significant non-cancellable lease obligations relating to its aircraft fleet. If revenues from aircraft operations were to decrease, the payments to be made under our existing lease agreements could have a substantial impact on our business.

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

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

As a Corporation that processes information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

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

KEY SUPPLIES AND SUPPLIER RISKS

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

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

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

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

AVIATION RISKS

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

Cyber Attack Risks

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

Despite our efforts to protect against unauthorized access to our systems and sensitive information, due to the scope and complexity of their information technology structure, our reliance on third parties to support and protect our structure and data, and a constantly evolving cyber threat environment, our systems and those of third parties we rely on are subject to disruptions, failures, unauthorized access, cyber terrorism, employee errors, negligence, fraud or other misuse. In addition, given the sophistication of hackers to gain unauthorized access to our sensitive information, we may be unable to detect the violation for long periods of time, or even not at all. Such events, whether accidental or intentional, could result in the theft, unauthorized access or disclosure, loss, misuse or unlawful use of customer data that could damage our reputation, disrupt our services or result in business loss, as well as repair and other costs, fines, investigations, legal actions or proceedings. As a result, future incidents could have a material adverse effect on the Corporation, including our business, financial condition, liquidity and operating results.

Regulatory Risks

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

In the fight against climate change, the International Civil Aviation Organization (ICAO) has established an international model whereby taxes would be imposed on greenhouse gas emissions to offset emissions. For domestic air travel, the federal government plans to introduce new legislation that would be accompanied by regulations to implement a carbon pricing system. In particular, this could require the Corporation's airline to use a minimum percentage of sustainable clean fuel. The impact of this new legislation on the aviation industry is not clear at this time, nor the potential financial implications for Air Transat. However, if this legislation does materialize, additional costs could result, which the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

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

Lastly, as previously described in the Risks Related to the Transaction with Air Canada section, Air Canada's acquisition of the issued and outstanding shares of Transat is subject to regulatory approval. To date, there can be no assurance that the acquisition would be carried out or would be carried out in accordance with terms and conditions imposed by the regulators.

Human Resource Risks

Labour costs constitute one of Transat's largest operating cost items. There can be no assurance that Transat will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial position.

The Corporation's ability to achieve its business plan is a function of the experience of its key executives and employees, and their expertise in the tourism, travel and air carrier industries. The loss of key employees could adversely affect our business and operating results. Further, our recruitment program, salary structure, performance management programs, succession plan, retention plan, as well as our training plan carry risks that could have adverse effects on our ability to attract and retain the skilled resources needed to sustain the Corporation's growth and success. Retention risk is all the more likely amid the COVID-19 pandemic, which is putting strong pressure on all of the Corporation's employees, given the outlook of a very slow recovery in the tourism industry.

As at October 31, 2020, the Corporation had 5,100 employees, nearly 75% of whom were inactive as at that date. Canadian employees, both active and inactive, benefit from employee assistance programs subsidized by the Canadian government. The Corporation's Air Transat subsidiary is the only subsidiary with unionized employees, who are governed by six collective agreements, three of which will expire in 2021 and two in 2022. The Air Line Pilots Association agreement, which expired on May 1, 2020, has been extended for a one-year term until April 30, 2021. Furthermore, it is possible that negotiations to renew these collective agreements could give rise to work stoppages or slowdowns or higher labour costs in the coming years that could unfavourably impact our operations and operating income.

Insurance Coverage Risks

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

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

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

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

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

11. CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2020.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2020 that materially affected the Corporation's ICFR.

12. OUTLOOK

Impact of the coronavirus on outlook – In the current situation, it is 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 this MD&A for a more detailed discussion of the main risks and uncertainties facing the Corporation.

Consequently, for the time being, the Corporation is providing no outlook for winter 2021.

MANAGEMENT'S REPORT

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

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

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

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

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer

Denis Pétrin
Vice-President, Finance and Administration
and Chief Financial Officer