TRANSAT A.T INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2021

Investor Relations
M. Denis Pétrin
Chief Financial Officer
investorrelations@transat.com

Ticker symbol
TSX: TRZ

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended January 31, 2021, compared with the quarter ended January 31, 2020, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2020 and the accompanying notes and the 2020 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first-quarter update to the information contained in the MD&A section of our 2020 Annual Report. The risks and uncertainties set out in the MD&A of the 2020 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of March 10, 2021. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended January 31, 2021 and the Annual Information Form for the year ended October 31, 2020.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

As at January 31, 2021, there exists material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. The Financial position, liquidity and capital resources section of the MD&A and note 2 to the interim condensed consolidated financial statements contain more detail on this issue.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. The Corporation currently expects to resume its operations during the high summer season, that is, around mid-June. 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 availability of a vaccine makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023, in the best case scenario.

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

This MD&A also contains certain forward-looking statements about the Corporation concerning a transaction involving the acquisition of all the shares of the Corporation by Air Canada. 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, mainly that of the European Union, which is pending. On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada with regards to European Union antitrust regulations. The transition to Phase II is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval when it is concerned that a transaction may effectively reduce competition. The European Commission released on September 28, 2020 a statement of objections to the arrangement. 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. The Commission has requested additional information from the parties and discussions are still underway. A decision is now expected only in the first half of 2021. The outcome of the approval process remains uncertain owing to the factors that could influence it. Moreover, it is far from certain that the decision rendered will be favourable, despite the approval by the Canadian authorities.

Since the outside date has passed without obtaining the approval of the Commission and given that Air Canada has indicated that it will not agree to an extension of the outside date, each of the parties are currently entitled to terminate the arrangement Agreement upon simple notice. There are no assurances that the arrangement will be completed on the terms and conditions described in the arrangement Agreement 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. Transat has also incurred significant transaction and related costs in connection with the transaction proposed under the arrangement, and additional significant or unanticipated costs may be incurred.

Moreover, although the Corporation has been able to extend the maturity of its new subordinated short-term credit facility and to extend the suspension of financial ratios under its senior revolving credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated by the end of the first half of 2021. In particular, the new short-term loan facility matures on the earlier of June 30, 2021 and the closing of the arrangement. Furthermore, the temporary suspension of the application of certain financial ratios under both the Corporation's revolving credit facility and the new short-term loan facility expires on April 29, 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 required approval by the Commission is not obtained and the arrangement is not consummated by the end of the first half of 2021, 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.

This MD&A contains statements relating to the active steps taken to secure long-term financing to cover, in the absence of the transaction with Air Canada, needs of at least $500.0 million, including under the Large Employer Emergency Financing Facility (LEEFF) program. The outcome of these steps is not guaranteed and there can be no assurance that Transat will be able to secure one or more financing facilities for the required funds or on favourable terms. In the case of the LEEFF program, the ability to make use of the program will depend on its availability, the ability to meet the prerequisite conditions, acceptability of the financial terms and other conditions related to financing under the program for the Corporation and for the lenders and creditors who will be called upon to subordinate their debt to the amounts borrowed under the program. The required conditions could include the issuance of voting and participating shares that could cause dilution to existing shareholders and such dilution could be material. These factors could also be relevant for financing secured through sources other than the LEEFF.

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, subject to obtaining additional financing as discussed in the Basis of Preparation and Going Concern Uncertainty section in 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 refunded 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 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.

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)	Quarters ended January 31 2021 $	2020 $
Operating income (loss)	**(98,048)**	(25,066)
Special items	**6,926**	4,174
Depreciation and amortization	**37,490**	48,285
Adjusted operating income (loss)	**(53,632)**	27,393
Income (loss) before income tax expense	**(60,305)**	(43,964)
Special items	**6,926**	4,174
Change in fair value of fuel-related derivatives and other derivatives	**(5,196)**	10,784
Gain on asset disposals	**(17,372)**	—
Foreign exchange (gain) loss	**(32,873)**	3,488
Adjusted pre-tax income (loss)	**(108,820)**	(25,518)
Net income (loss) attributable to shareholders	**(60,534)**	(33,805)
Special items	**6,926**	4,174
Change in fair value of fuel-related derivatives and other derivatives	**(5,196)**	10,784
Gain on asset disposals	**(17,372)**	—
Foreign exchange (gain) loss	**(32,873)**	3,488
Tax impact	**—**	(4,944)
Adjusted net income (loss)	**(109,049)**	(20,303)
Adjusted net income (loss)	**(109,049)**	(20,303)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,747**	37,747
Adjusted net income (loss) per share	**(2.89)**	(0.54)

	As at January 31, 2021 $	As at October 31, 2020 $
Long-term debt	**49,983**	49,980
Lease liabilities	**852,959**	853,906
Total debt	**902,942**	903,886
Total debt	**902,942**	903,886
Cash and cash equivalents	**(302,846)**	(426,433)
Total net debt	**600,096**	477,453

FINANCIAL HIGHLIGHTS

				Quarters ended January 31
(in thousands of Canadian dollars, except per share amounts)	2021 $	2020 $	Difference $	Difference %
Consolidated Statements of Income (Loss)				
Revenues	**41,920**	692,799	(650,879)	(93.9)
Operating income (loss)	**(98,048)**	(25,066)	(72,982)	(291.2)
Net income (loss) attributable to shareholders	**(60,534)**	(33,805)	(26,729)	(79.1)
Basic earnings (loss) per share	**(1.60)**	(0.90)	(0.70)	(77.8)
Diluted earnings (loss) per share	**(1.60)**	(0.90)	(0.70)	(77.8)
Adjusted operating income (loss)(1)	**(53,632)**	27,393	(81,025)	(295.8)
Adjusted net income (loss)(1)	**(109,049)**	(20,303)	(88,746)	(437.1)
Adjusted net income (loss) per share(1)	**(2.89)**	(0.54)	(2.35)	(435.2)
Consolidated Statements of Cash Flows				
Operating activities	**(106,295)**	173,207	(279,502)	(161.4)
Investing activities	**(1,874)**	(33,098)	31,224	94.3
Financing activities	**(15,143)**	(24,066)	8,923	37.1
Effect of exchange rate changes on cash and cash equivalents	**(275)**	1,294	(1,569)	(121.3)
Net change in cash and cash equivalents	**(123,587)**	117,337	(240,924)	(205.3)

	As at January 31, 2021 $	As at October 31, 2020 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**302,846**	426,433	(123,587)	(29.0)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**305,276**	308,647	(3,371)	(1.1)
	608,122	735,080	(126,958)	(17.3)
Total assets	**1,879,237**	2,016,071	(136,834)	(6.8)
Debt (current and non-current)	**49,983**	49,980	3	0.0
Total debt(1)	**902,942**	903,886	(944)	(0.1)
Total net debt(1)	**600,096**	477,453	122,643	25.7

1 See non-IFRS financial measures

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 and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. The Corporation currently expects to resume its operations during the high summer season, that is, around mid-June. 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 availability of a vaccine makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023, in the best case scenario.

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

- During the quarter ended January 31, 2021, two Airbus A330s and one Boeing 737-800 were returned to lessors early.

- The Corporation continuously adjusts its flight program as the situation evolves. Before the suspension of its airline operations on January 29, 2021, Transat offered a reduced winter program of international flights departing from Montréal, Toronto and Québec City.

- The Corporation is negotiating with its suppliers, including aircraft lessors to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.

- The Corporation is continuing to make use of the Canada Emergency Wage Subsidy ("CEWS") for its Canadian workforce, which enabled it to finance part of the salaries of its staff still at work and to propose employees temporarily laid off to receive a part of their salary equivalent to the amount of the grant received, with no work required.

- On February 17, 2021, the Corporation amended its $250.0 million subordinated short-term credit facility for operating purposes with Export Development Canada and National Bank of Canada as the main arranger. This credit facility may be drawn down in tranches at any moment prior to May 31, 2021, subject to certain pre-requisites and borrowing requirements. These conditions include certain requirements relating to unrestricted cash before and after a drawdown on the facility. The subordinated short-term credit facility will mature at the earliest date between June 30, 2021 and the closing of the arrangement with Air Canada.

- The Corporation is actively continuing its efforts to obtain additional long term financing covering, in the absence of a transaction, needs of at least $500.0 million, including under the Large Employer Emergency Financing Facility (LEEFF) program.

- As at January 31, 2021, cash and cash equivalents amounted to $302.8 million.

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.

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

DEFINITIVE ARRANGEMENT AGREEMENT

On October 9, 2020, 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 per 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 Montreal. 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 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.

At the special meeting of shareholeds held on December 15, 2020, a strong majority of shareholders voted in favour of the special resolution approving the arrangement under the terms of the arrangement agreement. On December 18, 2020, the Superior Court of Québec issued a final order approving the arrangement agreement.

On February 11, 2021, the Canadian government authorized the arrangement with Air Canada. This authorization is subject to the implementation of significant undertakings agreed to by Air Canada, the object of which is firstly to ensure effective competition, and secondly to ensure public interest benefits (including maintaining a Transat head office in Québec, the preservation of jobs and the Transat brand, and the launch of new routes).

The completion of the transaction with Air Canada is subject to customary closing conditions, which includes mainly the approval by the European Commission [the "Commission"]. The process for obtaining the Commission's approval has been complicated by the COVID-19 pandemic and its impacts on the international commercial aviation market while the vast majority of North American, European and international air carriers have requested financial assistance measures and implemented reductions in capacity. The Commission has requested additional information from the parties and discussions are still underway. A decision is now expected only in the first half of 2021. The outcome of the approval process remains uncertain owing to the number of factors that could influence it. Moreover, it is far from certain that the decision rendered will be favourable.

The outside date for the closing of the arrangement [the "outside date"] was set at February 15, 2021 and has now passed. As the outside date has passed without the approval of the Commission, the Corporation has been informed by Air Canada that Air Canada will not agree to an extension of the outside date. Under these circumstances, each of Transat and Air Canada are currently entitled to terminate the arrangement agreement upon notice to the other party. The arrangement agreement remains in effect in accordance with all of its terms until terminated by either party. There can be no assurance that Air Canada or Transat will not terminate the arrangement agreement if the circumstances so warrant.

Also, the Corporation has confirmed receipt of an offer, on December 22, 2020, by Gestion MTRHP inc., Mr. Pierre Karl Péladeau's investment firm, to acquire the shares of Transat A.T. Inc. at a price of $5.00 per share, that would remain open until the authorization of the arrangement with Air Canada by the Commission or for a period of 24 hours after the potential rejection of the arrangement by the Commission. However, no evidence of binding, fully committed financing has been provided. The provisions of the arrangement agreement does not allow the Corporation to discuss alternative offers with other parties. The Corporation could undertake discussions with Gestion MTRHP inc., only after the termination of the arrangement agreement.

The hotel development strategy and related objectives were 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 Corporation is currently considering different options for its hotel strategy.

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. These two circulars are available at www.sedar.com under Transat's profile.

CONSOLIDATED OPERATIONS

	Quarters ended January 31			
(in thousands of dollars)	2021 $	2020 $	Difference $	Difference %
Revenues	**41,920**	692,799	(650,879)	(93.9)
Operating expenses				
Costs of providing tourism services	**10,019**	235,463	(225,444)	(95.7)
Aircraft fuel	**7,548**	103,539	(95,991)	(92.7)
Salaries and employee benefits	**28,212**	103,003	(74,791)	(72.6)
Sales and distribution costs	**1,948**	51,894	(49,946)	(96.2)
Aircraft maintenance	**16,448**	50,354	(33,906)	(67.3)
Airport and navigation fees	**4,790**	37,996	(33,206)	(87.4)
Aircraft rent	**—**	9,072	(9,072)	(100.0)
Other airline costs	**8,330**	50,238	(41,908)	(83.4)
Other	**15,677**	23,916	(8,239)	(34.4)
Share of net income of a joint venture	**2,580**	(69)	2,649	(3,839.1)
Depreciation and amortization	**37,490**	48,285	(10,795)	(22.4)
Special items	**6,926**	4,174	2,752	65.9
	139,968	717,865	(577,897)	(80.5)
Operating income (loss)	**(98,048)**	(25,066)	(72,982)	(291.2)
Financing costs	**19,145**	10,087	9,058	89.8
Financing income	**(1,447)**	(5,461)	4,014	(73.5)
Change in fair value of fuel-related derivatives and other derivatives	**(5,196)**	10,784	(15,980)	(148.2)
Gain on asset disposals	**(17,372)**	—	(17,372)	100.0
Foreign exchange (gain) loss	**(32,873)**	3,488	(36,361)	(1,042.5)
Income (loss) before income tax expense	**(60,305)**	(43,964)	(16,341)	(37.2)
Income taxes (recovery)				
Current	**123**	(1,890)	2,013	106.5
Deferred	**75**	(9,112)	9,187	100.8
	198	(11,002)	11,200	101.8
Net income (loss) for the period	**(60,503)**	(32,962)	(27,541)	(83.6)
Net income (loss) attributable to:				
Shareholders	**(60,534)**	(33,805)	(26,729)	(79.1)
Non-controlling interests	**31**	843	(812)	(96.3)
	(60,503)	(32,962)	(27,541)	(83.6)

REVENUES

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

Compared with 2020, revenues were down $650.9 million (93.9%) for the quarter ended January 31, 2021. Starting in mid-March 2020, restrictions on international travel and government-imposed quarantine measures made travel sales very difficult. Demand remained very weak due to the COVID-19 pandemic with the Corporation's capacity representing a fraction of the 2020 first quarter level. These factors caused the fall in revenues.

OPERATING EXPENSES

Total operating expenses for the quarter declined $577.9 million (80.5%) compared with 2020. This decrease was attributable to the significant reduction in capacity deployed due to demand well below the last year's level following the COVID-19 pandemic.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2020, these costs were down $225.4 million (95.7%) for the quarter. This decrease resulted primarily from a sharp decline in the number of packages sold compared with 2020 due to the COVID-19 pandemic.

AIRCRAFT FUEL

Aircraft fuel expense was down $96.0 million (92.7%) for the quarter. This decrease was mainly attributable to the significant reduction in capacity deployed due to the COVID-19 pandemic.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were down $74.8 million (72.6%) for the quarter, compared with 2020. The decrease resulted from significant temporary layoffs. In addition, the Corporation made use of the CEWS for its Canadian workforce and accordingly an amount of $11.7 million was recognized during the quarter related to the active employees. Lastly, an amount of $21.7 million was recorded during the quarter for inactive employees, which corresponds to the salaries paid to them.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Compared with 2020, these costs decreased by $33.9 million (67.3%) for the quarter. 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 2020, these costs decreased by $33.9 million (67.3%) for the quarter. This decrease was mainly attributable to the significant reduction in capacity deployed due to the COVID-19 pandemic.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees decreased by $33.2 millions (87.4%) for the quarter, compared with 2020. This decrease was attributable to the significant reduction in capacity deployed due to the COVID-19 pandemic.

AIRCRAFT RENT

Aircraft rent was down $9.1 million (100.0%) for the quarter. As part of its cost reduction program and in connection with the significant reduction in capacity deployed due to the COVID-19 pandemic, the Corporation did not enter into leases for a seasonal fleet in winter 2021.

OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were down $41.9 million (83.4%) for the quarter, compared with 2020. This decrease was attributable to the sharp decline in our capacity following the COVID-19 pandemic.

OTHER

Other expenses were down $8.2 million (34.4%) for the quarter, compared with 2020. 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 for the first quarter totalled $2.6 million, compared with a $0.1 million share of net income for the corresponding quarter of 2020. Operations at our hotel joint venture were substantially scaled down due to the COVID-19 pandemic. Moreover, certain assets were impaired during the first quarter of 2021.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was down $10.8 million (22.4%) in the first quarter, compared with 2020. The decrease was due primarily to the decline in the carrying amount of right-of-use assets related to the fleet. During the last quarter of 2020, the carrying amount of right-of-use assets related to the fleet declined following the recognition of impairment charges in respect of 10 leased aircraft, namely five Airbus A330s, three Airbus A321ceos and two Boeing 737-800s, as well as the early return of three Boeing 737-800s and one Airbus A330. The lower amortization expense was partially offset by the commissioning of one Airbus A321neoLR in 2021 and four in 2020.

SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. For the quarter ended January 31, 2021, professional fees of $5.1 million and compensation expenses of $1.8 million were recorded in connection with the transaction with Air Canada. For the quarter ended January 31, 2020, professional fees of $1.2 million and compensation expenses of $3.0 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. 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 $4.58 as at January 31, 2021 was used to calculate expenses related to the stock-based compensation plans, when applicable.

Total arrangement costs incurred up to January 31, 2021 in connection with the transaction with Air Canada were $23.2 million compared to the estimate of $19.0 million as planned in the Management Proxy Circular dated November 12, 2020. The arrangement costs include legal and financial advisory fees, some of which are conditional on the closing of the transaction.

OPERATING RESULTS

Given the above, we recorded an operating loss of $98.0 million-for the first quarter, compared with $25.1 million (3.6%) in 2020. The significant decline in operating results was attributable to the significant reduction in capacity deployed due to the COVID-19 pandemic. Despite the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation had to maintain certain fixed costs; as a result, the fall in revenues was more pronounced than the decrease in operating expenses.

For the quarter, the Corporation recorded an adjusted operating loss of $53.6 million, compared with adjusted operating income of $27.4 million (4.0%) in 2020.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, as well as financial expenses. Financing costs increased by $9.1 million (89.8%) during the quarter, compared with 2020. The increase resulted mainly from standby and arrangement fees related to our $250.0 million subordinated short-term credit facility as well as interest on lease liabilities related to aircraft following the commissioning of an Airbus A321neoLR in 2021 and four in 2020.

FINANCING INCOME

Financing income was down $4.0 million (73.5%) during the quarter, compared with 2020, as a result of decreases in interest rates and cash and cash equivalents.

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

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives increased $5.2 million, compared with a $10.8 million decrease in 2020. The increase in the fair value of fuel-related derivatives and other derivatives was attributable to the maturing of fuel-related derivatives combined with the increase in their fair value. The increase was partially offset by the decline in fair value of foreign exchange derivatives.

GAIN ON ASSET DISPOSALS

The gain on asset disposals relates to asset disposals and lease terminations. During the quarter ended January 31, 2021, the $17.4 million gain was primarily attributable to the termination of aircraft leases for two Airbus A330s and one Boeing 737-800. The gain on termination of aircraft leases resulted from the reversal of lease liabilities of $13.2 million, the provision for return conditions of $3.9 million and other assets of $0.1 million. The carrying amount of right-of-use assets for these aircraft leases were fully impaired during the year ended October 31, 2020.

FOREIGN EXCHANGE LOSS (GAIN)

During the quarter, the Corporation recognized a $32.9 million foreign exchange gain, compared with a foreign exchange loss of $3.5 million in 2020. During the quarter, foreign exchange gain resulted mainly from the favourable exchange effect on lease liabilities related to aircraft, following the strengthening of the dollar against the U.S. dollar.

INCOME TAXES

Income tax expense for the first quarter amounted to $0.2 million, compared with an income tax recovery of $11.0 million for the corresponding quarter of last year. Excluding the share of net loss of a joint venture, the effective tax rate was 0.3% for the quarter, compared with 25.0% for the corresponding period of 2020.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the high level of uncertainty related to demand for the remaining part of fiscal 2020 and at least for fiscal 2021. Accordingly, during the quarter ended January 31, 2021, no deferred tax assets were recognized. For the quarter, the change in tax rate resulted primarily from the non-recognition of deferred tax assets in fiscal 2021.

NET LOSS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $60.5 million for the quarter ended January 31, 2021, compared with $33.0 million in 2020.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

Net loss attributable to shareholders amounted to $60.5 million or $1.60 per share (basic and diluted) compared with $33.8 million or $0.90 per share (basic and diluted) for the corresponding quarter of last year. For the first quarter of 2021 and the corresponding quarter of 2020, the weighted average number of outstanding shares used to compute per share amounts was 37,747,000 (basic and diluted).

For the first quarter, adjusted net loss was $109.0 million ($2.89 per share) compared with $20.3 million ($0.54 per share) in 2020.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

The increase in operating loss was mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 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)	Q2-2019 $	Q3-2019 $	Q4-2019 $	Q1-2020 $	Q2-2020 $	Q3-2020 $	Q4-2020 $	Q1-2021 $
Revenues	897,413	698,916	693,235	692,799	571,298	9,546	28,426	41,920
Operating income (loss)	(3,768)	1,728	37,072	(25,066)	(29,551)	(132,013)	(239,332)	(98,048)
Net income (loss)	631	(1,197)	22,820	(32,962)	(179,712)	(45,721)	(238,370)	(60,503)
Net income (loss) attributable to shareholders	(939)	(1,505)	23,049	(33,805)	(179,548)	(45,115)	(238,077)	(60,534)
Basic earnings (loss) per share	(0.02)	(0.04)	0.61	(0.90)	(4.76)	(1.20)	(6.31)	(1.60)
Diluted earnings (loss) per share	(0.02)	(0.04)	0.62	(0.90)	(4.76)	(1.20)	(6.31)	(1.60)
Adjusted operating income (loss)(1)	40,356	62,098	97,537	27,393	21,108	(79,941)	(90,735)	(53,632)
Adjusted net income (loss)(1)	(6,421)	6,166	30,065	(20,303)	(38,792)	(139,848)	(156,392)	(109,049)
Adjusted net income (loss) per share(1)	(0.17)	0.16	0.80	(0.54)	(1.03)	(3.70)	(4.14)	(2.89)

1 See non-IFRS financial measures

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

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

Due 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 $60.5 million for the first quarter ended January 31, 2021 and, as at that date, the Corporation's current liabilities exceeded the total of its current assets by $214.9 million. However, as it is described in note 9, the Corporation has a $250.0 million subordinated short-term credit facility. On February 17, 2021, the Corporation amended its subordinated short-term credit facility, extending its maturity to June 30, 2021. This credit facility may be drawn down in tranches at any moment prior to May 31, 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 temporary suspension of the application of financial ratios under the revolving credit facility and the short-term credit facility has been extended to April 29, 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. The short-term credit facility will mature at the earliest date between June 30, 2021 and the closing of the arrangement with Air Canada.

The Corporation is making every effort to complete the transaction with Air Canada. 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 additional financing before the maturity of the subordinated short-term credit facility (currently, the maturity date is June 30, 2021), either through new sources of financing, including the amendment and renewal of its subordinated short-term credit facility, 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 actively seeking to secure financing that would be required before the maturity of the subordinated short-term credit facility (currently, the maturity date is June 30, 2021) and is currently discussing with potential lenders, including federal and provincial 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 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.

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.There can be no assurance that 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 again borrow sufficient amounts to meet its needs, 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. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

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

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

CONSOLIDATED FINANCIAL POSITION

As at January 31, 2021, cash and cash equivalents totalled \$302.8 million compared with \$426.4 million as at October 31, 2020. Cash and cash equivalents in trust or otherwise reserved amounted to \$305.3 million at the end of the first quarter of 2021, compared with \$308.6 million as at October 31, 2020. The Corporation's statement of financial position reflected \$214.9 million in negative working capital, for a ratio of 0.77, compared with \$163.2 million in negative working capital and a ratio of 0.84 as at October 31, 2020.

Total assets decreased by \$136.8 million (6.8%) from \$2,016.1 million as at October 31, 2020 to \$1,879.2 million as at January 31, 2021. This decrease is explained in the financial position table provided below. Equity decreased by \$61.0 million, from \$66.3 million as at October 31, 2020 to \$5.3 million as at January 31, 2021. This decrease resulted from a \$60.5 million net loss attributable to shareholders, combined with a \$0.7 million loss on the translation of the financial statements of foreign subsidiaries, partially offset by a \$0.5 million unrealized foreign exchange gain on cash flow hedges.

	January 31, 2021 $	October 31, 2020 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**302,846**	426,433	(123,587)	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**305,276**	308,647	(3,371)	Decrease in amounts pledged as collateral security against letters of credit
Trade and other receivables	**85,408**	95,334	(9,926)	Offset of cash security deposits receivable from lessors by deferred rent payments related to aircraft leases
Income taxes receivable	**15,924**	17,477	(1,553)	Collection of recoverable taxes
Inventories	**9,241**	10,024	(783)	No significant difference
Prepaid expenses	**41,869**	47,164	(5,295)	Decrease in prepayments due to passage of time
Deposits	**140,521**	153,375	(12,854)	Decrease in deposits for aircraft maintenance mainly as a result of the strengthening of the dollar against the U.S. dollar
Property, plant and equipment	**943,489**	916,382	27,107	New aircraft lease, partially offset by depreciation for the period
Intangible assets	**23,216**	25,509	(2,293)	Amortization for the period
Derivative financial instruments	**—**	964	(964)	Maturing of foreign exchange derivatives during the period
Investment	**11,194**	14,509	(3,315)	Share of net loss of a joint venture
Other assets	**253**	253	—	No difference
Liabilities				
Trade and other payables	**208,028**	232,243	(24,215)	Payments made during the period
Long-term debt and lease liabilities	**902,942**	903,886	(944)	Decrease due to the strengthening of the dollar against the U.S. dollar, principal repayments and early return of three aircraft, partially offset by a new aircraft lease
Provision for return conditions	**134,395**	143,598	(9,203)	Decrease due to the strengthening of the dollar against the U.S. dollar, maturity of two aircraft leases and early return of three aircraft
Income taxes payable	**201**	203	(2)	No significant difference
Derivative financial instruments	**3,433**	10,055	(6,622)	Maturity of fuel-related derivatives and favourable change in fuel prices related to contracted derivatives
Customer deposits and deferred revenues	**573,565**	608,890	(35,325)	Refund of travel credits and aircraft operations during the quarter
Other liabilities	**50,705**	50,215	490	No significant difference
Deferred tax liabilities	**647**	674	(27)	No significant difference
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Retained earnings (deficit)	**(224,910)**	(164,138)	(60,772)	Net loss
Unrealized gain (loss) on cash flow hedges	**—**	(522)	522	No significant difference
Cumulative exchange differences	**(6,729)**	(5,993)	(736)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended January 31		
	2021	2020	Difference
(in thousands of dollars)	$	$	$
Cash flows related to operating activities	**(106,295)**	173,207	(279,502)
Cash flows related to investing activities	**(1,874)**	(33,098)	31,224
Cash flows related to financing activities	**(15,143)**	(24,066)	8,923
Effect of exchange rate changes on cash	**(275)**	1,294	(1,569)
Net change in cash and cash equivalents	**(123,587)**	117,337	(240,924)

OPERATING ACTIVITIES

Operating activities used cash flows of $106.3 million during the first quarter, compared with generated cash flows of $173.2 million in 2020. This $279.5 million decrease resulted from the $196.5 million decline in the net change in non-cash working capital balances related to operations, the $96.2 million deterioration in net loss before operating items not involving an outlay (receipt) of cash, combined with a $7.6 million decrease in the net change in the provision for return conditions. The decrease was partially offset by a $20.8 million increase in the net change in other assets and liabilities related to operations.

The deterioration in cash flows related to operating activities resulted mainly from a significant reduction in capacity deployed due to demand remaining well below prior year level because of the COVID-19 pandemic.

INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $1.9 million for the first quarter compared with $33.1 million in 2020, representing a decrease of $31.2 million. Additions to property, plant and equipment and intangible assets amounted to $2.3 million during the quarter, consisting primarily in leasehold improvements to aircraft, compared with $28.7 million in 2020. The $28.1 million decrease resulted from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic. In 2020, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $16.6 million.

FINANCING ACTIVITIES

Cash flows used in financing activities increased from $24.1 million for the first quarter of 2020 to $15.1 million in 2021, representing a decrease of $8.9 million. Since March 2020, the Corporation has been renegotiating with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments. Since January 31, 2020, the Corporation early returned to lessors three Airbus A330s and four Boeing 737-800s, including two Airbus A330s and one Boeing 737-800 during the quarter ended January 31, 2021. Furthermore, the aircraft leases for two Airbus A330s matured during the quarter ended January 31, 2021. The decrease in cash flows related to financing activities is attributable to deferred payments, early returns and matured leases since January 31, 2020.

FINANCING

As at March 10, 2021, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50.0 million revolving credit facility agreement for operating purposes. The 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 January 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until April 29, 2021 and $50.0 million was drawn down under this credit facility.

On February 17, 2021, the Corporation amended its $250.0 million subordinated short-term credit agreement for operating purposes. Under the amended agreement, which expires on June 30, 2021, or becomes immediately due in the event of a change of control, drawdowns may be made until May 31, 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 January 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until April 29, 2021 and the credit facility was undrawn. As at March 10, 2021, the Corporation had drawn an amount of $40.0 million under its subordinated short-term credit facility.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $752.8 million as at January 31, 2021 ($872.2 million as at October 31, 2020) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at January 31, 2021** **$**	**As at October 31, 2020** **$**
Guarantees		
Irrevocable letters of credit	**12,455**	23,813
Collateral security contracts	**449**	468
Leases		
Obligations under leases	**739,912**	847,872
	752,816	872,153

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

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 January 31, 2021, $58.0 million had been drawn down under the facility, of which $56.3 million was to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2022. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $13.0 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 January 31, 2021, $11.4 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 ($5.7 million), which has been fully drawn down.

As at January 31, 2021, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, decreased by $119.3 million compared with October 31, 2020. This decrease resulted primarily from the addition of an Airbus A321neoLR to our fleet in 2021, combined with the strengthening of the dollar against the U.S. dollar.

Subject to the obtaining of additional financing as described in the Basis of Preparation and Going Concern Uncertainty sections in this MD&A and note 2 to the consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

DEBT LEVELS

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

The Corporation's total debt, which corresponds to the balance of long-term debt and lease liabilities, stood at $902.9 million as at January 31, 2021, down $0.9 million from October 31, 2020. This decrease is attributable to the strengthening of the dollar against the U.S. dollar, the early return to lessors of two Airbus A330s and a Boeing 737-800 during the quarter, and the payment of lease liabilities. The decrease was nearly entirely offset by the addition of an Airbus A321neo LR to our fleet during the quarter.

Total net debt increased by $122.6 million, from $477.5 million as at October 31, 2020 to $600.1 million as at January 31, 2021. The increase in total net debt resulted from the lower cash and cash equivalent balances than as at October 31, 2020.

OUTSTANDING SHARES

As at January 31, 2021, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at March 5, 2021, there were 37,747,090 total voting shares outstanding.

STOCK OPTIONS

As at March 5, 2021, there were a total of 1,724,570 stock options outstanding, 1,595,617 of which were exercisable.

OTHER

FLEET

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

During the quarter ended January 3, 2021, the Corporation took delivery of one Airbus A321neoLR, which is central to the transformation of its feet.

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the items mentioned in note 24 to the consolidated financial statements for the year ended October 31, 2020 and the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits specifically involving directors and officers, not the Corporation. In addition, the Corporation holds professional liability and general civil liability insurance for all lawsuits related to any non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

During the quarter ended January 31, 2021 and the year ended October 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant disbursements and costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have a very unfavourable effect on cash.

SIGNIFICANT ACCOUNTING POLICIES

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment exists when the carrying amount of an asset or cash-generating unit ["CGU"], in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

As at January 31, 2021, the Corporation determined that the declines in revenues and demand due to the COVID-19 pandemic and the resulting significant capacity reductions are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on fair value less costs to sell, using a transaction price of $5.00 per share under the arrangement with Air Canada dated October 9, 2020. The other assumptions used in impairment testing as at October 31, 2020 remained unchanged. Should the transaction with Air Canada 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.

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

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

PROVISION FOR RETURN CONDITIONS

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

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at January 31, 2021 the design of:

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2021 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Impact of the coronavirus on outlook - In the current situation, 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 the Corporation's MD&A for the year ended October 31, 2020 for a more detailed discussion of the main risks and uncertainties facing the Corporation.

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

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

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	*Notes*	As at January 31, 2021 $	As at October 31, 2020 $
ASSETS			
Cash and cash equivalents		**302,846**	426,433
Cash and cash equivalents in trust or otherwise reserved	*4*	**249,008**	252,379
Trade and other receivables	*5*	**85,408**	95,334
Income taxes receivable		**824**	2,377
Inventories		**9,241**	10,024
Prepaid expenses		**41,869**	47,164
Derivative financial instruments		**—**	964
Current portion of deposits	*6*	**13,415**	16,471
Current assets		**702,611**	851,146
Cash and cash equivalents reserved	*4*	**56,268**	56,268
Deposits	*6*	**127,106**	136,904
Income taxes receivable		**15,100**	15,100
Property, plant and equipment	*7*	**943,489**	916,382
Intangible assets		**23,216**	25,509
Investment	*8*	**11,194**	14,509
Other assets		**253**	253
Non-current assets		**1,176,626**	1,164,925
		1,879,237	2,016,071
LIABILITIES			
Trade and other payables		**208,028**	232,243
Income taxes payable		**201**	203
Customer deposits and deferred revenues		**573,565**	608,890
Derivative financial instruments		**3,433**	10,055
Current portion of lease liabilities	*9*	**130,036**	147,980
Current portion of provision for return conditions	*10*	**2,243**	14,963
Current liabilities		**917,506**	1,014,334
Long-term debt and lease liabilities	*9*	**772,906**	755,906
Provision for return conditions	*10*	**132,152**	128,635
Other liabilities	*11*	**50,705**	50,215
Deferred tax liabilities		**647**	674
Non-current liabilities		**956,410**	935,430
EQUITY			
Share capital	*12*	**221,012**	221,012
Share-based payment reserve		**15,948**	15,948
Retained earnings (deficit)		**(224,910)**	(164,138)
Unrealized gain (loss) on cash flow hedges		**—**	(522)
Cumulative exchange differences		**(6,729)**	(5,993)
		5,321	66,307
		1,879,237	2,016,071

See accompanying notes to interim condensed consolidated financial statements

NOTICE

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

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended January 31 2021 $	 2020 $
Revenues	13	**41,920**	692,799
Operating expenses			
Costs of providing tourism services		**10,019**	235,463
Aircraft fuel		**7,548**	103,539
Salaries and employee benefits	13	**28,212**	103,003
Sales and distribution costs		**1,948**	51,894
Aircraft maintenance		**16,448**	50,354
Airport and navigation fees		**4,790**	37,996
Aircraft rent		**—**	9,072
Other airline costs		**8,330**	50,238
Other		**15,677**	23,916
Share of net income of a joint venture		**2,580**	(69)
Depreciation and amortization		**37,490**	48,285
Special items	14	**6,926**	4,174
		139,968	717,865
Operating income (loss)		**(98,048)**	(25,066)
Financing costs	9	**19,145**	10,087
Financing income		**(1,447)**	(5,461)
Change in fair value of fuel-related derivatives and other derivatives		**(5,196)**	10,784
Gain on asset disposals	15	**(17,372)**	—
Foreign exchange (gain) loss		**(32,873)**	3,488
Income (loss) before income tax expense		**(60,305)**	(43,964)
Income taxes (recovery)			
Current		**123**	(1,890)
Deferred		**75**	(9,112)
		198	(11,002)
Net income (loss) for the period		**(60,503)**	(32,962)
Net income (loss) attributable to:			
Shareholders		**(60,534)**	(33,805)
Non-controlling interests		**31**	843
		(60,503)	(32,962)
Earnings (loss) per share	12		
Basic		**(1.60)**	(0.90)
Diluted		**(1.60)**	(0.90)

See accompanying notes to interim condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

	Quarters ended January 31	
	2021	**2020**
(in thousands of Canadian dollars)	**$**	**$**
Net income (loss) for the period	**(60,503)**	(32,962)
Other comprehensive income (loss)		
Items that will be reclassified to net income (loss)		
Change in fair value of derivatives designated as cash flow hedges	**—**	(1,792)
Reclassification to net income (loss)	**447**	1,133
Deferred taxes	**75**	164
	522	(495)
Foreign exchange gain on translation of financial statements of foreign subsidiaries	**(736)**	2,717
Total other comprehensive income (loss)	**(214)**	2,222
Comprehensive income (loss) for the period	**(60,717)**	(30,740)
Comprehensive income (loss) for the period attributable to:		
Shareholders	**(58,979)**	(31,842)
Non-controlling interests	**(1,738)**	1,102
	(60,717)	(30,740)

See accompanying notes to interim condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings (deficit)	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2019	221,012	15,948	336,993	(9,176)	(7,326)	557,451	—	557,451
Net income (loss) for the period	—	—	(33,805)	—	—	(33,805)	843	(32,962)
Other comprehensive income (loss)	—	—	—	(495)	2,458	1,963	259	2,222
Comprehensive income (loss) for the period	—	—	(33,805)	(495)	2,458	(31,842)	1,102	(30,740)
Fair value changes in non-controlling interest liabilities	—	—	103	—	—	103	(103)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(740)	(740)
Reclassification of non-controlling interest exchange difference	—	—	—	—	259	259	(259)	—
	—	—	103	—	259	362	(1,102)	(740)
Balance as at January 31, 2020	221,012	15,948	303,291	(9,671)	(4,609)	525,971	—	525,971
Net (loss) income for the period	—	—	(462,740)	—	—	(462,740)	(1,063)	(463,803)
Other comprehensive income (loss)	—	—	(4,664)	9,149	(1,788)	2,697	404	3,101
Comprehensive income (loss) for the period	—	—	(467,404)	9,149	(1,788)	(460,043)	(659)	(460,702)
Dividends	—	—	—	—	—	—	(849)	(849)
Fair value changes in non-controlling interest liabilities	—	—	(25)	—	—	(25)	25	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,887	1,887
Reclassification of non-controlling interest exchange difference	—	—	—	—	404	404	(404)	—
	—	—	(25)	—	404	379	659	1,038
Balance as at October 31, 2020	221,012	15,948	(164,138)	(522)	(5,993)	66,307	—	66,307
Net income (loss) for the period	—	—	(60,534)	—	—	(60,534)	31	(60,503)
Other comprehensive income (loss)	—	—	—	522	1,033	1,555	(1,769)	(214)
Comprehensive income (loss) for the period	—	—	(60,534)	522	1,033	(58,979)	(1,738)	(60,717)
Fair value changes in non-controlling interest liabilities	—	—	(238)	—	—	(238)	238	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(269)	(269)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,769)	(1,769)	1,769	—
	—	—	(238)	—	(1,769)	(2,007)	1,738	(269)
Balance as at January 31, 2021	**221,012**	**15,948**	**(224,910)**	**—**	**(6,729)**	**5,321**	**—**	**5,321**

See accompanying notes to interim condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	Quarters ended January 31 2021 $	 2020 $
OPERATING ACTIVITIES		
Net income (loss) for the period	**(60,503)**	(32,962)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	**37,490**	48,285
Change in fair value of fuel-related derivatives and other derivatives	**(5,196)**	10,784
Gain on asset disposals	**(17,372)**	—
Foreign exchange (gain) loss	**(32,873)**	3,488
Share of net income of a joint venture	**2,580**	(69)
Deferred taxes	**75**	(9,112)
Employee benefits	**769**	754
	(75,030)	21,168
Net change in non-cash working capital balances related to operations	**(36,111)**	160,410
Net change in provision for return conditions	**(3,315)**	4,250
Net change in other assets and liabilities related to operations	**8,161**	(12,621)
Cash flows related to operating activities	**(106,295)**	173,207
INVESTING ACTIVITIES		
Additions to property, plant and equipment and other intangible assets	**(2,296)**	(33,098)
Proceeds from sale of assets	**422**	—
Cash flows related to investing activities	**(1,874)**	(33,098)
FINANCING ACTIVITIES		
Repayment of lease liabilities	**(15,143)**	(24,066)
Cash flows related to financing activities	**(15,143)**	(24,066)
Effect of exchange rate changes on cash and cash equivalents	**(275)**	1,294
Net change in cash and cash equivalents	**(123,587)**	117,337
Cash and cash equivalents, beginning of period	**426,433**	564,844
Cash and cash equivalents, end of period	**302,846**	682,181
Supplementary information (as reported in operating activities)		
Net income taxes paid (recovered)	**(158)**	1,009
Interest paid	**746**	221

See accompanying notes to interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2021 were approved by the Corporation's Board of Directors on March 10, 2021.

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

Note 2 UNCERTAINTY RELATED TO GOING CONCERN

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

Due 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 $60,503 for the first quarter ended January 31, 2021 and, as at that date, the Corporation's current liabilities exceeded the total of its current assets by $214,895. However, as it is described in note 9, the Corporation has a $250,000 subordinated short-term credit facility. On February 17, 2021, the Corporation amended its subordinated short-term credit facility, extending its maturity to June 30, 2021. This credit facility may be drawn down in tranches at any moment prior to May 31, 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 temporary suspension of the application of financial ratios under the revolving credit facility and the short-term credit facility has been extended to April 29, 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. The short-term credit facility will mature at the earliest date between June 30, 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 and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government's request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. The Corporation currently expects to resume its operations during the high summer season, that is, around mid-June. 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 availability of a vaccine makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023, in the best case scenario.

The Corporation is making every effort to complete the transaction with Air Canada. 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 additional financing before the maturity of the subordinated short-term credit facility (currently, the maturity date is June 30, 2021), either through new sources of financing, including the amendment and renewal of its subordinated short-term credit facility, 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 actively seeking to secure financing that would be required before the maturity of the subordinated short-term credit facility (currently, the maturity date is June 30, 2021) and is currently discussing with potential lenders, including federal and provincial 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 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.

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.There can be no assurance that 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. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

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

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

Note 3 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

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

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment exists when the carrying amount of an asset or cash-generating unit ["CGU"], in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

As at January 31, 2021, the Corporation determined that the declines in revenues and demand due to the COVID-19 pandemic and the resulting significant capacity reductions are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of the CGUs was determined based on fair value less costs to sell, using a transaction price of $5.00 per share under the arrangement with Air Canada dated October 9, 2020. The other assumptions used in impairment testing as at October 31, 2020 remained unchanged. Should the transaction with Air Canada 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.

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

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

PROVISION FOR RETURN CONDITIONS

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

Note 4 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at January 31, 2021, cash and cash equivalents in trust or otherwise reserved included $241,403 [$242,622 as at October 31, 2020] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $63,873, $56,268 of which was recorded as non-current assets [$66,025 as at October 31, 2020, $56,268 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 5 TRADE AND OTHER RECEIVABLES

	As at January 31, 2021 $	As at October 31, 2020 $
Trade receivables	**6,371**	5,565
Government receivables	**31,632**	26,017
Cash receivable from lessors	**7,540**	18,970
Other receivables	**39,865**	44,782
	85,408	95,334

As at January 31, 2021, government receivables included an amount of $17,082 related to the Canada Emergency Wage Subsidy ["CEWS"] program *[note 13]* [$16,061 as at October 31, 2020]. In addition, other receivables included receivables from two credit card processors totalling $24,314 [$19,177 as at October 31, 2020].

Note 6 DEPOSITS

	As at January 31, 2021 $	As at October 31, 2020 $
Deposits for maintenance to lessors	**95,784**	103,638
Deposits on leased aircraft and engines	**36,397**	40,470
Deposits with suppliers	**8,340**	9,267
	140,521	153,375
Less current portion	**13,415**	16,471
	127,106	136,904

Note 7 PROPERTY, PLANT AND EQUIPMENT

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2020	**162,773**	**136,183**	**58,649**	**82,966**	**1,457,559**	**148,971**	**2,047,101**
Additions	**1,787**	**379**	**27**	**—**	**62,417**	**—**	**64,610**
Disposals	**—**	**—**	**(174)**	**—**	**—**	**(122)**	**(296)**
Write-offs	**(35,029)**	**(1,292)**	**(239)**	**(481)**	**(214,111)**	**(3,507)**	**(254,659)**
Exchange difference	**—**	**—**	**(55)**	**(2,184)**	**—**	**(181)**	**(2,420)**
Balance as at January 31, 2021	**129,531**	**135,270**	**58,208**	**80,301**	**1,305,865**	**145,161**	**1,854,336**
Accumulated depreciation							
Balance as at October 31, 2020	**102,260**	**71,272**	**39,844**	**29,591**	**806,496**	**81,256**	**1,130,719**
Depreciation	**2,933**	**2,828**	**1,368**	**379**	**25,590**	**1,959**	**35,057**
Disposals	**—**	**—**	**(60)**	**—**	**—**	**—**	**(60)**
Write-offs	**(35,029)**	**(1,292)**	**(239)**	**(481)**	**(214,111)**	**(3,507)**	**(254,659)**
Exchange difference	**—**	**—**	**(44)**	**(26)**	**—**	**(140)**	**(210)**
Balance as at January 31, 2021	**70,164**	**72,808**	**40,869**	**29,463**	**617,975**	**79,568**	**910,847**
Net book value as at January 31, 2021	**59,367**	**62,462**	**17,339**	**50,838**	**687,890**	**65,593**	**943,489**

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

During the quarter ended January 31, 2021, the Corporation early returned to lessors three leased aircraft, namely two Airbus A330s and one Boeing 737-800, while two Airbus A330 leases expired. These returns resulted in write-offs of property, plant and equipment and accumulated amortization in the amount of $248,831.

Note 8 INVESTMENT

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

	$
Balance as at October 31, 2020	**14,509**
Share of net income	**(2,580)**
Translation adjustment	**(735)**
Balance as at January 31, 2021	**11,194**

The investment was translated at the USD/CAD closing rate of 1.2777 as at January 31, 2021 [1.3336 as at October 31, 2020].

Note 9 LONG-TERM DEBT AND LEASE LIABILITIES

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. The 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 January 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until April 29, 2021 and $50,000 was drawn down under this credit facility.

On February 17, 2021, the Corporation amended its $250,000 subordinated short-term credit agreement for operating purposes. Under the amended agreement, which expires on June 30, 2021, or becomes immediately due in the event of a change of control, drawdowns may be made until May 31, 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 January 31, 2021, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until April 29, 2021 and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility 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 January 31, 2021, $58,022 had been drawn down under the facility [$60,266 as at October 31, 2020], of which $56,268 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 following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at January 31, 2021 and October 31, 2020. The current portion of lease liabilities includes deferred rent payments related to aircraft leases and real estate leases of $46,914 and $3,177, respectively:

	Final Maturity	Weighted Average Interest Rate	As at January 31, 2021	As at October 31, 2020
		%	$	$
Long-term debt	2022	4.92	**49,983**	49,980
Lease liabilities				
Fleet	2021-2031	5.62	**774,019**	772,925
Real estate and other	2021-2037	5.58	**78,940**	80,981
Lease liabilities		5.62	**852,959**	853,906
Total long-term debt and lease liabilities		5.58	**902,942**	903,886
Current portion of lease liabilities			**(130,036)**	(147,980)
Long-term debt and lease liabilities			**772,906**	755,906

Interest expense for the periods ended July 31, 2021 and 2020 is detailed as follows:

	Quarters ended January 31, 2021	
	2021	2020
	$	$
Interest on lease liabilities	**11,359**	8,939
Accretion on provision for return conditions	**149**	630
Interest on long-term debt	**610**	—
Other interest	**7,027**	518
Financing costs	**19,145**	10,087

Other interest for the quarter ended January 31, 2021 resulted mainly from standby and arrangement fees related to the $250,000 subordinated short-term credit facility.

Rent expense for the periods ended January 31, 2021 and 2020 is detailed as follows:

	Quarters ended January 31, 2021	
	2021	2020
	$	$
Variable lease payments	**—**	2,640
Short-term leases	**—**	6,432
Aircraft rent	**—**	9,072
Variable lease payments	**—**	1,127
Short-term leases	**488**	1,276
Low value leases	**116**	162
	604	11,637

Cash flows related to lease liabilities

The following table details cash flows related to repayment of lease liabilities for the quarter ended January 31, 2021:

	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2020			**853,906**
Repayments	(15,143)	—	**(15,143)**
New lease liabilities (new contracts and amendments)	—	62,662	**62,662**
Interests on deferred payments	—	5,894	**5,894**
Offset of rent payments and lease terminations	—	(21,388)	**(21,388)**
Exchange difference	—	(32,972)	**(32,972)**
Balance as at January 31, 2021	**(15,143)**	**14,196**	**852,959**

Maturities of lease liabilities

Repayment of principal and interest on lease liabilities as at January 31, 2021 is detailed as follows. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.2777 as at January 31, 2021:

Year ended October 31	2021 $	2022 $	2023 $	2024 $	2025 $	2026 and up $	Total $
Fleet	129,621	121,669	120,501	101,333	94,428	403,853	**971,405**
Real estate and other	11,414	9,315	8,663	8,080	7,369	64,860	**109,701**
Lease liabilities	**141,035**	**130,984**	**129,164**	**109,413**	**101,797**	**468,713**	**1,081,106**

Note 7 provides the information required for right-of-use assets and depreciation. Note 16 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 10 PROVISION FOR RETURN CONDITIONS

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under pre-determined maintenance conditions. The change in the provision for return conditions for the quarter ended January 31 is detailed as follows:

	As at January 31, 2021	As at October 31, 2020
	$	**$**
Opening balance	**143,598**	155,120
Additional provisions	**3,814**	35,791
Change in estimate	**(839)**	1,638
Utilization of provision	**(2,667)**	—
Unused amounts reversed	**(9,660)**	(51,405)
Accretion	**149**	2,454
Closing balance	**134,395**	143,598
Current provisions	**2,243**	14,963
Non-current provisions	**132,152**	128,635
Closing balance	**134,395**	143,598

Changes in estimates mainly include the change to the discount rate for the provision for return conditions. As at January 31, 2021, the Corporation updated the discount rate for the provision for return conditions, resulting in a favourable change in estimate of $2,095. In addition, the unused amounts recovered included $3,900 related to reversals of provisions for return conditions for aircraft whose leases had been terminated and $5,760 related to the leases that matured during the quarter.

Note 11 OTHER LIABILITIES

	As at January 31, 2021	As at October 31, 2020
	$	**$**
Employee benefits	**50,384**	49,862
Other liabilities	**321**	353
	50,705	50,215

Note 12 Equity

Authorized share capital

Class A Variable Voting Shares

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

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

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

Class B Voting Shares

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

Preferred shares

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

As at January 31, 2021, the number of Class A Shares and Class B Shares stood at 2,966,468 and 34,780,622, respectively [3,785,312 and 33,961,778, respectively, as at October 31, 2020], for a total number of shares of 37,747,090 with a carrying amount of $221,012.

STOCK OPTION PLAN

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

LOSS PER SHARE

Basic and diluted loss per share were calculated as follows:

	Quarters ended January 31	
	2021	**2020**
(in thousands, except per share data)	**$**	**$**
NUMERATOR		
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	**(60,534)**	(33,805)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,747**	37,747
Effect of dilutive securities		
Stock options	**—**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,747
Earnings (loss) per share		
Basic	**(1.60)**	(0.90)
Diluted	**(1.60)**	(0.90)

Given the losses recognized for the quarters ended January 31, 2021 and 2020, all 1,724,570 and 1,746,570 outstanding stock options, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 13 ADDITIONAL DISCLOSURE ON REVENUE AND EXPENSES

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Quarters ended January 31	
	2021	**2020**
	$	**$**
Customers		
Transatlantic	**6,070**	87,449
Americas	**31,581**	589,100
Other	**4,269**	16,250
Total revenues	**41,920**	692,799

GOVERNMENT GRANTS

During the quarter ended January 31, 2021, the Corporation recognized a deduction of $33,344 from Salaries and other employee benefits related to the CEWS program, including $11,685 for active employees [nil as at January 31, 2020].

Note 14 SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. For the quarter ended January 31, 2021, professional fees of $5,143 and compensation expenses of $1,783 were recorded in connection with the transaction with Air Canada, compared with professional fees of $1,206 and compensation expenses of $2,968 for the quarter ended January 31, 2020. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items 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 changes the vesting period.

Note 15 GAIN ON ASSET DISPOSALS

The gain on asset disposals relates to asset disposals and lease terminations. During the quarter ended January 31, 2021, due to the significant reduction in capacity related to the COVID-19 pandemic, the Corporation early returned three leased aircraft to the lessors: two Airbus A330s and one Boeing 737-800. The gain on asset disposals of $17,372 recognized during the quarter ended January 31, 2021 is mainly attributable to these lease terminations, which led to the recognition of a $17,042 gain, since the total carrying amount of assets related to these leased aircraft was written off during the year ended October 31, 2020.

Note 16 COMMITMENTS AND CONTINGENCIES

LEASES AND OTHER COMMITMENTS

As at January 31, 2021, the Corporation was party to agreements to lease 10 Airbus A321neos for delivery up to 2023. The Corporation also had leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, in particular related to information technology service contracts entered into in the normal course of business. The following table presents the minimum payments due under leases for aircraft to be delivered over the next few years and leases with a term of less than 12 months and/or for low value assets, as well as the purchase obligations:

Year ended October 31	2021	2022	2023	2024	2025	2026 and up	Total
	$	$	$	$	$	$	$
Leases (aircraft)	10,013	40,795	62,000	61,900	61,900	503,304	**739,912**
Purchase obligations	6,223	6,622	3,505	1,960	4,750	—	**23,060**
	16,236	**47,417**	**65,505**	**63,860**	**66,650**	**503,304**	**762,972**

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the items mentioned in note 24 to the consolidated financial statements for the year ended October 31, 2020 and the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits specifically involving directors and officers, not the Corporation. In addition, the Corporation holds professional liability and general civil liability insurance for all lawsuits related to any non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

During the quarter ended January 31, 2021 and the year ended October 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant disbursements and costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have a very unfavourable effect on cash.

Note 17 GUARANTEES

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

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

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

LEASES

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

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2021, the total amount of these guarantees unsecured by deposits totalled $449. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2021, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

In addition, the Corporation has a guarantee facility that is renewable in 2022. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $13,000. As at January 31, 2021, $11,421 had been drawn under the facility.

Note 18 SEGMENTED DISCLOSURE

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

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