

Reject

Mach's Scheme

Transat's Board unanimously recommends that shareholders **REJECT Mach's Scheme and VOTE IN FAVOUR** of the Arrangement

REJECT Mach's Scheme and VOTE IN FAVOUR of the Arrangement with Air Canada.

Use only your **MANAGEMENT FORM OF PROXY** or **MANAGEMENT VOTING INSTRUCTION FORM** to **VOTE IN FAVOUR** of the Arrangement involving **TRANSAT A.T. INC.** and **AIR CANADA**.

DO NOT COMPLETE, SIGN, DATE AND RETURN THE BLUE LETTER OF TRANSMITTAL SENT BY MACH.

NO ACTION IS REQUIRED TO REJECT MACH'S SCHEME. If you have already deposited your Class B voting shares with Mach, you can reverse this by withdrawing your Class B voting shares by contacting your broker.

For assistance, contact:



North American Toll Free: 1-888-518-1552
Email: contactus@kingsdaleadvisors.com
Outside North America Collect Call: 1-416-867-2272

**VOTE FOR CERTAINTY OF VALUE WITH
SIGNIFICANT PREMIUM RESULTING FROM
A ROBUST SALE PROCESS**



LETTER TO SHAREHOLDERS

Dear Shareholders:

The board of directors (the "Board") of Transat A.T. Inc. ("Transat"), after careful consideration of its terms and other relevant circumstances and factors with the benefit of its financial and legal advisors, has unanimously and categorically determined, upon the unanimous recommendation of the special committee composed only of independent directors of Transat (the "Special Committee"), to REJECT Group Mach Acquisition Inc.'s ("Mach") highly abusive, coercive, misleading and conditional unsolicited offer to purchase 6.9 million Class B voting shares, representing approximately 19.5% of all issued and outstanding Class B voting shares of Transat, for cash consideration of \$14 for each Class B voting share (the "Scheme"), including because: (a) the Scheme is a "bait and switch" tactic which subverts shareholder protections under securities laws; (b) the Scheme breaches fundamental securities laws principles; and (c) the Scheme interferes with contractual relations governing the proposed plan of arrangement (the "Arrangement") with Air Canada that are in the best interest of all Transat's stakeholders. Accordingly, the Board will vigorously challenge Mach and its Scheme in the appropriate forums. Until these proceedings are concluded, the Board urges shareholders not to deposit their Class B voting shares to avoid the prejudicial consequences that the Scheme would have on them, as well as on all Transat's stakeholders.

The Board's rejection of Mach's highly abusive, coercive, misleading and conditional Scheme is also based on the following:

- The Scheme is designed to provide Mach with the ability to vote Class B voting shares without paying for that right and without providing depositing shareholders any certainty that their Class B voting shares will be taken-up and paid for at all.
- Mach's Scheme is prejudicial to shareholders and designed to create time pressure and a false sense of uncertainty and risk in order to push shareholders to act quickly and contrary to their own interests as well as to those of Transat's stakeholders, without fully disclosing the risks and adverse effects on them of doing so.
- Mach falsely claims that its bid, compared to Air Canada's offer, is a premium offer which is blatantly wrong given in particular that it is not an offer for 100% of the voting shares of Transat like the proposed Arrangement with Air Canada and that its Scheme would leave shareholders with up to 80% (or more in certain cases) of their Class B voting shares exposed to those market and value fluctuations and risks that would follow if the Arrangement with Air Canada is rejected.
- Mach intends to misuse dissent rights of depositing shareholders.
- Mach's multiple and changing proposals over time, including this Scheme, have each failed to set out any business plan for Transat, precluding any assessment of the impact of the proposals and Scheme on Transat's business and stakeholders.

NO ACTION IS REQUIRED TO REJECT MACH'S SELF-SERVING SCHEME.

By now, you have likely received materials from Mach asking you to deposit your Class B voting shares to this Scheme. The Board recommends:

- ✘ that you REJECT the Scheme and NOT DEPOSIT your Class B voting shares to the Scheme; and
- ✓ that you vote your Class B voting shares IN FAVOUR of the resolution approving the Arrangement with Air Canada at the special meeting of Transat to be held on August 23, 2019 (the "Meeting").

While the Board is defending shareholders by challenging Mach's Scheme before Tribunal Administratif des marchés financiers on the basis that it violates fundamental securities law principles, we want to make sure shareholders have all

the facts before the tribunal may intervene. Mach's Scheme and concurrent proxy solicitation efforts are the latest in a series of public actions taken by it to disrupt an orderly process undertaken by the Board in the best interests of Transat and its stakeholders, a process in which Mach has systematically refused to participate. Notably, the Board believes the Scheme disenfranchises shareholders by:

- inducing them to deposit their Class B voting shares and concurrently to grant proxies in favour of Mach for all deposited Class B voting shares, irrespective of the number of Class B voting shares, if any, that may ultimately be taken-up and paid for; and
- having those proxies used to vote against the proposed Arrangement with Air Canada at the Meeting, and without any disclosure regarding Mach's plans and intentions for Transat and its shareholders.

In simple terms, this means Mach will be able to take control of your Class B voting shares to derail the Arrangement with Air Canada without ever having to pay you.

The Board is highly concerned by the fact that shareholders will only find out after the Meeting whether Mach will actually take up and pay for any of the Class B voting shares deposited which it will have already voted on their behalf. Effectively, Mach's Scheme is designed to subvert the legitimate mechanisms and framework that protect the interests of shareholders by which a bidder in good faith can make a competing proposal or launch a take-over bid. It is no more than a "bait and switch" tactic to allow it to benefit from the voting rights of all the Class B voting shares deposited under its Scheme while potentially paying for none or only some of them, given the broad and discretionary conditions it has written for itself under the Scheme. Mach's Scheme is a thinly veiled "free option" to vote the Class B voting shares in their favour. The Board considers the Scheme to be highly coercive since Transat's shareholders are not able, from a practical standpoint, to revoke their proxies in favour of Mach with respect to Class B voting shares not taken up and paid for, and there are several misleading statements in the documents publicly filed by Mach with respect to the Scheme.

In making their determinations and unanimous recommendations to REJECT the Scheme and to support the Arrangement with Air Canada, the Board and the Special Committee have considered and relied upon a number of substantive factors, including the following:

1. False claims of a premium offer: Mach's Scheme purports to offer a premium which will however be paid, if at all, on a limited number of voting shares and only on up to 19.9% of all outstanding Class B voting shares. Shareholders face a significant risk of receiving the price offered by Mach for only a fraction and not all of their Class B voting shares, with no premium on the remainder. As a result, shareholders will be left holding those remaining Class B voting shares and be exposed to significant market risk under the newly acquired influence and control of Mach. In assessing these risks, it is important to note that Mach, which has no expertise in the highly complex and competitive airline industry, has not set out any business plan for Transat. Put simply, the Scheme contemplates that if all Class B shareholders were to deposit their Class B voting shares, a depositing shareholder who held 100 Class B voting shares would receive \$14 per Class B voting share for 19 Class B voting shares and the remaining 81 Class B voting shares would be returned to such depositing shareholder, thereby leaving the depositing shareholder with no guarantee of any future liquidity and exposing such depositing shareholders to significant downside risk regarding the future value of these 81 remaining Class B voting shares.
2. Not a comparable, viable or superior alternative: The Scheme is a partial bid for 6.9 million Class B voting shares only and therefore does not represent a comparable, viable alternative providing liquidity to all shareholders of Transat, as compared with the proposed Arrangement with Air Canada which provides liquidity to all shareholders and for all their voting shares of Transat. The purpose of Mach's Scheme is solely to vote down the proposed Arrangement with Air Canada without paying all shareholders a control premium for Transat and with no other disclosed plans or objectives for the future of Transat and its shareholders. The Scheme is intended to create uncertainty and risk to entice shareholders to act quickly and contrary to their own interests.
3. Mach is trying to secure voting rights for free: Mach has designed a Scheme that allows it to obtain all of the voting rights of shareholders who deposit their Class B voting shares, even though Mach has not committed to purchase all or even any of those Class B voting shares after the Meeting. For example, if 100% of outstanding Class B voting shares were to be deposited, Mach would obtain voting rights for 100% of the Class B voting shares but only up to 19.9% of the deposited Class B voting shares could possibly be taken-up and paid for under the Scheme, thereby

leaving the remaining Class B voting shares (at least 80.1%) returned to shareholders and thereafter valued, together with all of the outstanding Class A variable voting shares, at the market price that would prevail after the proposed Arrangement with Air Canada was rejected. Mach could therefore possibly unilaterally determine the outcome of the Arrangement with Air Canada and obtain significant control or influence over Transat without paying any control premium to all shareholders, without paying any amount for the voting rights obtained in respect of Class B voting shares that they have not paid for, and in the event that any of the discretionary conditions of the Scheme were not to be met and Mach withdrew it, possibly without paying any amount at all.

4. Terms are highly conditional: The Scheme can be withdrawn, modified or extended for any reason and at any time. This is because Mach's conditions for the Scheme are extremely broad and discretionary in its favour. Furthermore, Mach has no obligation under the Scheme to acquire any deposited Class B voting shares if less than 19.5% of the total Class B voting shares are deposited or if the shareholders approve the proposed Arrangement with Air Canada. As a result, Mach could choose, shortly after having had the benefit of voting all deposited Class B voting shares (which it has disclosed it intends to do by voting against the proposed Arrangement with Air Canada at the Meeting in order to defeat it), to unilaterally withdraw the Scheme and pay for none of the very same Class B voting shares for which it will have just exercised voting rights.
5. Mach has no expertise in Transat's business and its intentions are unknown: Mach's multiple and changing proposals over time have failed to set out any business plan or vision for Transat. Shareholders should bear in mind when reading Mach's statements about Transat and its business and affairs that it has no expertise or experience in the highly complex and competitive airline industry and, to Transat's knowledge, is not currently a shareholder of Transat. In fact, Mach has expressed its principal interest in the foreign hotel business and not the airline business that secures thousands of quality jobs in Montreal. In addition, as described in the "Background" section of Transat's Management Proxy Circular dated July 19, 2019 for the approval of the Arrangement with Air Canada, Mach had many opportunities and ample time to put forward fair, fully funded and bona fide offers to the Board and its shareholders, and has failed to do so repeatedly, including with its latest Scheme. Based on the approach Mach has followed to date and the intentions it expressed in its Circular, it does not commit to purchasing, or even appear to have any serious intentions to acquire, all of Transat's outstanding voting shares. Accordingly, Mach's only clear objective is to freely acquire a voting and dissent position that would enable it to frustrate the superior Arrangement with Air Canada. If Mach's tactics result in the Arrangement with Air Canada being defeated, and Mach holding a significant block of Transat Class B voting shares, they will only have served to deter any future offers for Transat.
6. Not valid for all shareholders: Mach's Scheme is limited to the holders of Class B voting shares as of July 17, 2019, the record date to determine shareholders entitled to vote at the upcoming Meeting to approve the Arrangement with Air Canada (the "Record Date"). All Class B voting shares acquired after such date are not eligible to the Scheme. Additionally, Class A variable voting shares, whether or not they were held on the Record Date, are excluded from the Scheme. This stratagem to circumvent the right of the holders of Class A variable voting shares is another demonstration that Mach's Scheme is unfair and abusive and does not provide equal treatment to all shareholders of Transat.
7. Coercive time frame: Mach's Scheme was filed on a Friday afternoon, August 2, 2019, giving shareholders who wish to accept the Scheme only until August 13, 2019, 5:00 p.m. to deposit their Class B voting shares. This leaves shareholders only 6 business days to consider the Scheme, forcing them to act quickly, before all the implications of the Scheme and the prejudice to them becomes clear. In addition, in the event the Scheme is varied or amended, while the proxies and Class B voting shares deposited will remain valid, Mach will not be required to extend the Scheme to give shareholders additional time to review the variation or amendment and potentially withdraw their proxies and Class B voting shares.
8. No evidence or certainty of sources of funding: Mach has not disclosed any sources of financing that will enable it to fund the Scheme. At no point has Mach, a private corporation with no transparency as to its financial position or wherewithal, provided any evidence of adequate sources of financing and its ability to fund any of the proposals that it has made to Transat, its Board or its shareholders. Mach has previously made proposals conditional on financing, which condition was subsequently publicly withdrawn, without, in each case, publicly disclosing or providing Transat with any proof of financial capacity. This provides no assurance of Mach's ability to acquire Transat voting shares and

it betrays its motives for structuring the Scheme as a free option over voting shares with no commitment to acquire them at all.

9. The terms of the Scheme do not comply with take-over bid protections: Mach's Scheme avoids shareholders protections provided by Canadian take-over bid rules, exposing shareholders to its highly abusive, coercive, misleading and conditional terms and the resulting prejudice. In particular, Mach's Scheme:
 - o is not subject to a minimum tender period;
 - o does not require Mach to provide the information that would be required in formal take-over bid documents, such as information about its source of funds, the purpose of the bid, its intentions regarding any subsequent transaction and the identity of its controlling shareholders and those persons with whom it is acting jointly and in concert;
 - o does not provide shareholders with the right to withdraw Class B voting shares deposited under the Scheme in certain circumstances, including at any time within 10 days after a variation or amendment in the terms of the Scheme;
 - o is not subject to a requirement that Class B voting shares may not be acquired by Mach under the Scheme unless more than 50% of the outstanding voting shares, excluding any owned or controlled by Mach and its joint actors, have been deposited under the Scheme and not withdrawn;
 - o is not required to be extended for a 10-day period after Mach is required to take up Class B voting shares under the Scheme; and
 - o is not subject to a requirement that Mach shall have made adequate arrangements before undertaking the Scheme to ensure that the required funds are available to make full payment for the Class B voting shares Mach has offered to acquire.
10. Misuse of Dissent Rights. Mach intends to exercise dissent rights on behalf of depositing shareholders in order to derail the Arrangement with Air Canada. If the Arrangement with Air Canada was nonetheless approved, Mach states that shareholders could thereafter withdraw those dissents. Mach's intention is plainly a subversion and misuse of dissent rights which are meant to be bona fide remedies to protect shareholders in fundamental transactions, rather than being diverted to defeat a transaction.
11. Rigorous sale process: Transat conducted a very rigorous and diligent process supported by financial and legal advisors over a period of approximately 6 months. Transat entered into customary, exclusive negotiations with Air Canada at an appropriate time and for valid business reasons, something that Mach purportedly sought to secure for itself, even as it refused to sign a confidentiality and standstill agreement, which is a normal prerequisite for doing so and which Air Canada had agreed to do. Mach disingenuously complains that Transat's Board was improperly ignoring it. However, Transat did not respond to Mach's proposal dated June 25, 2019 due to the terms of its binding and customary exclusivity agreement with Air Canada. Nevertheless, this is not the only reason why the Board continued to pursue and eventually agreed to a transaction with Air Canada. As mentioned in the Management Proxy Circular, the Board had decided not to withdraw from negotiations with Air Canada because the proposal made by Mach on June 25, 2019 was highly conditional and subject to due diligence, and Mach has no previous airline experience nor hotel management expertise in southern destinations and had not provided proof of financial capacity. No business plan from Mach was ever provided to Transat or its advisors despite the several requests made to such effect. Furthermore, the Mach proposal required immediate termination of the discussions with Air Canada, which would have risked the withdrawal of Air Canada's proposal. The Air Canada proposal ultimately accepted by Transat permitted Mach to make a superior proposal, which is something Mach declared itself unwilling to make in its July 9, 2019 press release as it repeatedly attempts to design its own rules to obfuscate its intentions and the adverse effect on shareholders.

TRANSAT BOARD WILL DEFEND SHAREHOLDERS FROM MACH'S SCHEME THAT IS CONTRARY TO FUNDAMENTAL SECURITIES LAW PRINCIPLES

The Board is vigorously challenging the Scheme before the Tribunal Administratif des marchés financiers and is reviewing all potential recourses on the basis that the Scheme is contrary to corporate and securities law principles, exposing shareholders to considerable prejudice, and strongly urges Transat's shareholders against depositing their Class B voting

shares under the Scheme. Shareholders should consult Transat's Management Proxy Circular dated July 19, 2019 for further details of the reasons supporting the determinations and unanimous recommendations of the Board and the Special Committee with respect to the Arrangement with Air Canada, as well as other details regarding the background to the Arrangement and prior approaches and proposals made by Mach.

The Board, upon the unanimous recommendation of the Special Committee, unanimously reiterates that the Arrangement with Air Canada is in the best interests of Transat and its stakeholders and is fair to its shareholders, and unanimously recommends that shareholders:

- ✘ TAKE NO ACTION and DO NOT DEPOSIT their Class B voting shares in response to Mach's Scheme; and
- ✓ vote FOR the special resolution approving the Arrangement with Air Canada.

The Arrangement with Air Canada enables shareholders to realize significant value based on the key benefits:

- 156% premium to the unaffected 30-day weighted average voting share price FOR ALL VOTING SHARES;
- 79% premium to the unaffected broker consensus share price FOR ALL VOTING SHARES;
- One of the highest normalized valuation multiple paid in an airline M&A; and
- Approximately double the percentage premium that WestJet shareholders will receive from the sale to Onex.

REJECT MACH'S SCHEME AND VOTE TO APPROVE THE ARRANGEMENT WITH AIR CANADA.

Use only your MANAGEMENT FORM OF PROXY or MANAGEMENT VOTING INSTRUCTION FORM to vote IN FAVOUR of the Arrangement with Air Canada.

DO NOT COMPLETE, SIGN, DATE AND RETURN THE BLUE LETTER OF TRANSMITTAL SENT BY MACH

If you have any questions or require assistance with voting your voting shares by proxy, please contact our strategic shareholder advisor and proxy solicitation agent at:



North American Toll Free: 1-888-518-1552
Email: contactus@kingsdaleadvisors.com
Outside North America Collect Call: 1-416-867-2272

Montréal, Québec, August 6, 2019.

Yours truly,

Transat A.T. Inc.

A handwritten signature in blue ink, appearing to read 'J.M. Eustache'.

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

A handwritten signature in black ink, appearing to read 'Jean-Yves Leblanc'.

Jean-Yves Leblanc
Chairman of the Special Committee

QUESTIONS? NEED HELP VOTING?

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