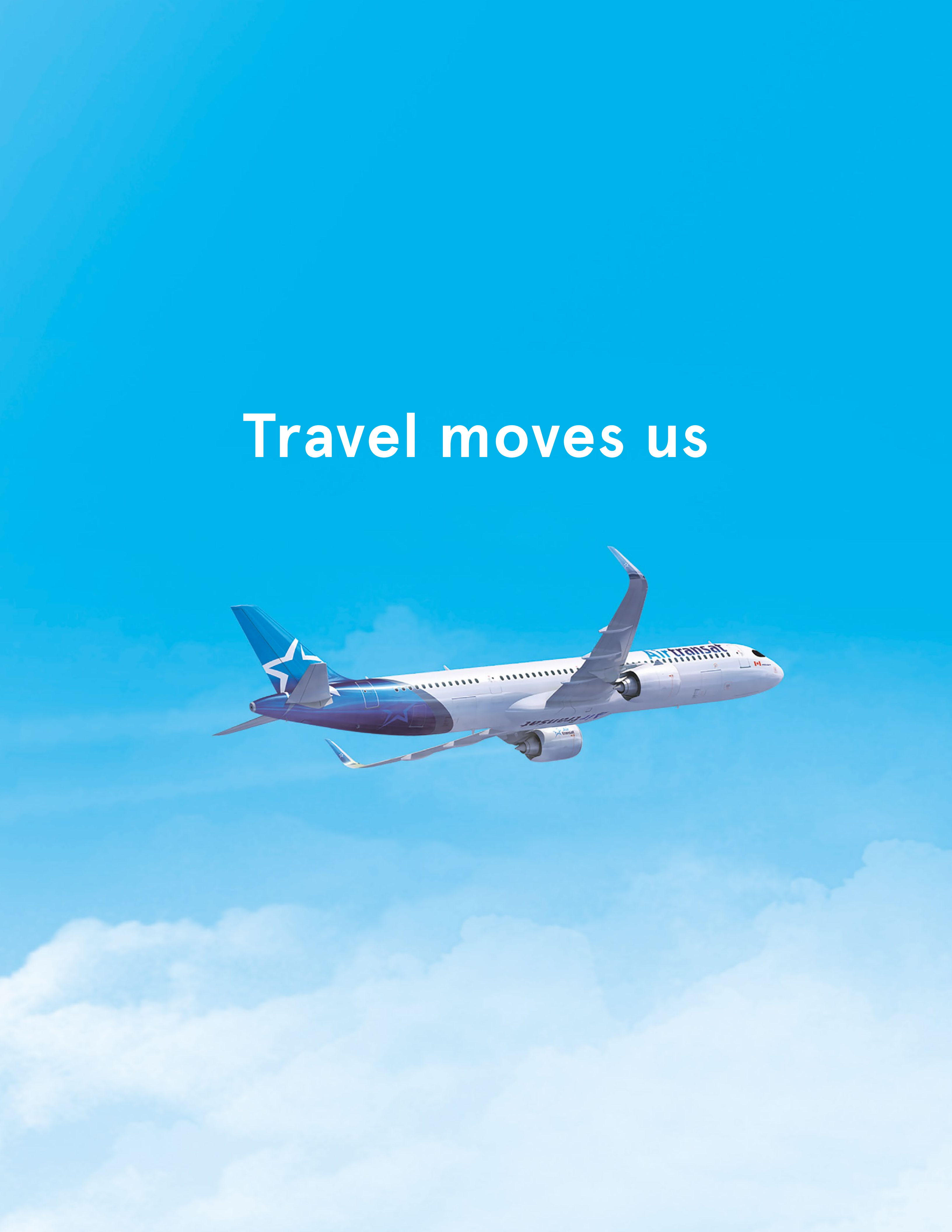
annual report

2022


Travel moves us
Air transat

Senior Management

**At October 31 2022*

Annick Guérard

President and Chief Executive Officer

Joseph Adamo

President, Transat Distribution Canada

Chief Sales & Marketing Officer

Patrick Bui

Chief Financial Officer

Bernard Bussières

Chief Legal and Government Relations Officer and Corporate Secretary

Marc-Philippe Lumpé

Chief Airline Operations Officer

Michèle Barre

Vice President, Network, Revenue Management and Pricing

Bruno Leclaire

Chief Information and Digital Officer

Debbie Cabana

Director, Office of the President and Chief Executive Officer

Christophe Hennebelle

Chief Human Resources, Corporate Responsibility and Communications

Board of Directors

Annick Guérard

President and Chief Executive Officer, Transat

1

Raymond Bachand

Lead Director

Strategic Advisor, Norton Rose Fulbright Canada

1 2 5

Ian Rae

Founder, President and Chief Executive Officer, CloudOps

3 4

Valérie Chort

Vice-President, Corporate Citizenship and Sustainability, RBC

Executive Director, RBC Foundation

4 5

Lucie Chabot

Corporate Director

1 2 5

Stéphane Lefebvre

President and Chief Executive Officer, Cirque du Soleil

2

Daniel Desjardins

Corporate Director

1 2 4

Susan Kudzman

Corporate Director

1 3 4

Julie Tremblay

Corporate Director

3 5

Philippe Sureau

Founding Member

Corporate Director

3

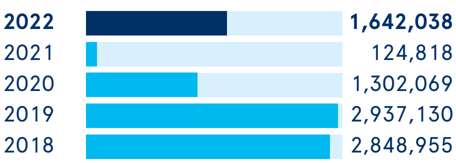
Committees

1. Executive Committee
2. Audit Committee
3. Human Resources and Compensation Committee
4. Risk Management and Corporate Governance Committee
5. Governance and Nominating Committee

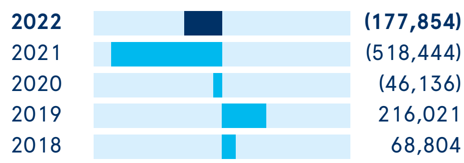
2022
Financial Highlights

in thousands of dollars, except per share amounts and ratios

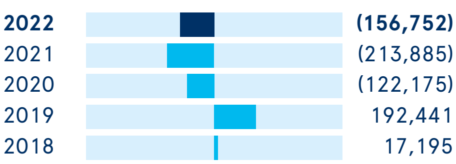
Revenues



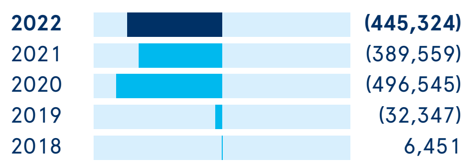
Cash flows related to operating activities



Adjusted operating income (loss) [1]



Net income (loss) attributable to shareholders

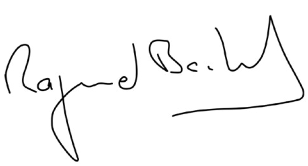


	2022	2021	Variance ($)	Variance (%)
Revenues	1,642,038	124,818	1,517,220	1,215.5
Operating loss	(303,420)	(401,222)	97,802	24.4
Adjusted operating loss [1]	(156,752)	(213,885)	57,133	26.7
Net loss	(445,324)	(389,438)	(55,886)	(14.4)
Net loss attributable to shareholders	(445,324)	(389,559)	(55,765)	(14.3)
Diluted loss per share	(11.77)	(10.32)	(1.45)	(14.1)
Cash flows related to operating activities	(177,854)	(518,444)	340,591	65.7
Cash and cash equivalents	322,535	433,195	(110,660)	(25.5)
Total assets	2,271,131	1,897,658	373,473	19.7
Long-tem debt (including current portion)	664,160	463,180	200,980	43.4
Debt ratio [2]	1.33	1.17	0.16	13.7
Stock price as at October 31 (TRZ)	2.60	4.39	(1.79)	(40.8)
Oustanding shares, end of year (in thousands)	38,012	37,747	265	0.7

1 See Non-IFRS financial measures section

2 Debt ratio: total liabilities divided by total assets.

The Sky Is Clearing



Raymond Bachand

Lead Director

Strategic Advisor, Norton Rose Fulbright Canada S.E.N.C.R.L., s.r.l./LLP

Cautious optimism is returning to air travel after more than two very difficult years. Leisure travellers looking forward to family reunions or vacations in the sun took advantage of the easing of health measures in mid-2022, and Transat benefitted. Still, the situation remains fragile. International tensions and supply chain weaknesses have triggered an energy crisis and a surge in inflation. Repeated interest rate hikes to rein in inflation caused a noticeable economic slowdown at year-end. However, traveller demand is holding up, which is encouraging.

These challenging circumstances confirmed the value of the orientations we adopted last year. Transat is now asserting its positioning as an air carrier by optimizing network routes, entering partnerships with other airlines and expanding the number of destinations through these agreements. The Board of Directors supported this repositioning, which is at the heart of the strategic plan, and reiterates its confidence in President and Chief Executive Officer Annick Guérard, who completed her first full year at the helm of the Corporation. Transat can also count on a renewed and strengthened team; in 2022, the Corporation welcomed a new Chief Operating Officer, a new Chief Financial Officer, and created a new Vice Presidency, Corporate Responsibility. During the year, the Board of Directors was also renewed with the addition of four new members.

Transat is skillfully orienting itself and will benefit from the gradual improvement in economic conditions. In the meantime, the renegotiation of federal government financing is allowing the Corporation to recover from an unprecedented crisis, which caused the industry's revenues o collapse almost completely for more than a year.

Lastly, at the end of the year, the Board of Directors expressed its gratitude and best wishes to Philippe Sureau, a pillar of Transat and a founding member of the Corporation, who retired. It's also time for me to say goodbye; this is my last annual report as Chair of the Board of Directors. The trip has been very pleasant, despite the turbulence. I have a special affection for Transat, which I have revisited throughout my career as a client, partner or director. I would like to thank the members of the Board for their wise counsel, acknowledge the management team's competence and congratulate the employees for their know-how and quality customer relationships. I would also like to thank the Québec and Canadian customers for their continued loyalty to Transat, our flagship. The future is bright for Transat, its great team, and its shareholders.

Recovery in the Travel Sector Strengthens

Annick Guérard

President and Chief Executive Officer

The fiscal year ended on October 31, was marked by a rapid and generalized change in the operating ecosystem. Amid this volatile environment, Transat took decisive action: we improved our network, optimized our routes, continued to modernize our fleet, took delivery of new aircraft, and rehired our people, all while preserving our cash resources and keeping tight control over costs. The coming months augur well, and we are equipped to deal with any persisting uncertainties.

Summer of recovery

The economy's strengthening throughout 2021 gave hope to a recovery in travel for the year-end holidays. While another wave of COVID-19 dampened these hopes, summer 2022 saw a sustained recovery comparable to pre-pandemic volume. This recovery was significant – it demonstrated that consumers always wanted to travel; it showed travellers' attachment to the Transat brand; it allowed us to reconnect with our clientele who we greatly missed.

As a result, fiscal 2022 ended with a favourable outlook. In the fourth quarter, load factors continued to improve, approaching 90% at the summer peak, and strong demand was reflected in sustained price increases.

Positive trend for 2023

The upward trend is expected to continue in 2023, and a return to a satisfactory level of operations and profitability is on the horizon. For winter 2023, demand remains strong and bookings are reaching pre-pandemic levels. Although factors beyond our control could disrupt the recovery curve, such as the prospect of an economic slowdown, high fuel prices or interest rates, we remain confident and are firmly staying the course with our strategic plan, which provides the organization with t he necessary means to continue its development.

On the financial front, our priority is to preserve cash resources. We are maintaining cost cutting and investment reduction measures, and have renegotiated our financing agreements, which have given us access to additional liquidity and allowed us to postpone maturities, providing for more flexibility in operations.

Refocused network and new high-potential connections

We are following through on our strategic plan to make the Corporation an efficient and competitive airline, generating stable and ongoing value for its shareholders.

We are refocusing our airline operations with a greater presence in Eastern Canada by operating routes with high potential. In 2022, Transat enhanced its virtual interlining service with new partners in Portugal, Greece, Scotland, and Colombia, in addition to partnerships already in place, bringing the total number of destinations available via the connectair by Air Transat platform to over 300.

During the year, Transat also opened bookings under the codeshare agreements with WestJet and Porter. The network redeployment and partnership agreements aim to reduce the seasonality of our operations, bolster our revenues, and optimize fleet utilization.

Renewed and more efficient fleet

During the year, we took delivery of two Airbus A321LRs and returned one Airbus A330 to the lessor early. We also announced a long-term lease for four new Airbus A321XLRs, to be delivered from 2025 to 2027. This renewed fleet, streamlined to just two types of aircraft, the A330 and A321, will provide substantial fuel savings, increased operational flexibility, and easier and cheaper maintenance.

Recall of employees

The resumption of operations led to a recall of temporarily laid off employees; 1,800 people were recruited or rehired during the year. Since its inception 35 years ago, Transat has distinguished itself with its quality hospitality and excellent service. These core values of the Corporation are embodied by its dedicated and passionate employees. At the end of fiscal 2022, Transat had 3,900 employees, equivalent to 75% of the workforce at the beginning of the pandemic. Hiring will continue in 2023.

The quality of work relationships goes hand in hand with employees' sense of belonging. During the year, we renewed employment contracts with our pilots and began discussions with the association representing maintenance and central baggage agents, which also resulted in an agreement a few days after fiscal 2022 year-end.

Resuming operations and decarbonization

Resuming our operations is inseparable from our commitment to sustainability, emission reduction, and social responsibility. The creation of a Vice-Presidency, Corporate Responsibility in 2022 will reinforce these priorities. A new action plan expected in 2023 will also include diversity and inclusion targets.

Transat is doing its best to reduce its ecological footprint. With our fuel management program and fleet renewal, we will have the most fuel-efficient aircraft in the market. We are also continuing to work on developing sustainable aviation fuel; Transat is an original partner of the SAF+ Consortium and was the first airline in Canada to reserve quantities of this low-carbon fuel that will be produced on an industrial scale at a plant in Montreal. This involvement in developing decarbonization solutions extends our long-standing commitment to environmental protection. Transat, which has renewed its Travelife Sustainable Tourism Certification, strives to protect resources, natural environments and communities in all aspects of our operations, from our head office to our destinations.

Success factors are in place

Fiscal 2022 was challenging in many ways, yet positive. All elements are in place for us to return to strong and sustained profitability when conditions are conducive. Our teams have made monumental efforts over the past two years to reorganize, rethink and refinance this organization. Transat is looking to the future, driven by a renewed management team and energized by the return of its employees. Transat will continue to evolve, encouraged by the confidence of its shareholders and strengthened by the support of the Board of Directors, which will welcome two new directors in 2023, after having honoured the departure of two prominent and important figures on our Board. Mr. Philippe Sureau, a founding member of Transat and a key contributor to the travel industry, and Mr. Raymond Bachand, Chairman of the Board and a key player in the Quebec economy, will be leaving us after having left an indelible mark on the history of our company and on the people who form it. I would like to thank them warmly for their support over the years, and through a historic crisis from which we are finally recovering. I would also like to acknowledge their support and trust since I took on the role as President and CEO.

To all of you, thank you for your efforts and support.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2022, compared with the year ended October 31, 2021, and should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise indicated, the information contained herein is dated as of December 14, 2022. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2022 and the Annual Information Form.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

We draw your attention to the MD&A's Section 7, Financial Position, Liquidity and Capital Resources and Note 2 to the Consolidated Financial Statements which describe an environment, events and conditions, specifically in the context of a pandemic, which indicate the existence of material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern.

As a result of the COVID-19 pandemic, the global air transportation and tourism industry has faced a collapse in traffic and demand. Despite the easing of health measures and travel restrictions initially put in place, travel restrictions and vaccination requirements introduced by numerous countries as well as concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine are creating significant demand uncertainty, and the effects will still be partially present in fiscal 2023. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the 2022 summer season, the Corporation also deployed a further reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter of 2022, the Corporation cannot yet predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of most restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2024.

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.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

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

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.
- The outlook whereby, subject to going concern uncertainty as discussed in Section Basis of Preparation and Going Concern of the 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 drawdowns under existing credit facilities.
- The outlook whereby, for 2023 as a whole, the Corporation expects to deploy capacity equivalent to 90% of the 2019 level.
- The outlook whereby, the combination of demand and higher prices will allow the Corporation to deal with higher costs.
- The outlook whereby, for 2023 as a whole, the Corporation expects an adjusted operating income margin of approximately 4% to 6%.

In making these statements, the Corporation assumes, among other things, that no travel or border restrictions will be imposed by government authorities, that the standards and measures for the health and safety of personnel and travellers imposed by government and airport authorities will be consistent with those currently in effect, that travellers will continue to travel despite the health measures and other constraints imposed as a result of the pandemic, that workers will continue to be available to the Corporation, its suppliers and the companies providing passenger services at the airports, that credit facilities and other terms of credit extended by its business partners will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

2. NON-IFRS FINANCIAL MEASURES

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

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our interim condensed 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 derivatives, gain (loss) on asset disposals, restructuring charges, asset impairment, depreciation and amortization, foreign exchange gains (losses), gain (loss) on long-term debt modification and other significant unusual items, and by including premiums related to derivatives that 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 and other significant unusual items, and including premiums related to derivatives that 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 derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, asset impairment, foreign exchange gain (loss) and other significant unusual items, and including premiums related to 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 derivatives, revaluation of liability related to warrants, gain (loss) on long-term debt modification, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums related to 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 lease liabilities, deferred government grant and liability related to warrants, net of deferred financing cost related to the unsecured debt - LEEFF. 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)	2022 $	2021 $	2020 $
Operating loss	**(303,420)**	(401,222)	(425,962)
Special items	**1,630**	27,572	99,675
Depreciation and amortization	**153,429**	159,765	204,112
Premiums related to derivatives that matured during the period	**(8,391)**	—	—
Adjusted operating loss	**(156,752)**	(213,885)	(122,175)

Loss before income tax expense	**(449,473)**	(389,415)	(488,973)
Special items	**1,630**	27,572	99,675
Change in fair value of derivatives	**9,685**	(8,849)	13,715
Revaluation of liability related to warrants	**(21,989)**	(4,934)	—
Gain on long-term debt modification	**(22,191)**	—	—
Loss (gain) on asset disposals	**(3,934)**	(17,347)	11,271
Foreign exchange loss (gain)	**92,150**	(53,260)	3,601
Premiums related to derivatives that matured during the period	**(8,391)**	—	—
Adjusted pre-tax loss	**(402,513)**	(446,233)	(360,711)

Net loss attributable to shareholders	**(445,324)**	(389,559)	(496,545)
Special items	**1,630**	27,572	99,675
Change in fair value of derivatives	**9,685**	(8,849)	13,715
Revaluation of liability related to warrants	**(21,989)**	(4,934)	—
Gain on long-term debt modification	**(22,191)**	—	—
Loss (gain) on asset disposals	**(3,934)**	(17,347)	11,271
Foreign exchange loss (gain)	**92,150**	(53,260)	3,601
Premiums related to derivatives that matured during the period	**(8,391)**	—	—
Tax recovery on ABCP losses	**(5,347)**	—	—
Tax impact	**—**	—	12,948
Adjusted net loss	**(403,711)**	(446,377)	(355,335)

Adjusted net loss	**(403,711)**	(446,377)	(355,335)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,838**	37,747	37,747
Adjusted net loss per share	**(10.67)**	(11.83)	(9.41)

(in thousands of dollars)	October 31, 2022 $	October 31, 2021 $	October 31, 2020 $
Long-term debt	**664,160**	463,180	49,980
Deferred government grant	**169,025**	167,394	—
Liability related to warrants	**24,360**	36,557	—
Deferred financing costs	**(12,552)**	(19,368)	—
Lease liabilities	**1,087,908**	956,358	853,906
Total debt	**1,932,901**	1,604,121	903,886

Total debt	**1,932,901**	1,604,121	903,886
Cash and cash equivalents	**(322,535)**	(433,195)	(426,433)
Total net debt	**1,610,366**	1,170,926	477,453

3. FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2022 $	2021 $	2020 $	Difference 2022 %	Difference 2021 %
Consolidated Statements of Loss					
Revenues	**1,642,038**	124,818	1,302,069	1,215.5	(90.4)
Operating loss	**(303,420)**	(401,222)	(425,962)	24.4	5.8
Net loss attributable to shareholders	**(445,324)**	(389,559)	(496,545)	(14.3)	21.5
Basic loss per share	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5
Diluted loss per share	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5
Adjusted operating loss[1]	**(156,752)**	(213,885)	(122,175)	26.7	(75.1)
Adjusted net loss[1]	**(403,711)**	(446,377)	(355,335)	9.6	(25.6)
Adjusted net loss per share[1]	**(10.67)**	(11.83)	(9.41)	9.8	(25.7)
Consolidated Statements of Cash Flows					
Operating activities	**(177,854)**	(518,444)	(46,136)	65.7	(1,023.7)
Investing activities	**(33,783)**	4,542	(60,414)	(843.8)	107.5
Financing activities	**99,689**	522,071	(33,374)	(80.9)	1,664.3
Effect of exchange rate changes on cash and cash equivalents	**1,288**	(1,407)	1,513	191.5	(193.0)
Net change in cash and cash equivalents	**(110,660)**	6,762	(138,411)	(1,736.5)	104.9

	October 31, 2022 $	October 31, 2021 $	October 31, 2020 $	Difference 2022 %	Difference 2021 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**322,535**	433,195	426,433	(25.5)	1.6
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**375,557**	170,311	308,647	120.5	(44.8)
	698,092	603,506	735,080	15.7	(17.9)
Total assets	**2,271,131**	1,897,658	2,016,071	19.7	(5.9)
Debt (current and non-current)	**664,160**	463,180	49,980	43.4	826.7
Total debt [1]	**1,932,901**	1,604,121	903,886	20.5	77.5
Total net debt [1]	**1,610,366**	1,170,926	477,453	37.5	145.2

[1] See Non-IFRS financial measures section

4. HIGHLIGHTS OF THE FISCAL YEAR

IMPACT OF THE COVID-19 PANDEMIC

As a result of the COVID-19 pandemic, the global air transportation and tourism industry has faced a collapse in traffic and demand. Despite the easing of health measures and travel restrictions initially put in place, travel restrictions and vaccination requirements introduced by numerous countries as well as concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine are creating significant demand uncertainty, and the effects will still be partially present in fiscal 2023. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the 2022 summer season, the Corporation also deployed a further reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter of 2022, the Corporation cannot yet predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of most restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2024.

Preserving cash is a priority for the Corporation. During the year ended October 31, 2022, the Corporation took the following actions with respect to the COVID-19 pandemic and other opportunities are being evaluated to achieve this objective:

- On March 9, 2022, the Corporation renegotiated certain financing agreements with the Government of Canada. The financing agreement for the unsecured debt - LEEFF was amended to, among other things, defer the increase in interest rates as well as the date at which 50% of vested warrants would be forfeited if the financing were to be repaid before December 31, 2023. The unsecured credit facility related to travel credits was also amended to increase the amount that can be drawn by $43.3 million.

- On July 29, 2022, the Corporation secured an additional $100.0 million through the LEEFF on the same terms and conditions as amended on March 9, 2022. This agreement provides the Corporation with access to an additional $100.0 million in liquidity. Of this additional liquidity, $80.0 million is in addition to the unsecured LEEFF financing and $20.0 million is in addition to the secured LEEFF financing. In connection with the arrangement of this additional financing, the Corporation has agreed with all lenders to extend the maturities originally scheduled for April 29, 2023 to April 29, 2024. The Corporation has also agreed to extend to October 29, 2023 (previously October 30, 2022) the date by which the Corporation must comply with certain financial covenants. In addition, as provided for under the terms of the LEEFF financing, a total of 4,687,500 warrants to purchase an equivalent number of shares of Transat at an exercise price of $3.20 per share were also issued under the renegotiated terms on March 9, 2022.

- The modifications to the LEEFF financing negotiated on July 29, 2022 also provide the Corporation with an additional credit facility of up to $50.0 million subject to certain preconditions to be satisfied on or before July 29, 2023, including obtaining additional third-party financing.

- During the year ended October 31, 2022, the Corporation drew down $213.2 million under credit facilities related to the LEEFF. As described in the Financing section, the available financing represents a maximum of $963.3 million, of which $863.2 million was drawn as at October 31, 2022.

- During the fiscal year, one Airbus A330 was returned to lessors early.

- The Corporation continuously adjusts its flight program as the situation evolves. The lingering effects of the Omicron variant and the restrictive measures put in place by the federal government on December 15, 2021 have impacted bookings and cancellation requests. As a result, during the first quarter, the Corporation cancelled nearly 30% of flights scheduled from January to the end of February. In addition, at the beginning of February, the Corporation cancelled more winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity. The easing of global travel restrictions followed by the lifting of most of them led to an increase in demand. Since then, the Corporation resumed its flight schedule for the summer season representing a significant portion of its pre-pandemic volume.

- The Corporation is negotiating with its suppliers to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.
- The Corporation continued to benefit from government grants for businesses affected by COVID-19. The Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") have been replaced by the Government of Canada with two new programs, the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP"). These two programs, which ended on May 7, 2022, provided support for salaries.
- As at October 31, 2022, cash and cash equivalents totalled $322.5 million.

CODESHARE AND VIRTUAL INTERLINING AGREEMENTS

In 2022, the Corporation enhanced its virtual interlining agreements with the addition of partners Azores Airlines, Longanair, SKY Express, Air North, AEGEAN Airlines and Viva Air to its connectair by Air Transat platform. These are in addition to those already in place with EasyJet, Vueling, Avianca and Pascan, bringing the total number of destinations available through this platform to over 300.

In May 2022, the Corporation opened bookings under the codeshare agreement with WestJet in the transatlantic market.

In October 2022, the Corporation opened bookings under the codeshare agreement with Porter Airlines.

NEW AIRCRAFT LEASES

In September 2022, the Corporation announced a long-term lease agreement for three new Airbus A321XLRs, for delivery from 2025 to 2026. The agreement also includes an option for an additional A321XLR to be delivered in 2027.

In November 2022, the Corporation entered into an agreement for the delivery of two additional Airbus A321LRs, delivery being expected in 2024, bringing the total projected number of A321LRs to 19.

COLLECTIVE AGREEMENTS

In May 2022, the Corporation entered into an agreement with the Air Line Pilots Association, International (ALPA), which represents all of its pilots, extending the term of its current collective agreement by three years, until April 30, 2025.

In October 2022, the Corporation entered into a new five-year collective agreement with the International Association of Machinists and Aerospace Workers (AIMTA), representing maintenance workers and central baggage agents. This new agreement, expiring on April 30, 2027, was ratified on November 7, 2022.

5. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists primarily of air carriers serving holiday travellers, mainly for tourism, vacation or to visit family and friends, as well as tour operators, travel agencies (both in-person and online), destination service companies, hoteliers and airlines. Each of these subsectors includes companies with different operating models.

CORE BUSINESS, VISION AND STRATEGY

Core Business

Founded in Montréal 35 years ago, Transat is a holiday travel leader, particularly as an air carrier under the Air Transat brand. Voted World's Best Leisure Airline in North America by passengers at the 2022 Skytrax World Airline Awards, it flies to international, U.S. and Canadian destinations. By renewing its fleet with the most energy-efficient aircraft in their category, it is committed to a healthier environment, knowing that this is essential to its operations and the destinations it serves. Transat has been Travelife-certified since 2018.

Strategy

In its 2022-2026 strategic plan, Transat set itself the objective of making the Corporation profitable again and complete its transformation to achieve a level of profitability that exceeds pre-pandemic levels, as well as grow in new markets. This phase must enable the Corporation to leverage those achievements after 2026 to propel Transat toward a new growth phase.

STRATEGIC PLAN

To that end, Transat is implementing or continuing certain changes:

- Refocus airline operations and redefine the network by ensuring a greater presence in Montréal and Eastern Canada and forging partnerships to strengthen the network;
- Reduce costs and increase agility, particularly by renegotiating some commitments (fleet, real estate, etc.), by refocusing on airline businesses and a significant streamlining of the organization;
- Optimize financing structure over the long term;
- Increase efficiency by streamlining the fleet and bringing its average age down, around two types of Airbus aircraft (A330 and A321), optimizing aircraft usage, reducing seasonal fluctuations and enhancing revenue management practices.

The Corporation is continuing to rely on and leverage its strengths:

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

For fiscal 2023, in line with its 2022-2026 strategic plan, Transat has set the following objectives and performance drivers:

1. Continue to strengthen the network, particularly by entering into partnerships to improve aircraft usage and expand into new markets, and by implementing a dynamic pricing solution.
2. Preserve liquidity and optimize cash to support the resumption and development of operations.

3. Continue to streamline the fleet, in particular with the addition of new A321LR aircraft and implementation of the Mixed Fleet Flying accreditation program.
4. Optimize capital structure.
5. Accelerate growth in ancillary revenues.
6. Improve call centre performance.

REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2022

The main objectives and achievements for fiscal 2022 were as follows:

Continue to resume operations by increasing volumes and employment levels during the winter and summer seasons to prepare for a return to pre-pandemic levels by 2023 at the latest

The Corporation continuously adjusted its flight program as the situation evolves. The lingering effects of the Omicron variant and the restrictive measures put in place by the federal government on December 15, 2021 have impacted bookings and cancellation requests. As a result, during the first quarter, the Corporation cancelled nearly 30% of flights scheduled from January to the end of February. In addition, at the beginning of February, the Corporation cancelled more winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity. The easing of global travel restrictions followed by the lifting of most of them has led to an increase in demand. Since then, the Corporation has resumed its flight schedule for the summer season representing a significant portion of pre-pandemic volume.

As at October 31, 2022, the workforce totalled about 3,900, up by approximately 1,800 employees compared to last year, which represents 75% of the pre-pandemic headcount.

Preserve liquidity and optimize cash to support the resumption and development of operations

By renegotiating certain terms of the agreement entered into with the Government of Canada, as discussed below, and by implementing the measures described in the following paragraphs, the Corporation has given itself the means to resume its operations gradually. Accordingly, in 2022, the Corporation has resumed its flight schedule for the summer season representing a significant portion of pre-pandemic volume.

Throughout the fiscal year, the Corporation had negotiations with its suppliers, to benefit from cost reductions and changes in payment terms, and is continuing to implement measures to reduce expenses and investments.

The Corporation continues to benefit from government grants for businesses affected by COVID-19. The Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") have been replaced by the Government of Canada with two new programs, the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP"). These two programs, which ended on May 7, 2022, provided support for salaries.

During the fiscal year, one Airbus A330 was returned to lessors early.

Continue to streamline the fleet, in particular with the addition of new A321LR aircraft and implementation of the Mixed Fleet Flying accreditation program, and prepare the necessary changes for the next five years

During the fiscal year, the Corporation took delivery of two Airbus A321LRs while one Airbus A330 was returned to lessors early. In addition, in September 2022, the Corporation announced a long-term lease for three new Airbus A321XLRs, for delivery from 2025 to 2026. The agreement also includes an option for an additional A321XLR aircraft to be delivered in 2027. The A321XLRs will provide substantial operational flexibility and meet Air Transat's needs, both for the winter and summer seasons. All these changes, plus the aircraft to be delivered in fiscal 2023 and 2024, will allow the Corporation to deploy a fleet adapted to the post-pandemic recovery and growth in operations.

In August 2022, the Corporation received Transport Canada accreditation for its Mixed Fleet Flying program for Airbus A321s and A330s. This program allows accredited pilots to fly both Airbus A321 and A330 aircraft, as well as for the pooling of the training and verification activities required for these aircraft.

Deploy the partnership strategy by setting up several interlining or codeshare agreements

In 2022, the Corporation implemented two codeshare agreements. The first, with Westjet launched in May 2022, allows travellers on Air Transat's transatlantic flights to connect, via Montréal and Toronto, to or from Westjet's and Westjet Encore's domestic and US flights.

The second partnership, in effect since October 2022 with Porter Airlines allows travellers on Air Transat flights to connect, via Montréal, to or from Porter flights from Toronto Billy Bishop and Halifax, starting November 2, 2022.

These agreements are part of Air Transat's network development strategy through partnerships, in order to offer customers more options, diversify our transborder route network and expand into new markets more quickly by combining complementary strengths with these partners.

Reconsider existing financing and optimize capital structure

As described in the Financing section, the Corporation renegotiated certain terms of its agreement with the Government of Canada. On March 9, 2022, the financing agreement for the unsecured debt - LEEFF was amended to, among other things, defer the increase in interest rates as well as the date at which 50% of vested warrants would be forfeited if the financing were to be repaid before December 31, 2023. The unsecured credit facility related to travel credits was also amended to increase the amount that can be drawn by $43.3 million. On July 29, 2022, the Corporation secured an additional $100.0 million through the LEEFF on the same terms and conditions as amended on March 9, 2022. This agreement provides the Corporation with access to an additional $100.0 million in liquidity. Of this additional liquidity, $80.0 million is in addition to the unsecured LEEFF financing and $20.0 million is in addition to the secured LEEFF financing. In connection with the arrangement of this additional financing, the Corporation has agreed with all lenders to extend the maturities originally scheduled for April 29, 2023 to April 29, 2024. The Corporation has also agreed to extend the date by which the Corporation must comply with certain financial covenants to October 29, 2023 (previously October 30, 2022). In addition, as provided for under the terms of the LEEFF financing, a total of 4,687,500 warrants to purchase an equivalent number of shares of Transat at an exercise price of $3.20 per share were also issued under the renegotiated terms on March 9, 2022.

The modifications to the LEEFF financing negotiated on July 29, 2022 also provide the Corporation with an additional credit facility of up to $50.0 million subject to certain preconditions to be satisfied on or before July 29, 2023, including obtaining additional third-party financing.

Deploy a global corporate responsibility strategy and set concrete decarbonization targets

In 2022, the Corporation created a new Vice Presidency, Corporate Responsibility, to strengthen its commitment to environmental, societal and governance issues. The mandate of this new team is to better support the priority objectives of its strategic plan in this area, which includes promoting diversity and inclusion in the workplace and decarbonizing its operations.

Transat is aligned with the airline industry's goal of achieving net zero emissions by 2050. In 2022, a cross-functional decarbonization committee was established to develop the climate action plan, including the identification of medium-term targets for carbon emission reductions and sustainable aviation fuel supply (SAF).

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents (not held in trust or otherwise reserved) totalled $322.5 million as at October 31, 2022.
Credit facilities	For operational purposes, we can also rely on, among other resources, a $50.0 million revolving term credit facility and a $70.0 million subordinated short-term credit facility maturing on April 29, 2024. In addition, as described in the Financing section, on July 29, 2022, the Corporation renegotiated it agreement with the Government of Canada that allows it to borrow up to $843.3 million in additional liquidity through the LEEFF, of which $743.2 million was drawn. Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements contain more detail on this issue.

Our non-financial resources include:

Brand	The Corporation continues to strengthen its distinctive brand image and raise its profile, including its sustainable tourism approach.
Structure	The integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.
Employees	The employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. In addition, we believe that the Corporation has strong management.
Supplier relationships	The Corporation has maintained over 35 years of privileged relationships with many local and destination suppliers, including hotel operators.

Subject to the going concern uncertainty described in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements, Transat has the resources it needs to meet its 2023 objectives and continue building on its long-term strategies.

6. CONSOLIDATED OPERATIONS

	2022	2021	2020	Difference	
(in thousands of dollars)	$	$	$	%	%
Revenues	**1,642,038**	124,818	1,302,069	1,215.5	(90.4)
Operating expenses					
Aircraft fuel	**526,152**	22,373	258,947	2,251.7	(91.4)
Costs of providing tourism services	**355,250**	31,958	431,562	1,011.6	(92.6)
Salaries and employee benefits	**288,889**	122,770	239,250	135.3	(48.7)
Depreciation and amortization	**153,429**	159,765	204,112	(4.0)	(21.7)
Airport and navigation fees	**128,318**	13,032	77,622	884.6	(83.2)
Sales and distribution costs	**116,105**	13,020	97,086	791.7	(86.6)
Aircraft maintenance	**114,159**	48,832	110,413	133.8	(55.8)
Aircraft rent	**6,018**	—	23,358	100.0	(100.0)
Other airline costs	**162,082**	24,643	109,424	557.7	(77.5)
Other	**90,949**	57,371	75,410	58.5	(23.9)
Share of net loss of a joint venture	**2,477**	4,704	1,172	(47.3)	301.4
Special items	**1,630**	27,572	99,675	(94.1)	(72.3)
	1,945,458	526,040	1,728,031	269.8	(69.6)
Operating loss	**(303,420)**	(401,222)	(425,962)	24.4	5.8
Financing costs	**105,314**	77,024	48,049	36.7	60.3
Financing income	**(12,982)**	(4,441)	(13,625)	192.3	(67.4)
Change in fair value of derivatives	**9,685**	(8,849)	13,715	(209.4)	164.5
Revaluation of liability related to warrants	**(21,989)**	(4,934)	—	345.7	100.0
Gain on long-term debt modification	**(22,191)**	—	—	100.0	—
Loss (gain) on asset disposals	**(3,934)**	(17,347)	11,271	(77.3)	253.9
Foreign exchange (gain) loss	**92,150**	(53,260)	3,601	(273.0)	1,579.0
Pre-tax loss	**(449,473)**	(389,415)	(488,973)	(15.4)	20.4
Income taxes (recovery)					
Current	**(3,174)**	(52)	(4,376)	(6,003.8)	98.8
Deferred	**(975)**	75	12,168	(1,400.0)	(99.4)
	(4,149)	23	7,792	(18,139.1)	(99.7)
Net loss for the year	**(445,324)**	(389,438)	(496,765)	(14.4)	21.6
Net income (loss) attributable to:					
Shareholders	**(445,324)**	(389,559)	(496,545)	(14.3)	21.5
Non-controlling interests	**—**	121	(220)	(100.0)	155.0
	(445,324)	(389,438)	(496,765)	(14.4)	21.6
Loss per share:					
Basic	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5
Diluted	**(11.77)**	(10.32)	(13.15)	(14.1)	21.5

REVENUES

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

For the year ended October 31, 2022, our revenues were up significantly by $1,517.2 million, owing primarily to the fact the Corporation had to suspend its airline operations from January 29, 2021 to July 30, 2021 and to adjust its offering to reduced demand throughout fiscal 2021. Compared with fiscal 2019, revenues were down 44.1%.

Revenue growth in winter 2022 was dampened by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant during the first quarter and the new restrictive measures put in place by the federal government on December 15, 2021. As a result, the Corporation initially cancelled nearly 30% of flights scheduled from January to the end of February. In addition, at the beginning of February, the Corporation cancelled additional winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity.

For the 2022 summer season, the Corporation also deployed a reduced program although much more similar to pre-pandemic levels. Compared with the corresponding period of fiscal 2019, revenues were down 22.3%. For the 2022 summer season, the capacity offered represented 87% of that deployed in 2019 across all programs and 74% of the 2019 level for the transatlantic program, the main program during this period. Overall, the number of travellers were down 21% compared with 2019. The gradual recovery of demand combined with higher fuel prices contributed to the increase in average selling prices compared with 2019. For our transatlantic program, selling prices increased by an average of 7%.

OPERATING EXPENSES

Total operating expenses were up $1,419.4 million (269.8%) for the fiscal year, compared with 2021, attributable to the greater capacity deployed compared with the corresponding periods of 2021 following higher demand compared with last year.

Aircraft fuel

Aircraft fuel expense was up $503.8 million for the fiscal year. The increase was mainly attributable to a higher capacity compared with 2021, combined with a significant 88% rise in fuel prices ($241.8 million) compared with fiscal 2021.

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 as well as transfer and excursion costs. The $323.3 million increase resulted primarily from the rise in the number of packages sold compared with 2021.

Salaries and employee benefits

Salaries and employee benefits were up $166.1 million (135.3%) to $288.9 million for the year ended October 31, 2022, mainly following the gradual resumption of the Corporation's airline operations and the recall of some of its employees since July 2021.

Up through April 30, 2022, the Corporation benefited from wage subsidies for businesses affected by COVID-19 for its personnel in Canada. During the year ended October 31, 2022, the Corporation made use of the THRP and HHBRP, resulting in the recognition of an amount of $24.4 million under these programs. The THRP and HHBRP ended on May 7, 2022. For the year ended October 31, 2021, the Corporation made use of the CEWS; amounts of $25.8 million and $80.9 million, respectively, were recognized related to active employees and non-active employees, representing salaries paid.

Depreciation and amortization

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 $6.3 million (4.0%) for fiscal 2022. The decrease stemmed mainly from the accelerated amortization that was recorded during fiscal 2021 of certain right-of-use assets related to the fleet, partially offset by the commissioning of four Airbus A321LRs in 2021 and two more in 2022.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $115.3 million for the fiscal year, compared with 2021. The increase mainly resulted from the greater capacity deployed compared with 2021 and higher prices.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs amounted to $116.1 million, up $103.1 million from fiscal 2021. The increase was mainly driven by higher revenues. Other factors were the higher advertising expenses due to the gradual resumption of operations, the increase in package sales which have higher commissions and costs related to booking cancellations.

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. These costs were up $65.3 million (133.8%) for the year, compared with 2021. The increase was attributable to the greater capacity deployed compared with 2021.

Aircraft rent

Aircraft rent refers to variable aircraft rent. Aircraft rent amounted to $6.0 million for fiscal 2022 (nil in 2021). The increase was attributable to higher capacity compared with 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 up $137.4 million for the fiscal year, compared with 2021. This increase was attributable to higher capacity compared with 2021.

Other

Other costs were up $33.6 million (58.5%) for the fiscal year, compared with 2021. The increase resulted from higher business volume compared with 2021.

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 fiscal 2022 amounted to $2.5 million, compared with $4.7 million for 2021. Operations at our hotel joint venture gradually resumed compared with 2021. Moreover, certain assets were impaired during the year ended October 31, 2021.

Special items

	2022 $	2021 $
Special items		
Severance	**847**	6,739
Impairment of assets	**783**	—
Impairment of contract balances and other assets	**—**	24,333
Impairment of the fleet (including right-of-use assets)	**—**	9,117
	1,630	40,189
Special items related to the transaction with Air Canada		
Termination payment	**—**	(12,500)
Professional fees	**—**	6,106
Reversal of compensation expense	**—**	(6,223)
	—	(12,617)
	1,630	27,572

Special items generally include restructuring charges and other significant unusual items, including impairment losses.

Special items

As a result of the global COVID-19 pandemic since the beginning of 2020, the Corporation's operations have been significantly disrupted. As a result, the Corporation has had to make significant capacity reductions, primarily in 2021, and recognize impairment charges in this respect and other charges. These charges and impairment losses are included in Special items.

As at October 31, 2022, special items included severance costs of $0.8 million in respect of estimated termination benefits and an asset impairment charge of $0.8 million for the impairment of rotable Boeing 737 spare parts.

During the year ended October 31, 2021, special items included the impairment of contract balances of $21.9 million related to commissions, global distribution system fees and credit card fees that will not be refunded to the Corporation as part of the traveller refunds. In addition, the Corporation recorded an impairment charge of $2.4 million related to deposits associated with an impaired aircraft.

During the year ended October 31, 2021, it was determined that a leased Airbus A330 will not be used until it is returned to the lessor. An impairment charge totalling $9.1 million has been recorded to this effect.

As a result of the COVID-19 pandemic, the Corporation has undertaken to reduce its workforce through permanent layoffs. Severance costs of $6.7 million were accrued in 2021, of which $5.2 million was included in Trade and other payables at October 31, 2021. The provision includes the estimated costs of notices and severance benefits provided for in the Corporation's collective agreements and applicable laws, the amount of which could be adjusted based on various factors such as the relevant notice period and the number of employees being laid off and the period for which they remain laid off.

Special items related to the transaction with Air Canada

During the year ended October 31, 2021, the agreed upon amount of $12.5 million in termination fees for the arrangement agreement settled by Air Canada, professional fees of $6.1 million and a reversal of compensation expense of $6.2 million were recorded in connection with the terminated Air Canada transaction. Compensation expense was mainly related to stock-based compensation plans that include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expense recorded as a special item resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recorded compensation expense reversals to reduce and even cancel certain provisions related to the stock-based compensation plans, for which the performance criteria threshold was not met.

OPERATING RESULTS

Given the above, we recorded an operating loss of $303.4 million for the year, compared with $401.2 million in 2021. Operating results by season are summarized as follows:

				Difference	
	2022	**2021**	**2020**	**2022**	**2021**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Winter season					
Revenues	**560,595**	49,489	1,264,097	1,032.8	(96.1)
Operating expenses	**721,949**	234,017	1,318,714	208.5	(82.3)
Operating loss	**(161,354)**	(184,528)	(54,617)	12.6	(237.9)
Operating loss (%)	**(28.8)**	(372.9)	(4.3)	92.3	(8,529.9)
Summer season					
Revenues	**1,081,443**	75,329	37,972	1,335.6	98.4
Operating expenses	**1,223,509**	292,023	409,317	319.0	(28.7)
Operating loss	**(142,066)**	(216,694)	(371,345)	34.4	41.6
Operating loss (%)	**(13.1)**	(287.7)	(977.9)	95.4	70.6

We reported an operating loss for the winter season amounting to $161.4 million (28.8%), compared with $184.5 million (372.9%) in 2021. The improvement in operating results was attributable to the gradual and partial resumption of airline operations, substantially offset by the significant rise in fuel prices. At the beginning of February, the Corporation cancelled more winter season flights, thereby reducing total winter season capacity by approximately 22% of the initially deployed capacity. The Corporation cancelled flights due to the drop in demand and booking cancellations following the emergence of the Omicron variant and restrictive measures put in place by the federal government on December 15, 2021. Due to the COVID-19 pandemic, demand for the winter season remained low and the Corporation's deployed capacity for winter 2022 was a fraction of 2019 capacity

During the summer season, the Corporation incurred an operating loss of $142.1 million (13.1%) compared with $216.7 million (287.7%) for the previous year. The improvement in operating results was attributable to the gradual and partial resumption of our operations, but was substantially offset by the significant rise in fuel prices and the weakening of the dollar against the U.S. currency. Airline operations were suspended for the third quarters of 2021 and 2020. Since the resumption of airline operations, demand and the Corporation's deployed capacity remains below the 2019 level; however, the recovery of demand is stronger in 2021 compared with 2020 and continues to gather strength. In 2020, the decline in operating results was accentuated by the special items and the unfavourable settlement of fuel-related derivative contracts.

During the winter season, the Corporation reported an adjusted operating loss of $87.4 million (15.6%), compared with an adjusted operating loss of $104.6 million (211.3%) in 2021. For the summer season, we incurred an adjusted operating loss of $69.4 million (6.4%) compared with $109.3 million (145.1%) in 2021. Overall, for the fiscal year, the Corporation reported an adjusted operating loss of $156.8 million (9.5%), compared with $213.9 million (171.4%) in 2021.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $28.3 million (36.7%) in fiscal 2022 compared with 2021. The increase resulted from higher debt following the new credit facilities entered into with the Government of Canada through the LEEFF. In 2021, the Corporation had incurred interest expenses, standby and arrangement fees related to the $70.0 million subordinated credit facility.

Financing income

Financing income was up $8.5 million (192.3%) during fiscal 2022, compared with 2021, mainly due to the increases in average balances of cash and cash equivalents and higher interest rates compared with 2021. Also, following a settlement agreement with the tax authorities on the deductibility of losses related to ABCP (Asset-Backed Commercial Paper), the Corporation recorded interest income of $2.1 million for the year.

Change in fair value of derivatives

The change in fair value of 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 exchange rates as well as the change in fair value of the pre-payment option on the unsecured debt - LEEFF.

During fiscal 2022, the Corporation resumed the use of fuel-related and foreign currency derivatives to mitigate fluctuations in fuel prices and exchange rates. During the year ended October 31, 2022, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies decreased by $7.9 million, mainly due to the decrease in the fair value of fuel-related derivatives. During fiscal 2022, the fair value of the pre-payment option related to LEEFF unsecured financing decreased by $1.8 million. In fiscal 2021, the $8.8 million increase in the fair value of derivatives was mainly due to the maturing of fuel-related derivatives.

Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the year ended October 31, 2022, the fair value of warrants decreased by $22.0 million, owing mainly to the decline in the closing price of the share from $4.39 to $2.60 between October 31, 2021 and October 31, 2022.

Gain on long-term debt modification

On March 9, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. The Corporation concluded that the modifications related to the interest under the March 9, 2022 amended agreement were non-substantial as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEEF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The $22.2 million adjustment was recorded as a gain on long-term debt modification.

Gain on asset disposals

For the year ended October 31, 2022, the $3.9 million gain on asset disposals was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4.1 million gain, which resulted from the reversal of lease liabilities of $4.0 million and other assets and liabilities totalling $0.1 million. The carrying amount of the right-of-use asset for this aircraft lease was fully impaired during the year ended October 31, 2021.

For the year ended October 31, 2021, the $17.3 million gain was primarily attributable to the termination of aircraft leases for four Airbus A330s and one Boeing 737-800. The $14.6 million gain on termination of aircraft leases resulted from the reversal of lease liabilities of $20.0 million, property, plant and equipment of $9.3 million and the provision for return conditions of $3.9 million. The carrying amounts of right-of-use assets for four of these aircraft leases were fully impaired during the year ended October 31, 2020. Moreover, during the year ended October 31, 2021, the Corporation recognized a gain on real estate lease termination of $2.6 million that stemmed from the reversal of $22.1 million in lease liabilities and $19.5 million in property plant and equipment.

Foreign exchange loss (gain)

For fiscal 2022, the Corporation recorded a foreign exchange loss of $92.2 million compared with a foreign exchange gain of $53.3 million in 2021. In 2022, the foreign exchange loss resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar.

INCOME TAXES

For the fiscal year, income tax recovery totalled $4.1 million, compared with an income tax expense of $0.0 million in 2021. The effective tax rates were 0.9% and 0.0%, respectively, for the years ended October 31, 2022 and 2021. During the year ended October 31, 2022, following a settlement agreement with the tax authorities on the deductibility of ABCP-related losses, the Corporation recorded an income tax recovery of $5.3 million.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances related to Canadian operations whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the uncertainty as to when the Corporation would return to profitability. Accordingly, during the year ended October 31, 2022, no deferred tax assets of Canadian subsidiaries were recognized.

NET LOSS

Considering the items discussed in the Consolidated Operations section, a net loss of $445.3 million was reported for the year ended October 31, 2022, compared with $389.4 million in 2021.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For fiscal 2022, net loss attributable to shareholders amounted to $445.3 million or $11.77 per share (basic and diluted) compared with $389.6 million or $10.32 per share (basic and diluted) for fiscal 2021. For the year ended October 31, 2022, the weighted average number of outstanding shares used to compute per share amounts was 37,838,000 (basic and diluted) compared with 37,747,000 (basic and diluted) for 2021.

For the year ended October 31, 2022, adjusted net loss was $403.7 million ($10.67 per share), compared with $446.4 million ($11.83 per share) in 2021.

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. For all the quarters reported, revenue growth was attributable to partial and gradual resumption of operations. The Corporation had to fully suspend its airline operations from January 29, 2021 to July 30, 2021 due to the COVID-19 pandemic. Nevertheless, the recovery in demand continues to gather strength since July 31, 2021, driving revenue growth.

The improvement in our operating results was driven by the partial and gradual resumption of operations. The operating losses for winter 2021 (Q1 and Q2) and the first part of summer 2021 (Q3) were mainly attributable to the suspension of our airline operations combined with a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. The recovery of demand was stronger in 2022 than in 2021, and accordingly, operating results improved for the 2022 winter and summer seasons compared with 2021. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information

(in thousands of dollars, except per share data)	Q1-2021 $	Q2-2021 $	Q3-2021 $	Q4-2021 $	Q1-2022 $	Q2-2022 $	Q3-2022 $	Q4-2022 $
Revenues	41,920	7,569	12,548	62,781	**202,438**	**358,157**	**508,304**	**573,139**
Operating loss	(98,048)	(86,480)	(98,368)	(118,326)	**(73,841)**	**(87,513)**	**(93,218)**	**(48,848)**
Net loss	(60,503)	(69,537)	(138,059)	(121,339)	**(114,345)**	**(98,276)**	**(106,472)**	**(126,231)**
Net loss attributable to shareholders	(60,534)	(69,561)	(138,125)	(121,339)	**(114,345)**	**(98,276)**	**(106,472)**	**(126,231)**
Basic loss per share	(1.60)	(1.84)	(3.66)	(3.21)	**(3.03)**	**(2.60)**	**(2.82)**	**(3.32)**
Diluted loss per share	(1.60)	(1.84)	(3.66)	(3.21)	**(3.03)**	**(2.60)**	**(2.82)**	**(3.32)**
Adjusted operating loss[1]	(53,632)	(50,963)	(50,928)	(58,362)	**(36,369)**	**(51,014)**	**(57,824)**	**(11,545)**
Adjusted net loss[1]	(109,049)	(103,287)	(115,641)	(118,400)	**(95,317)**	**(111,563)**	**(120,901)**	**(75,930)**
Adjusted net loss per share[1]	(2.89)	(2.74)	(3.06)	(3.14)	**(2.53)**	**(2.95)**	**(3.20)**	**(2.00)**

[1] See non-IFRS financial measures

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $573.1 million in revenues, up $510.4 million from $62.8 million for the corresponding period of 2021. This increase resulted from the partial resumption of operations at a higher level in 2022 compared with 2021 since airline operations restarted on July 30, 2021. Operations generated an operating loss of $48.8 million compared with an operating loss of $118.3 million in 2021. Operating results improved compared with 2021 but were strongly reined in by the significant rise in fuel prices and the weakening of the dollar against the U.S. currency. In 2021, the operating loss was aggravated by special items of $20.3 million, including an aircraft impairment charge of $9.1 million, termination benefits of $6.7 million and impairment of contract balances of $4.5 million.

We reported a net loss of $126.2 million in the fourth quarter, compared with a net loss of $121.3 million in 2021. Net loss attributable to shareholders was $126.2 million ($3.32 per share, basic and diluted), compared with a net loss of $121.3 million ($3.21 per share, basic and diluted) in 2021.

For the fourth quarter, adjusted net loss amounted to $75.9 million ($2.00 per share) compared with an adjusted net loss of $118.4 million ($3.14 per share) in 2021.

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from October 31, 2022. 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 since the beginning of 2020, the Corporation's operations have been severely disrupted and its financial results significantly impacted. Among other things, the Corporation had to suspend all of its flights twice, from April 1, 2020 to July 23, 2020 and from January 29, 2021 to July 30, 2021 and also to scale back its offering to adjust to demand. Despite the resumption of operations since July 30, 2021, the Corporation reported a net loss of $445.3 million and generated negative cash flows related to operating activities totalling $177.9 million for the year ended October 31, 2022. However, as discussed in Note 14 and to overcome the impacts of the pandemic, the Corporation renegotiated its agreement with the Government of Canada in order to be able to borrow up to $843.3 million in additional liquidity through the Large Employer Emergency Financing Facility ("LEEFF"). The ratios applicable to the credit facilities are now suspended until October 29, 2023 (previously October 30, 2022). As a result, total available credit amounts to a maximum of $963.3 million, of which $863.2 million was drawn as at October 31, 2022.

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 increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada that allows it to borrow additional cash resources up to a maximum of $843.3 million through the LEEFF, bringing total available financing to a maximum of $963.3 million. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios, which will be applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess liquidity needs and the capital structure and is not ruling out any option that could provide greater financial flexibility to the Corporation.

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

There can be no assurance that the Corporation will be able to borrow sufficient additional amounts to meet its future needs, or that it will be able to do so on acceptable terms or that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

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

The 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. The consolidated financial statements as at October 31, 2022 do not include adjustments to the carrying amount and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

CONSOLIDATED FINANCIAL POSITION

As at October 31, 2022, cash and cash equivalents totalled $322.5 million compared with $433.2 million as at October 31, 2021. Cash and cash equivalents in trust or otherwise reserved amounted to $375.6 million at the end of fiscal 2022, compared with $170.3 million as at October 31, 2021. The Corporation’s statement of financial position reflected negative working capital of $21.7 million, for a ratio of 0.98, compared with working capital of $89.3 million and a ratio of 1.14 as at October 31, 2021.

Total assets increased by $373.5 million (19.7%), from $1,897.7 million as at October 31, 2021 to $2,271.1 million as at October 31, 2022. This increase is explained in the financial position table provided below. Equity decreased by $435.1 million, from a negative amount of $315.1 million as at October 31, 2021 to negative equity of $750.2 million as at October 31, 2022. The deterioration resulted primarily from the $445.3 million net loss attributable to shareholders.

(in thousands of dollars)	October 31, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**322,535**	433,195	(110,660)	See Cash flows section
Cash and cash equivalents otherwise reserved	**375,557**	170,311	205,246	Higher business volume
Trade and other receivables	**265,050**	108,857	156,193	Increase in amounts receivable from credit card processors
Income taxes receivable	**5,537**	16,220	(10,683)	Collection of income taxes recoverable related to ABCP
Inventories	**26,725**	10,514	16,211	Increase in inventory of fuel and aircraft parts
Prepaid expenses	**26,428**	16,465	9,963	Higher business volume
Deposits	**201,623**	122,174	79,449	Increase in deposits for aircraft maintenance
Deferred tax assets	**953**	—	953	Recognition of deferred tax assets by certain foreign subsidiaries
Property, plant and equipment	**1,000,151**	974,229	25,922	Delivery of two Airbus A321LRs and capitalization of eligible aircraft maintenance partially offset by depreciation for the period and by the impairment of Boeing 737 spare parts inventory
Intangible assets	**13,261**	16,849	(3,588)	Amortization for the period, partially offset by software acquisitions
Derivative financial instruments	**11,939**	—	11,939	Favourable change in fuel-related and foreign currency derivatives contracted and premiums paid
Investment	**8,820**	9,476	(656)	Share of net loss of a joint venture
Deferred financing costs	**12,552**	19,368	(6,816)	Deferred financing costs related to the recent amendments to the LEEFF credit facilities, offset by the full utilization of deferred financing costs related to the initial LEEFF financing

(in thousands of dollars)	October 31, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**289,897**	141,790	148,107	Higher business volume
Income taxes payable	**1,054**	1,354	(300)	Decrease in amounts due
Customer deposits and deferred revenues	**602,509**	292,158	310,351	Higher business volume
Derivative financial instruments	**6,209**	—	6,209	Unfavourable change in currencies related to contracted derivatives
Long-term debt and lease liabilities	**1,752,068**	1,419,538	332,530	Drawdowns on the credit facilities, addition of two new aircraft leases, and weakening of the dollar against the U.S. dollar, partially offset by the gain on long-term debt modification and the early return of an aircraft
Provision for return conditions	**154,772**	126,244	28,528	Increase mainly related to the passage of time
Liability related to warrants	**24,360**	36,557	(12,197)	Decrease in fair value of warrants during the period, partially offset by the issuance of warrants
Deferred government grant	**169,025**	167,394	1,631	Drawdowns on the credit facility related to travel credits, partially offset by proceeds from government grants during the period
Employee benefits liability	**20,773**	27,120	(6,347)	Decrease in the defined benefit obligation following the increase in the discount rate and the amendments
Deferred tax liabilities	**644**	613	31	No significant difference
Equity				
Share capital	**221,924**	221,012	912	Shares issued from treasury
Share-based payment reserve	**16,092**	15,948	144	Share-based payment expense
Deficit	**(984,602)**	(544,881)	(439,721)	Net loss
Cumulative exchange differences	**(3,594)**	(7,189)	3,595	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

				Difference	
(in thousands of dollars)	2022 $	2021 $	2020 $	2022 %	2021 %
Cash flows related to operating activities	**(177,854)**	(518,444)	(46,136)	65.7	(1,023.7)
Cash flows related to investing activities	**(33,783)**	4,542	(60,414)	(843.8)	107.5
Cash flows related to financing activities	**99,689**	522,071	(33,374)	(80.9)	1,664.3
Effect of exchange rate changes on cash	**1,288**	(1,407)	1,513	191.5	(193.0)
Net change in cash and cash equivalents	**(110,660)**	6,762	(138,411)	(1,736.5)	104.9

Operating activities

Operating activities used cash flows of $177.9 million during fiscal 2022, compared with $518.4 million in 2021. The $340.6 million decrease in cash flows used in operating activities resulted from the $313.6 million increase in cash flows generated by the net change in non-cash working capital balances related to operations, the $39.1 million decrease in net loss before operating items not involving an outlay (receipt) of cash, and the $21.0 million increase in in the net change in the provision for return conditions, partially offset by the $33.1 million decrease in the net change in other assets and liabilities related to operations.

In 2021, the decrease in cash flows related to operating activities resulted mainly from a $362.3 million decline in the net change in non-cash working capital balances related to operations combined with a $70.0 million increase in net loss before operating items not involving an outlay (receipt) of cash, a $43.9 million decrease in the net change in other assets and liabilities related to operations and a $3.9 million increase in the net change in the provision for return conditions. The deterioration in cash flows related to operating activities resulted mainly from the suspension of airline operations for the second and third quarters of 2021, combined with a significant reduction in capacity deployed in the first half of winter 2021, due to demand remaining below prior year level because of the COVID-19 pandemic, and the travel credits refunded during the summer and payments made to suppliers.

Investing activities

Cash flows used in investing activities amounted to $33.8 million for fiscal 2022, compared with cash flows generated of $4.5 million in 2021. For the year ended October 31, 2022, additions to property, plant and equipment and intangible assets amounted to $32.5 million and consisted primarily in aircraft maintenance and spare parts, compared with $5.6 million in 2021. During the year ended October 31, 2021, cash flows were generated by the decrease in the cash and cash equivalents reserved balance of $25.5 million partially offset by the $15.0 million consideration paid to acquire the 30% interest held by the minority shareholder in Trafictours Canada inc.

Financing activities

Financing activities generated cash flows of $99.7 million, compared with $522.1 million in 2021. During the year ended October 31, 2022, the Corporation made drawdowns on its credit facilities amounting to $213.2 million, compared with $599.9 million in 2021. In addition, the Corporation made repayments on its lease liabilities amounting to $108.3 million compared with $74.5 million in 2021. In 2021, the Corporation was able to negotiate rent deferral with certain lessors.

FINANCING

Funding from the Government of Canada

On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada. The new agreement allows it to borrow up to $843.3 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF), an increase of $100.0 million from the original agreement. Under the new agreement, Transat also has access to an additional credit facility of up to $50.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only on an as-needed basis, are as follows:

Secured debt – LEEFF

On July 29, 2022, the Corporation renegotiated its secured LEEFF financing agreement in order to borrow additional liquidity of $20.0 million, bringing the total amount of the credit facility to $98.0 million. The maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms of the agreement remain unchanged. The non-revolving facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and continues to bear interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the year ended October 31, 2022, the Corporation drew down a total amount of $34.0 million. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022, an amount of $78.0 million was drawn down ($44.0 million as at October 31, 2021) with a carrying amount of $77.2 million ($43.8 million as at October 31, 2021).

The financing arrangement also provides Transat with an additional credit facility of up to $10.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

Unsecured debt – LEEFF

On March 9, 2022 and July 29, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Accordingly, on July 29, 2022, the Corporation obtained additional liquidity of $80.0 million, bringing the total unsecured, non-revolving credit facility to $392.0 million. Under the agreement amended on March 9, 2022, the credit facility now bears interest at a rate of 5.0% until December 31, 2023 (previously until April 29, 2022), increasing to 8.0% until December 31, 2024 (previously until April 29, 2023), and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024 (previously until April 29, 2023). The maturity date for the initial amount of $312.0 million of the credit facility remains April 29,2026 while the additional amount of $80.0 million will mature on July 29, 2027. In the event of a change of control, this credit facility becomes immediately due and payable. As at October 31, 2022, the amount drawn down was $312.0 million ($176.0 million as at October 31, 2021) with a carrying amount of $284.8 million ($158.0 million as at October 31, 2021). During the year ended October 31, 2022, the Corporation drew down a total amount of $136.0 million.

The Corporation concluded that the interest rate modifications under the agreement amended on March 9, 2022 were non-substantial as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEFF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The $22.2 million adjustment was recorded as a gain on long-term debt modification.

The financing arrangement also provides Transat with an additional credit facility of up to $40.0 million, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

In the context of the initial financing arrangement related to the LEEFF unsecured financing facility, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share (representing the volume-weighted average trading price for the five trading days preceding the issuance of the warrants) over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt - LEEFF.

On July 29, 2022, as part of the amendments to the financing arrangement related to the unsecured financing facility - LEEFF, the Corporation issued an additional 4,687,500 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $3.20 per share over a 10-year period, representing 18.75% of the additional commitment available under the unsecured financing facility - LEEFF.

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was to be repaid prior to December 31, 2023 (previously April 29, 2022), 50% of the vested warrants would be forfeited.

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

As at October 31, 2022, a total of 13,000,000 warrants (7,333,333 warrants as at October 31, 2021) had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

Under the limitations set out above, if the 17,687,500 warrants issued are exercised:

- a maximum of 9,503,036 warrants could be exercised through the issuance of shares;
- 8,184,464 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Unsecured credit facility related to travel credits

On March 9, 2022, the Corporation renegotiated its agreement with the Government of Canada under the unsecured credit facility related to travel credits in order to borrow additional funds up to a maximum of $43.3 million, bringing the total amount to $353.3 million. The unsecured credit facility was granted to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at October 31, 2022, the credit facility was fully drawn down ($310.0 million as at October 31, 2021) and its carrying amount stood at $182.5 million ($140.6 million as at October 31, 2021). An amount of $169.0 million ($167.4 million as at October 31, 2021) was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

On July 29, 2022, the Corporation renegotiated its $50.0 million revolving credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. This agreement can be extended for one year on each anniversary date subject to lender approval. The balance becomes immediately due and payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022 and 2021, the credit facility was fully drawn.

Subordinated credit facility

On July 29, 2022, the Corporation renegotiated its $70.0 million subordinated credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. In the event of a change in control, the agreement becomes immediately due and payable. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate or at the SOFR in U.S. dollars, plus a 6.0% premium, or at the financial institution's prime rate, plus a 5.0% premium. Until October 29, 2023 (previously October 31, 2022), an additional compounding premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022 and 2021, the credit facility was fully drawn.

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 consolidated financial statements and others are disclosed in the notes to the consolidated financial statements.

Obligations that are not presented 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 $978.0 million as at October 31, 2022 ($549.8 million as at October 31, 2021) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**2022** **$**	**2021** **$**
Guarantees		
Irrevocable letters of credit	**978**	6,951
Collateral security contracts	**469**	425
Leases		
Lease obligations	**976,510**	542,397
	977,957	549,773
Agreements with suppliers	**17,352**	21,344
	995,309	571,117

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 $74.0 million annually renewable revolving credit facility for issuing letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at October 31, 2022, $55.9 million of the facility was drawn ($38.2 million as at October 31, 2021), including $31.3 million ($30.7 million as at October 31, 2021) 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.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits from which £0.2 million ($0.3 million) has been drawn down.

As at October 31, 2022, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $428.2 million compared with October 31, 2021. This increase is primarily due to the signing of an agreement for the lease of three Airbus A321XLRs and one Airbus A321ceo (the agreement includes an option for the Corporation to lease an additional Airbus A321XLR), the impact of higher interest rates on future rents and the weakening of the dollar against the U.S. dollar.

Subject to going concern uncertainty discussed in Section 7. Financial Position, Liquidity and Capital Resources of 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.

CONTRACTUAL OBLIGATIONS BY YEAR	**2023**	**2024**	**2025**	**2026**	**2027**	**2028 and up**	**Total**
Years ending October 31	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Contractual obligations							
Long-term debt	25,220	215,783	32,662	406,290	4,309	355,377	1,039,641
Lease liabilities	191,166	171,474	177,080	156,799	141,893	533,565	1,371,977
Leases (off-balance sheet)	7,822	46,548	58,206	75,677	80,840	707,417	976,510
Agreements with suppliers and other obligations	10,568	4,415	6,158	1,446	1,463	30,097	54,147
	234,776	**438,220**	**274,106**	**640,212**	**228,505**	**1,626,456**	**3,442,275**

Debt levels

The Corporation reported $664.2 million in long-term debt and $1,087.9 million in lease liabilities in the consolidated statement of financial position.

The Corporation’s total debt stood at $1,932.9 million as at October 31, 2022, up $328.8 million from October 31, 2021. The increase was primarily due to a drawdown of $213.2 million from its credit facilities, the addition of two Airbus A321LRs to the fleet and the strengthening of the U.S. dollar against the dollar, partially offset by the repayment of long-term debt and lease liabilities, and the $22.2 million gain on long-term debt modification related to the modification of the LEEFF unsecured financing facility.

Total net debt increased by $439.4 million from $1,170.9 million as at October 31, 2021 to $1,610.4 million as at October 31, 2022. The increase in total net debt resulted from the increase in total debt and the decrease in cash and cash equivalent balances.

Outstanding shares

As at October 31, 2022, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 9, 2022, there were a total of 38,090,534 voting shares outstanding.

Stock options

As at December 9, 2022, a total of 480,847 stock options was outstanding, 180,847 of which were exercisable.

Warrants

As at October 31, 2022 and as at December 9, 2022, a total of 17,687,500 warrants was issued. As at October 31, 2022 and as at December 9, 2022, a total of 13,000,000 warrants had vested following drawdowns on the credit facility and no warrants had been exercised. Under the terms of the unsecured debt – LEEFF financing agreement amended on March 9, 2022, if the loan were to be repaid prior to December 31, 2023 (previously before April 29, 2022), 50% of the vested warrants would be forfeited.

8. OTHER

FLEET

As at October 31, 2022, Air Transat's fleet consisted of twelve Airbus A330s (332 or 345 seats), twelve Airbus A321LRs (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, one Airbus A330 was returned to the lessor early during the year ended October 31, 2022. In addition, a leased Boeing 737-800 will no longer be used until its return to the lessor; the carrying amount of this leased aircraft is fully written down.

The Corporation took delivery of two Airbus A321LRs during the year ended October 31, 2022.

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. There are often many uncertainties surrounding these disputes and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the paragraph hereunder. The Corporation has directors' and officers' liability insurance and professional liability insurance, with coverage under said insurance policies that is usually sufficient to pay amounts that the Corporation may be required to disburse in connection with these lawsuits that are specific to the directors and officers, and not the Corporation. In addition, the Corporation holds professional liability and general liability insurance for lawsuits relating to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has always defended itself vigorously and intends to continue to do so.

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of petitions for class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. While some of these petitions have not yet been definitively settled, the Corporation has refunded almost all customers, particularly since April 2021, using the unsecured credit facility related to travel credits. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation will continue to defend itself vigorously in this respect. 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 (loss) and could have an unfavourable effect on cash.

9. ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

Amortization and impairment of non-financial assets

Depreciation of property, plant and equipment

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

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

Impairment of non-financial assets

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

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

As at October 31, 2022, the Corporation determined that the declines in revenues and demand owing to the COVID-19 pandemic are indications of impairment of its CGUs. Accordingly, the Corporation performed a new impairment test on its CGUs. The recoverable amount of CGUs was determined based on their useful value, applying a discounted cash flow model. This model is based on Level 3 inputs within the fair value hierarchy. Cash flows are derived from the financial forecasts for the next four fiscal years, based on Corporation's 2022–2026 strategic plan and the 2023 budget, which are consistent with management's best estimates and have been approved by the Board of Directors, and take into account current and expected market conditions, including the impact of the COVID-19 pandemic. The Corporation has used various assumptions in the preparation of these projections, which are by their nature uncertain and may change unpredictably; accordingly, it is possible that these projections will not be achieved, particularly if demand remains at lower-than-expected levels and travel restrictions persist over time.

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

- An average discount rate of 15.70% (14.75% in 2021), which is the Corporation's weighted average capital cost. This rate was determined taking into account a number of factors such as the risk-free interest rate, the required return on equity investments, risk factors specific to the air transportation industry and risk factors specific to the Corporation's CGUs;
- A long-term growth rate of 2.0% beyond the 5-year period (2.0% in 2021), based on the Bank of Canada's target inflation rate;
- A per gallon fuel price between US$2.24 and US$3.79 (between US$1.93 and US$2.53 in 2021), based on management's best estimates.

As at October 31, 2022 and 2021, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount remained higher than their carrying amount. Sensitivity analyses were performed on the significant assumptions used in the discounted cash flow model and no impairment would have resulted from a change in those assumptions.

Property, plant and equipment

As at October 31, 2021, a leased Airbus A330 will no longer be used until its return to the lessor. An impairment charge representing the entire carrying amount of the right-of-use assets, maintenance components and leasehold improvements for this aircraft was recognized in the consolidated statement of loss under Special items; these impairment charges totalled $9.1 million.

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2022 and 2021, the land in Mexico did not meet the required criteria to be presented as an asset held for sale. Given the above-mentioned factors and the uncertainty surrounding future use of the land in Mexico, assessments of its recoverable amount compared with its carrying amount were made as at October 31, 2022 and 2021. The recoverable amount of the land at each of these dates was determined based on fair value less costs to sell. Fair value less costs to sell was estimated using level 3 input data, according to valuations prepared by an independent, external evaluator as at October 13, 2022 and October 19, 2021, respectively. As at October 31, 2022 and 2021, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly, no impairment charge was required.

Investment

As at October 31, 2022 and 2021, the Corporation determined that there was no objective evidence of impairment of its investment in a joint venture and that there was no increase in the value of the investment.

Discount rate of lease liabilities

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

Provision for return conditions

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

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

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

Liability related to warrants

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $51.3 million, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt - LEEFF.

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

Employee future benefits

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

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

	Retirement benefit expense for the year ended October 31, 2022	Retirement benefit obligation as at October 31, 2022
Increase (decrease)	$	$
Discount rate	(32)	(594)
Growth rate of eligible earnings	22	51

Taxes

Due to the adverse impact of the COVID-19 pandemic on its results, the Corporation ceased to recognize deferred tax assets of its Canadian subsidiaries and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. The Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the existing deferred tax assets. As discussed in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements, due to the COVID-19 pandemic, the losses generated during the years ended October 31, 2022 and 2021 and the uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the years ended October 31, 2022 and 2021, these adverse indications outweighed the historical favourable indications and the Corporation did not record any deferred tax assets for its Canadian subsidiaries during the year ended October 31, 2022. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is difficult to predict with certainty, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss.

FINANCIAL INSTRUMENTS

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

Foreign exchange risk management

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 66% of the Corporation’s costs were incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 21% of revenues were earned in a currency other than the measurement currency of the reporting unit making the sale. To safeguard the value of commitments and anticipated transactions, the Corporation has a foreign currency risk management policy that authorizes the use of certain types of foreign currency derivatives based on anticipated foreign exchange rate trends, expiring in generally less than 18 months. During fiscal 2022, the Corporation resumed the use of foreign currency derivatives to mitigate exchange rate fluctuations.

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

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

Management of fuel price risk

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes certain types of fuel-related derivative financial instruments, expiring in generally less than 12 months. During fiscal 2022, the Corporation resumed the use of fuel-related derivatives to mitigate fuel price fluctuations.

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $9.5 million as at October 31, 2022 ($9.8 million as at October 31, 2021). Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2022 and 2021. As at October 31, 2022, approximately 14% (approximately 11% as at October 31, 2021) of accounts receivable were over 90 days past due, whereas approximately 78% (approximately 85% as at October 31, 2021) were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Receivables included receivables from two credit card processors totalling $196.9 million ($77.7 million as at October 31, 2021). The credit risk for these receivables is negligible.

Pursuant to certain agreements entered into with its service providers, primarily hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $28.1 million as at October 31, 2022 ($7.5 million as at October 31, 2021). These deposits are offset by purchases of person-nights at these hotels and purchases from suppliers. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights and that the suppliers might not be able to provide the required services. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators and suppliers in its active markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $37.9 million as at October 31, 2022 ($33.9 million as at October 31, 2021) and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2022, the cash security deposits with lessors that have been claimed totalled $10.0 million ($1.6 million as at October 31, 2021) and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is negligible.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2022 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A2 (by Standard & Poor's) or P2 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2022.

Liquidity risk

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

Interest rate risk

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

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

Changes in accounting policies

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

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

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

The Corporation adopted these amendments on November 1, 2021 by applying the practical expedient. The adoption of these amendments did not have any impact on the Corporation's consolidated financial statements as of the date of first application or for the comparative periods.

Demand Deposits with Restrictions on Use Arising from a Contract with a Third Party (IAS 7, Statement of Cash Flows)

In April 2022, the IFRS Interpretations Committee finalized the agenda decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (*IAS 7, *Statement of Cash Flows)*, which clarifies that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash. Accordingly, such demand deposits should be presented as a component of cash and cash equivalents in the statements of cash flows and statements of financial position, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7, *Statement of Cash Flows*.

The application of this agenda decision did not have any impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS Standards 2018-2020 - IFRS 9, Financial Instruments

The *Annual Improvements to IFRS Standards 2018–2020* issued on May 14, 2020 makes the following amendments to IFRS 9, *Financial Instruments*: the standard has been amended to clarify which fees an entity includes in the "10 per cent" test for the derecognition of financial liabilities in connection with debt modifications and settlements. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. This amendment is effective for annual reporting periods beginning on or after January 1, 2022.

The Corporation has elected to early adopt this amendment. The application of this amendment did not have a significant impact on the Corporation's consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* which amends IAS 1, *Presentation of Financial Statements*. The amendments aim to clarify how an entity classifies its debt instruments and other financial liabilities with uncertain settlement dates as current or non-current in particular circumstances. On October 31, 2022, the IASB published amendments to *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*. The amendments aim to improve the information an entity provides when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. More specifically, the amendments clarify that when an entity has to comply with covenants after the reporting date, those covenants would not affect the classification of debt instruments or other financial liabilities as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. It is too early to determine whether the application of these amendments could have an impact on the Corporation's consolidated financial statements at the date of adoption.

10. RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation's financial position, operating results and activities. These include risks directly related to the COVID-19 pandemic, of which several have materialized.

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

RISK GOVERNANCE

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

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

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

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

Managing these risks is also shared between members of the Corporation's management and the members of the Board of Directors using consistent mapping and language in order to eliminate a silo approach to risk management. As a result of the COVID-19 pandemic period, all risks to which the Corporation is exposed have been re-assessed in detail by the Corporation's officers. As part of this essential process, risks were reprioritized based on their level of probability of occurrence and their quantitative and qualitative impact on the Corporation's business. The outcome of this annual exercise comprised a total of 48 risks, rated in order of importance: red for the 16 high-priority risks, orange for the 7 priority risks, yellow for the 5 moderate risks and green for the 20 low risks. These risks were then grouped according to the subject matter and the owner for ease of reference and to ensure that mitigation measures are properly applied as set out in the following paragraphs.

KEY RISKS

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

RISKS RELATING TO THE ABILITY TO CONTINUE AS A GOING CONCERN

As discussed in Section 7. Financial Position, Liquidity and Capital Resources of this MD&A and Note 2 to the consolidated financial statements, there are material uncertainties that cast significant doubt about the Corporation’s ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements as at October 31, 2022 have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. The consolidated financial statements as at October 31, 2022 and for the year then ended do not include adjustments to the book 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.

The Corporation is making every effort and remains confident of returning to profitability under its strategic plan, based on current market conditions and the gradual resumption of its operations. However, there can be no assurance that the Corporation will be able to settle its debts and meet its obligations in the normal course of business. In addition, to finance the Corporation’s operations until the maturity of the credit facilities, the Corporation might have to again borrow sufficient amounts to meet its needs but there can be no assurance 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. While the signs of resumption of the Corporation's operations are encouraging, 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.

Other socio-economic and geo-political factors are also present and create additional uncertainty related to travel demand in the coming months. These factors are further discussed below in the Economic and General Risks section.

CYBER ATTACK RISK

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

Despite our efforts to protect against unauthorized access to our systems and sensitive information, due to the scope and complexity of their information technology structure, our reliance on third parties to support and protect our structure and data, and a constantly evolving cyber threat environment, our systems and those of third parties we rely on are subject to disruptions, failures, unauthorized access, cyber terrorism, employee errors, negligence, fraud or other misuse. In addition, given the sophistication of hackers to gain unauthorized access to our sensitive information, we may be unable to detect the violation for long periods of time, or even not at all.

Such events, whether accidental or intentional, could result in the theft, unauthorized access or disclosure, loss, misuse or unlawful use of customer data that could damage our reputation, disrupt our services or result in business loss, as well as repair and other costs, fines, investigations, legal actions or proceedings. As a result, future incidents could have a material adverse effect on the Corporation, including our business, financial condition, liquidity and operating results.

COVID-19-RELATED RISKS

This section provides an overview of the specific risks to which Transat and its subsidiaries have been and/or will be exposed as a result of the persisting COVID-19 pandemic even though there are some encouraging signs that the pandemic is in the process of slowly disappearing. While the Corporation has resumed its airline operations, there is still a risk that cross-border travel restrictions will be imposed again by domestic government authorities and the countries that the Corporation serves. This would once again lead to a significant decrease in cash flows from operations despite the mitigation actions taken by the Corporation and considering that Transat does not expect operations to reach pre-pandemic levels before 2024.

The crisis surrounding the COVID-19 pandemic is continuously evolving and is affecting the entire global tourism industry as well as the air transportation sector. The extent of the potential impact of COVID-19 on the Corporation and its operations will depend on the evolution of the pandemic, which remains highly uncertain and cannot be accurately predicted. The outlook for travel demand to destinations served by the Corporation for the coming years remains very difficult to determine. The Corporation is monitoring the situation very closely and continues to take appropriate measures as the COVID-19 pandemic evolves.

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

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

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

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

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

- Heightened volatility of fuel prices and exchange rates and the resulting adverse effect on operating expenses and cash flows from operations;

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

- Refunds to most clients holding travel credits were made during the previous fiscal year, following funding from the Government of Canada, but delays deemed too long for some may result again in new class action lawsuits before the refunds were put in place. Accordingly, 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. 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 (loss) and could have a very unfavourable effect on cash.

Until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position. The Corporation continues to review various options to refinance a portion of the existing debt on more advantageous terms than those currently in place. The Corporation cannot guarantee it will have access to such sources of financing or acceptable financing terms, or that such supplementary measures will enable it to mitigate the risks arising from the COVID-19 pandemic, including those mentioned above.

HUMAN RESOURCE RISKS

The Corporation's ability to achieve its plan to resume operations is dependent on the experience of its key executives and employees and their knowledge of the tourism, travel and airline industries. In the current economic environment and that of the tourism industry, it is difficult to retain the resources necessary for recovery due to the limited ability to pay employees their fair value. As a result, the loss of key employees could adversely affect our business and operating results.

In addition, our recruitment program, salary structure, performance management programs, succession plan, retention plan and training plan involve risks that could negatively impact our ability to attract and retain the skilled resources needed to regain the pre-pandemic level of operations and support the Corporation's future growth and success. The resumption of the Corporation's activities requires new hires and represents a serious challenge given the labour shortage in the overall economy in Québec and Canada. This shortage has given rise to salary expectations that are challenging for the Corporation because of its limited capacity to compensate employees in this new labour market context. In some respects, certain positions are necessary for the Corporation to operate normally. If such skilled labour cannot be found, the Corporation may have to suspend its operations.

As of October 31, 2022, the total workforce was approximately 3,900, up by about 1,800 from last year, representing approximately 75% of the pre-pandemic headcount. Labour costs are a significant component of the Corporation's operating expenses. There can be no assurance that Transat will be able to maintain these costs at levels that will not adversely affect its operations, results of operations or financial condition.

The Corporation’s Air Transat subsidiary is the only subsidiary with unionized employees, who are governed by five collective agreements, two of which will expire in 2023. The agreement with the crew assignment office, which covers, among others, employees involved in crew planning will expire on December 31, 2022. The agreement governing flight attendants, namely the Canadian Union of Public Employees (Airline Division), which covers a significant pool of employees, will expire on January 31, 2023. Furthermore, it is possible that negotiations to renew these collective agreements, particularly that of flight attendants, could give rise to work stoppages or slowdowns or substantially higher labour costs in the coming years that could unfavourably impact our operations and operating income.

FINANCIAL RISKS

Due to the COVID-19 related risks discussed previously as well as those described below under economic and general risks, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

The Corporation's current credit facilities are subject to compliance with certain financial ratios and covenants, which have been suspended up to October 29, 2023. There can be no assurance that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

In addition, in the normal course of business, the Corporation is facing a number of short-term maturities related to service contracts with credit card processors. These agreements will have to be renewed or replaced under market conditions prevailing at the time of their expiry, which could result in more onerous borrowing and operating terms and conditions for the Corporation or an inability to renew or replace such contracts.

The Corporation is negotiating with all of its suppliers to obtain cost reductions and changes to its payment terms, and has implemented measures to reduce expenses and investments.

Transat is particularly exposed to fluctuations in fuel costs, which were very significant in fiscal 2022. Although Transat has implemented a fuel price hedging program, due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any such fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

Transat has significant non-cancellable lease liabilities relating to its aircraft fleet. If the Corporation’s operations do not return to sufficient levels, the payments to be made under our existing lease agreements could have a substantial impact on our business.

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

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

As a Corporation that processes information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. In addition, credit card processors have already taken mitigation measures such as withholding funds until the service is re-established. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

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

Lastly, the travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, comparisons of our operating results between quarters or between six-month periods are not necessarily meaningful and should not be relied on as indicators of future performance.

COMPETITION RISKS

Transat operates in an industry in which competition has always been intense, despite the slow resumption of operations by all industry players. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources, including government subsidies, and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. The Corporation could thus be unable to compete successfully against existing or potential competitors, and intense competition could have a material adverse effect on its operations, prospects, revenues and profit margin.

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

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

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

ECONOMIC AND GENERAL RISKS

The holiday travel industry is sensitive to global, national, regional and local economic conditions, particularly since the pandemic situation that we have been experiencing starting in March 2020. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. All these factors are creating feelings of anxiety among the Corporation's customers, affecting demand for leisure travel. As a result, revenues might not be sufficient to cover the fixed expenses related to the resumption of operations and bring about profitability in the medium term.

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

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

ESG RISKS

The market and travelers are increasingly requiring that a public company, such as Transat, be recognized as a socially responsible company and that it adhere to environmental, social and governance ("ESG") criteria, i.e., factors that have an impact on the environment, that are related to the social involvement of the Corporation and that are related to the way the Corporation runs its business governs itself. In this respect, over the years, the Corporation has adopted multiple measures related to these factors, especially its Travelife certification program, its agreement with the SAF+ Consortium to build fuel-efficient aircraft, its new fleet of more efficient, energy-saving Airbus A321LR aircraft, its ISO and LEED certifications, its involvement with communities in Canada and where it flies, its approach to managing human resources and corporate governance, and many others. Despite these initiatives, it is possible that, in the eyes of current and future clients, certain organizations, institutions or shareholders, the Corporation may not fully meet the definition of a socially responsible company, which could also tarnish the Corporation's reputation.

REPUTATION RISKS

All the risks discussed in this section have an impact on the Corporation's reputation. If mitigation measures are not sufficient, the arising of a risk can harm the Corporation's reputation. In addition, the ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control, such as a cyberattack, will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

KEY SUPPLIES AND SUPPLIER RISKS

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

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

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

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

AVIATION RISKS

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

Our focus on two types of Airbus aircraft (A321 and A330) could result in significant downtime for part of our fleet if mechanical problems arise or if the regulator releases any mandatory inspection or maintenance directives applicable to our types of aircraft. If our operations are disrupted due to aircraft unavailability, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

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

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

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

TECHNOLOGICAL RISKS

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

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

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

REGULATORY RISKS

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

Various measures are in place to combat climate change. The Corporation is subject to CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) for most of its international flights. Airlines will begin to meet their obligations under CORSIA when the aviation industry as a whole recovers and exceeds its 2019 emission levels. Due to the decrease in the number of flights caused by the pandemic, the Corporation does not anticipate at this time that it would have to purchase offsets for the first years of the scheme. However, the costing of this obligation will depend on the participating countries, growth in applicable routes and the type of eligible carbon offsets. Should changes occur in these regulations, the Corporation may incur additional costs as a result.

The Corporation is also subject to Canada's *Clean Fuel Regulations*, which are an important part of Canada's climate plan to reduce emissions, accelerate the use of clean technologies and fuels, and support long-term, sustainable jobs in a diversified economy. The version of the regulations published on July 6, 2022 excludes aircraft fuel.

In addition, under the *Greenhouse Gas Pollution Pricing Act*, Canada established a minimum royalty for carbon pollution. This is in the form of a fossil fuel charge and a regulatory greenhouse gas emissions trading system called the Output-Based Pricing System. It currently applies only to interprovincial flights in certain provinces, such as British Columbia. The Corporation is currently not affected by this legislation. However, the federal government has indicated it could broaden the scope of the legislation to include interprovincial (domestic) flights. In Canada's *2022 Aviation Climate Action Plan*, the Canadian government recognizes that more work needs to be done to draw up a coherent policy to address interprovincial aviation emissions. In the future, it may decide to implement an emissions trading system for domestic flights, which would have an impact on our costs, and in turn, apply pressure on the Corporation's margins.

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

INSURANCE COVERAGE RISKS

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

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

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

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

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

11. CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2022.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2022 that materially affected the Corporation's ICFR.

12. OUTLOOK

For 2023 as a whole, the Corporation expects to deploy capacity equivalent to 90% of the 2019 level. This level is consistent with International Air Transport Association (IATA) projections for the Corporation's main markets.

To date, for winter 2023, load factors are comparable to 2019 levels and are already over 55% across the network. Airline unit revenues, expressed in revenue per passenger-mile (or yield), are approximately 15% higher than in winter 2019. The combination of demand and higher prices will allow the Corporation to deal with higher costs.

For 2023 as a whole, the Corporation expects an adjusted operating income margin of approximately 4% to 6%. In making forward-looking statements, the Corporation has relied on a number of assumptions, including moderate growth in Canada's GDP taking into account the risk of a short recession, an exchange rate of C$1.34 to US$1 and an average price per gallon of aviation fuel of C$4.50.

MANAGEMENT'S REPORT

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

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

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

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

Annick Guérard
President and Chief Executive Officer

Patrick Bui
Chief Financial Officer

December 14, 2022

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Transat A.T. Inc. and its subsidiaries [the "Group"], which comprise the consolidated statement of financial position as at October 31, 2022 and 2021 and the consolidated statements of loss, the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2022 and 2021 and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group incurred a net loss of $445.3 million and generated negative cash flows related to operating activities totalling $177.9 million for the year ended October 31, 2022. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of long-lived non-financial assets	
As at October 31, 2022, the Group held $1,022.2 million in long-lived non-financial assets, including property, plant and equipment, intangible assets and a long-term investment. As indicated in Notes 3, 4, 9, 10 and 11, the Group assesses at each reporting date whether there is any indication that an asset or a cash-generating unit ("CGU") may be impaired. If any indication exists, or when annual impairment testing for an asset or a CGU is required, the Group estimates the recoverable amount of the asset or CGU. The recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value in use. We determined that auditing the impairment of long-lived non-financial assets is a key audit matter due to the significance of the balance and the degree of subjectivity in evaluating management's significant assumptions relating to the discount rate, long-term growth rate and per gallon fuel price used in its model.	Our approach to addressing the matter included the following procedures, among others: – We assessed management's documentation of the CGUs; – We involved our valuation specialists to assist in evaluating the discount rate, the long-term growth rates and the per gallon fuel price used by the Group and the valuation methods used; – We tested the reasonableness of cash flow projections by comparing them to external economic data from the airline and tourism industry and to the Group's past results; – We conducted sensitivity testing to assess the potential impact of changes in the significant assumptions used by management in its models; – We examined the adequacy of the disclosures relating to CGUs, impairment tests and impairment charges presented in Notes 3, 4, 9, 10, and 11 to the Group's consolidated financial statements.
Revenue recognition	
As indicated in Notes 3 and 19, the Group recognizes revenue when it satisfies the performance obligation, that is, when the service is transferred to the customer and the customer obtains control of that service. The amounts received from customers for services not yet provided are included in current liabilities as Customer deposits and deferred revenues. The Group's revenues for the year ended October 31, 2022 amounted to $1,642.0 million. As at October 31, 2022, customer deposits and deferred revenues totalled $602.5 million. Group revenues are recorded using a number of IT systems and controls for processing, recording and recognizing a large volume of low-value transactions. We considered this issue to be a key audit matter due to the significance of revenues and the large volume of transactions that required significant audit effort to test recorded revenues.	Our approach to addressing the matter included the following procedures, among others: – We tested certain controls related to IT systems used by the Group to record revenues; – We obtained and assessed the report certifying the effectiveness of internal controls implemented by a service organization used by the Group to record revenues, particularly for bookings; – We tested a sample of revenue-generating transactions for fiscal 2022 by tracing selected items to source documents; – We tested a sample of airline transportation services, hotel services and manual adjustments recorded close to fiscal year-end by examining the source documents and supporting documents at the time the services were rendered.

Other information

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young LLP[1]

Montréal, Canada

December 14, 2022

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

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

[Note 2, Uncertainty related to going concern]

(in thousands of Canadian dollars)	*Notes*	As at October 31, 2022 $	As at October 31, 2021 $
ASSETS			
Cash and cash equivalents		**322,535**	433,195
Cash and cash equivalents in trust or otherwise reserved	*5*	**344,284**	139,583
Trade and other receivables	*6*	**265,050**	108,857
Income taxes receivable	*22*	**5,537**	1,120
Inventories		**26,725**	10,514
Prepaid expenses		**26,428**	16,465
Derivative financial instruments	*7*	**11,939**	—
Current portion of deposits	*8*	**29,392**	10,130
Current assets		**1,031,890**	719,864
Cash and cash equivalents reserved	*5*	**31,273**	30,728
Deposits	*8*	**172,231**	112,044
Income taxes receivable	*22*	**—**	15,100
Deferred tax assets	*22*	**953**	—
Property, plant and equipment	*9*	**1,000,151**	974,229
Intangible assets	*10*	**13,261**	16,849
Investment	*11*	**8,820**	9,476
Deferred financing costs	*12*	**12,552**	19,368
Non-current assets		**1,239,241**	1,177,794
		2,271,131	1,897,658
LIABILITIES			
Trade and other payables	*13*	**289,897**	141,790
Income taxes payable		**1,054**	1,354
Customer deposits and deferred revenues		**602,509**	292,158
Derivative financial instruments	*7*	**6,209**	—
Current portion of lease liabilities	*14*	**137,165**	171,557
Current portion of liability related to warrants	*15*	**16,799**	20,622
Current portion of provision for return conditions	*16*	**—**	3,065
Current liabilities		**1,053,633**	630,546
Long-term debt and lease liabilities	*14*	**1,614,903**	1,247,981
Liability related to warrants	*15*	**7,561**	15,935
Deferred government grant	*14*	**169,025**	167,394
Provision for return conditions	*16*	**154,772**	123,179
Employee benefits liability	*17*	**20,773**	27,120
Deferred tax liabilities	*22*	**644**	613
Non-current liabilities		**1,967,678**	1,582,222
NEGATIVE EQUITY			
Share capital	*18*	**221,924**	221,012
Share-based payment reserve		**16,092**	15,948
Deficit		**(984,602)**	(544,881)
Cumulative exchange differences		**(3,594)**	(7,189)
		(750,180)	(315,110)
		2,271,131	1,897,658

See accompanying notes to the consolidated financial statements

On behalf of the Board,

Director

Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

Years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2022 $	2021 $
Revenues	19	**1,642,038**	124,818
Operating expenses			
Aircraft fuel		**526,152**	22,373
Costs of providing tourism services		**355,250**	31,958
Salaries and employee benefits	19, 23	**288,889**	122,770
Depreciation and amortization	19	**153,429**	159,765
Airport and navigation fees		**128,318**	13,032
Sales and distribution costs		**116,105**	13,020
Aircraft maintenance		**114,159**	48,832
Aircraft rent	14	**6,018**	—
Other airline costs		**162,082**	24,643
Other		**90,949**	57,371
Share of net loss of a joint venture	11	**2,477**	4,704
Special items	20	**1,630**	27,572
		1,945,458	526,040
Operating loss		**(303,420)**	(401,222)
Financing costs	14	**105,314**	77,024
Financing income		**(12,982)**	(4,441)
Change in fair value of derivatives		**9,685**	(8,849)
Revaluation of liability related to warrants	15	**(21,989)**	(4,934)
Gain on long-term debt modification	14	**(22,191)**	—
Gain on asset disposals	21	**(3,934)**	(17,347)
Foreign exchange (gain) loss		**92,150**	(53,260)
Loss before income tax expense		**(449,473)**	(389,415)
Income taxes (recovery)	22		
Current		**(3,174)**	(52)
Deferred		**(975)**	75
		(4,149)	23
Net loss for the year		**(445,324)**	(389,438)
Net income (loss) attributable to:			
Shareholders		**(445,324)**	(389,559)
Non-controlling interests		**—**	121
		(445,324)	(389,438)
Loss per share	18		
Basic		**(11.77)**	(10.32)
Diluted		**(11.77)**	(10.32)

See accompanying notes to the consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Years ended October 31 (in thousands of Canadian dollars)	Notes	2022 $	2021 $
Net loss for the year		**(445,324)**	(389,438)
Other comprehensive income (loss)			
Items that will be reclassified to net loss			
Reclassification to net loss		**—**	447
Deferred taxes	22	**—**	75
		—	522
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries		**3,955**	(1,196)
Reclassification to net loss		**(360)**	—
		3,595	(1,196)
Items that will never be reclassified to net loss			
Retirement benefits – Net actuarial gains and losses	17	**5,603**	(597)
		5,603	(597)
Total other comprehensive income (loss)		**9,198**	(1,271)
Comprehensive loss for the period		**(436,126)**	(390,709)
Comprehensive loss attributable to:			
Shareholders		**(436,126)**	(386,822)
Non-controlling interests		**—**	(3,887)
		(436,126)	(390,709)

See accompanying notes to the consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

				Accumulated other comprehensive income (loss)				
(in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Deficit $	Unrealized gain (loss) on cash flow hedges $	Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at October 31, 2020	221,012	15,948	(164,138)	(522)	(5,993)	66,307	—	66,307
Net income (loss) for the year	—	—	(389,559)	—	—	(389,559)	121	(389,438)
Other comprehensive income (loss)	—	—	(597)	522	2,812	2,737	(4,008)	(1,271)
Comprehensive income (loss) for the year	—	—	(390,156)	522	2,812	(386,822)	(3,887)	(390,709)
Fair value changes of non-controlling interest liabilities	—	—	9,413	—	—	9,413	(9,413)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	9,292	9,292
Reclassification of non-controlling interest exchange difference	—	—	—	—	(4,008)	(4,008)	4,008	—
	—	—	9,413	—	(4,008)	5,405	3,887	9,292
Balance as at October 31, 2021	**221,012**	**15,948**	**(544,881)**	**—**	**(7,189)**	**(315,110)**	**—**	**(315,110)**
Net loss for the year	—	—	(445,324)	—	—	(445,324)	—	(445,324)
Other comprehensive income	—	—	5,603	—	3,595	9,198	—	9,198
Comprehensive income (loss) for the year	—	—	(439,721)	—	3,595	(436,126)	—	(436,126)
Issued from treasury	912	—	—	—	—	912	—	912
Share-based payment expense	—	144	—	—	—	144	—	144
	912	144	—	—	—	1,056	—	1,056
Balance as at October 31, 2022	**221,924**	**16,092**	**(984,602)**	**—**	**(3,594)**	**(750,180)**	**—**	**(750,180)**

See accompanying notes to the consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Years ended October 31 (in thousands of Canadian dollars)	*Notes*	**2022** **$**	**2021** $
OPERATING ACTIVITIES			
Net loss for the year		**(445,324)**	(389,438)
Operating items not involving an outlay (receipt) of cash:			
Depreciation and amortization		**153,429**	159,765
Change in fair value of derivatives		**9,685**	(8,849)
Revaluation of liability related to warrants		**(21,989)**	(4,934)
Gain on long-term debt modification	*14*	**(22,191)**	—
Gain on asset disposals	*21*	**(3,934)**	(17,347)
Foreign exchange (gain) loss		**92,150**	(53,260)
Asset impairment	*20*	**783**	33,450
Share of net loss of a joint venture	*11*	**2,477**	4,704
Capitalized interests on long-term debt and lease liabilities		**45,902**	41,537
Deferred taxes		**(975)**	75
Employee benefits	*17*	**377**	5,754
Share-based payment expense		**144**	—
		(189,466)	(228,543)
Net change in non-cash working capital balances related to operations		**46,548**	(267,096)
Net change in provision for return conditions		**13,299**	(7,653)
Net change in other assets and liabilities related to operations		**(48,235)**	(15,152)
Cash flows related to operating activities		**(177,854)**	(518,444)
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(32,531)**	(5,599)
Decrease (increase) in cash and cash equivalents reserved		**(545)**	25,540
Capital contribution to a joint venture	*11*	**(707)**	(821)
Proceeds from disposal of assets	*21*	**—**	422
Consideration paid for the buyback of a non-controlling interest	*7*	**—**	(15,000)
Cash flows related to investing activities		**(33,783)**	4,542
FINANCING ACTIVITIES			
Proceeds from borrowings	*14*	**213,217**	599,852
Transaction costs		**(2,760)**	(3,242)
Proceeds from issuance of shares		**912**	—
Repayment of long-term debt		**(3,344)**	—
Repayment of lease liabilities	*14*	**(108,336)**	(74,539)
Cash flows related to financing activities		**99,689**	522,071
Effect of exchange rate changes on cash and cash equivalents		**1,288**	(1,407)
Net change in cash and cash equivalents		**(110,660)**	6,762
Cash and cash equivalents, beginning of year		**433,195**	426,433
Cash and cash equivalents, end of year		**322,535**	433,195
Supplementary information (as reported in operating activities)			
Net income taxes recovered		**(12,171)**	(2,383)
Net interest paid		**42,112**	18,288

See accompanying notes to the consolidated financial statements

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

Note 1 Corporate information

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

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

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2022 were approved by the Corporation's Board of Directors on December 14, 2022.

Note 2 Uncertainty related to going concern

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from October 31, 2022. 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 since the beginning of 2020, the Corporation's operations have been severely disrupted and its financial results significantly impacted. Among other things, the Corporation had to suspend all of its flights twice, from April 1, 2020 to July 23, 2020 and from January 29, 2021 to July 30, 2021, and also to scale back its offering to adjust to demand. Despite the resumption in airline operations since July 30, 2021, the Corporation reported a net loss of $445,324 and generated negative cash flow related to operating activities totalling $177,854 for the year ended October 31, 2022. However, as discussed in Note 14 and to help overcome the impact of the pandemic, the Corporation renegotiated its agreement with the Government of Canada in order to be able to borrow up to $843,300 in additional liquidity through the Large Enterprise Emergency Financing Facility ("LEEFF"). The ratios applicable to the credit facilities are now suspended until October 29, 2023, (previously October 30, 2022). In total, the available financing amounts to a maximum of $963,300, of which $863,216 was drawn down as at October 31, 2022.

As a result of the COVID-19 pandemic, the global air transportation and tourism industry has faced a collapse in traffic and demand. Despite the easing of sanitary measures and travel restrictions initially put in place, travel restrictions and vaccination requirements introduced by numerous countries as well as concerns related to the pandemic and its economic impacts, combined with the uncertainty of a possible economic downturn, ongoing inflation in many countries, including Canada, and the military conflict between Russia and Ukraine are creating significant demand uncertainty, and the effects will still be partially present in fiscal 2023. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the summer 2022 season, the Corporation also deployed a reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter of 2022, the Corporation cannot yet predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of most restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2024.

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 increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada to borrow additional liquidity up to $843,300 through the LEEFF, bringing the total available financing to a maximum of $963,300. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess its liquidity needs and the capital structure and is not ruling out any options that could provide greater financial flexibility to the Corporation.

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

There can be no assurance that the Corporation will be able to borrow sufficient additional amounts to meet its future needs, or that it will be able to do so on acceptable terms or that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next 12 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 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 consolidated financial statements as at October 31, 2022 do not include adjustments to the carrying value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

Note 3 Significant accounting policies

Basis of preparation

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

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

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

Basis of consolidation

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

Subsidiaries

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

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

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

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

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

Investment in a joint venture

A joint venture is an entity in which the parties that have joint control over the entity have rights to the net assets of the entity.

The Corporation's investment in a joint venture is accounted for using the equity method as follows:

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

Foreign currency translation

Transactions and balances

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

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

Group companies

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

Cash equivalents

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

Inventories

Inventories, consisting primarily of spare parts, supplies and fuel, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be indicative of net realizable value. Inventories are presented net of the provision for impairment of inventories, if applicable. The Corporation did not record a provision for impairment of inventories in 2022 and 2021.

Leases

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Right-of-use assets

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

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

Goodwill

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

Intangible assets

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

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

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

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

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

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

Software	3–10 years
Customer lists	7–10 years

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

Financial instrument

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

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

Classification of financial instruments

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

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

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

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

Amortized cost

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

Derivative financial instruments and hedge accounting

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

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

These derivative financial instruments are designated as cash flow hedges.

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

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

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

Derivative financial instruments that do not qualify for hedge accounting

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

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

Transaction costs

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

Fair value

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

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

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

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

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

Impairment of financial assets classified at amortized cost

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

Impairment of non-financial assets

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

Intangible assets

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

Reversal of impairment losses

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

Provisions

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

Provision for return conditions

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

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

Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives. Pension expense is based on actuarial calculations performed annually by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Actual results will differ from estimated results based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of income (loss). The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits vest.

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

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

Revenue recognition

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

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

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

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

Breakdown of revenue from contracts with customers

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

Contract balances

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

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

Government grants

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

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

Income Taxes

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

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

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

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

Share-based payment plans

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

Equity-settled transactions

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

Cash-settled transactions

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

Employee share purchase plans

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

Earnings per share

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

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

Changes in accounting policies

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

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

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

The Corporation adopted these amendments on November 1, 2021 by applying the practical expedient. The adoption of these amendments did not have any impact on the Corporation's consolidated financial statements as of the date of first application or for the comparative periods.

Demand Deposits with Restrictions on Use Arising from a Contract with a Third Party (IAS 7, Statement of Cash Flows)

In April 2022, the IFRS Interpretations Committee finalized the agenda decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (*IAS 7, *Statement of Cash Flows)*, which clarifies that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash. Accordingly, such demand deposits should be presented as a component of cash and cash equivalents in the statements of cash flows and statements of financial position, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7, *Statement of Cash Flows*.

The application of this agenda decision did not have any impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020 - IFRS 9, Financial Instruments

The *Annual Improvements to IFRS Standards 2018–2020* issued on May 14, 2020 makes the following amendments to IFRS 9, *Financial Instruments*: the standard has been amended to clarify which fees an entity includes in the "10 per cent" test for the derecognition of financial liabilities in connection with debt modifications and settlements. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. This amendment is effective for annual reporting periods beginning on or after January 1, 2022.

The Corporation has elected to early adopt this amendment. The application of this amendment did not have a significant impact on the Corporation's consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* which amends IAS 1, *Presentation of Financial Statements*. The amendments aim to clarify how an entity classifies its debt instruments and other financial liabilities with uncertain settlement dates as current or non-current in particular circumstances. On October 31, 2022, the IASB published amendments to *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*. The amendments aim to improve the information an entity provides when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. More specifically, the amendments clarify that when an entity has to comply with covenants after the reporting date, those covenants would not affect the classification of debt instruments or other financial liabilities as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. It is too early to determine whether the application of these amendments could have an impact on the Corporation's consolidated financial statements at the date of adoption.

Note 4 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

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

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

Amortization and impairment of non-financial assets

Depreciation of property, plant and equipment

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

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

Impairment of non-financial assets

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

As at October 31, 2022, the Corporation has determined that the significant declines in revenues and demand due to the COVID-19 pandemic are indications of impairment of its CGUs. Accordingly, the Corporation performed a new impairment test on its CGUs. The recoverable amount of CGUs was determined based on their useful value, applying a discounted cash flow model. This model is based on Level 3 inputs within the fair value hierarchy. Cash flows are derived from the financial forecasts for the next four fiscal years, based on the Corporation's 2022–2026 strategic plan and the 2023 budget, which are consistent with management's best estimates and have been approved by the Board of Directors, and take into account current and expected market conditions, including the impact of the COVID-19 pandemic. The Corporation has used various assumptions in the preparation of these projections, which are by their nature uncertain and may change unpredictably; accordingly, it is possible that these projections will not be achieved, particularly if demand remains at lower-than-expected levels and travel restrictions persist over time.

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

- An average discount rate of 15.70% [14.75% in 2021], which is the Corporation's weighted average capital cost. This rate was determined taking into account a number of factors such as the risk-free interest rate, the required return on equity investments, risk factors specific to the air transportation industry and risk factors specific to the Corporation's CGUs;
- A long-term growth rate of 2.0% beyond the 5-year period [2.0% in 2021], based on the Bank of Canada's target inflation rate;
- A per gallon fuel price between US$2.24 and US$3.79 [between US$1.93 and US$2.53 in 2021], based on management's best estimates.

As at October 31, 2022 and 2021, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount remained higher than their carrying amount. Sensitivity analyses were performed on the significant assumptions used in the discounted cash flow model and no impairment would have resulted from a change in those assumptions.

Impairment tests of the land held in Mexico and the investment in a joint venture were performed separately from the test performed on the Corporation's CGUs. Given that various assumptions are used in determining impairment charges, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

Discount rate of lease liabilities

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

Provision for return conditions

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

Liability related to warrants

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $51,283, was valued using the Black-Scholes model. The initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF.

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

Employee future benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the associated obligations are determined using actuarial valuations. These actuarial valuations require the use of assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

Taxes

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

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

Due to the adverse impact of the COVID-19 pandemic on its results, the Corporation ceased to recognize deferred tax assets of its Canadian subsidiaries and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. The Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the existing deferred tax assets. As discussed in Note 2, due to the COVID-19 pandemic, the losses generated during the year ended October 31, 2022 and previous fiscal years and the uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the years ended October 31, 2022 and 2021, these adverse indications outweighed the historical favourable indications and the Corporation did not record any deferred tax assets for its Canadian subsidiaries during the year ended October 31, 2022. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

Note 5 Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2022, cash and cash equivalents in trust or otherwise reserved included $319,162 [$128,154 as at October 31, 2021] 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 $56,395, $31,273 of which was recorded as non-current assets [$42,157 as at October 31, 2021, $30,728 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 Trade and other receivables

	2022 $	2021 $
Credit card processors receivables	**196,894**	77,733
Government receivables	**31,179**	13,111
Trade receivables	**9,497**	9,775
Cash receivable from lessors	**9,959**	1,610
Other receivables	**17,521**	6,628
	265,050	108,857

Government receivables as at October 31, 2022 did not include any wage subsidy amounts related to the Tourism and Hospitality Recovery Program ("THRP") or the Hardest-Hit Business Recovery Program ("HHBRP") [Government receivables as at October 31, 2021 included a wage subsidy of $1,296 related to the Canada Emergency Wage Subsidy ("CEWS")]. The THRP and the HHBRP *[Note 19]* expired on May 7, 2022.

Note 7 Financial instruments

Classification of financial instruments

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

	Carrying amount				
	Fair value through net income $	Fair value through other comprehensive income $	Amortized cost $	Total $	Fair value $
As at October 31, 2022					
Financial assets					
Cash and cash equivalents	**322,535**	**—**	**—**	**322,535**	**322,535**
Cash and cash equivalents in trust or otherwise reserved	**375,557**	**—**	**—**	**375,557**	**375,557**
Trade and other receivables	**—**	**—**	**233,871**	**233,871**	**233,871**
Deposits on leased aircraft and engines	**—**	**—**	**37,920**	**37,920**	**37,920**
Derivative financial instruments					
- Fuel-related derivatives	**4,339**	**—**	**—**	**4,339**	**4,339**
- Foreign currency derivatives	**7,600**	**—**	**—**	**7,600**	**7,600**
- Prepayment option	**128**	**—**	**—**	**128**	**128**
	710,159	**—**	**271,791**	**981,950**	**981,950**
Financial liabilities					
Trade and other payables	**—**	**—**	**277,319**	**277,319**	**277,319**
Derivative financial instruments					
- Foreign currency derivatives	**6,209**	**—**	**—**	**6,209**	**6,209**
Long-term debt	**—**	**—**	**664,288**	**664,288**	**654,954**
Liability related to warrants	**24,360**	**—**	**—**	**24,360**	**24,360**
	30,569	**—**	**941,607**	**972,176**	**962,842**

	Carrying amount				
	Fair value through net income	Fair value through other comprehensive income	Amortized cost	Total	Fair value
	$	$	$	$	$
As at October 31, 2021					
Financial assets					
Cash and cash equivalents	433,195	—	—	433,195	433,195
Cash and cash equivalents in trust or otherwise reserved	170,311	—	—	170,311	170,311
Trade and other receivables	—	—	95,746	95,746	95,746
Deposits on leased aircraft and engines	—	—	33,926	33,926	33,926
Derivative financial instruments					
- Prepayment option	1,377	—	—	1,377	1,377
	604,883	—	129,672	734,555	734,555
Financial liabilities					
Trade and other payables	—	—	131,009	131,009	131,009
Long-term debt	—	—	464,557	464,557	466,557
Liability related to warrants	36,557	—	—	36,557	36,557
	36,557	—	595,566	632,123	634,123

Determination of fair value of financial instruments

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

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

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

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

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

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

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

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

	Quoted prices in active markets (Level 1) $	**Other observable inputs (Level 2) $**	**Unobservable inputs (Level 3) $**	**Total $**
As at October 31, 2022				
Financial assets				
Derivative financial instruments				
- Fuel-related derivatives	**—**	**4,339**	**—**	**4,339**
- Foreign currency derivatives	**—**	**7,600**	**—**	**7,600**
- Prepayment option	**—**	**—**	**128**	**128**
	—	**11,939**	**128**	**12,067**
Financial liabilities				
Derivative financial instruments				
- Foreign currency derivatives	**—**	**6,209**	**—**	**6,209**
Liability related to warrants	**—**	**—**	**24,360**	**24,360**
	—	**6,209**	**24,360**	**30,569**

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

Non-controlling interest

On May 31, 2021, following a mutual agreement between the two parties, the Corporation acquired the 30% interest held by the minority shareholder of Trafictours, Canada inc. ["Trafictours"], thereby increasing its interest to 100%. Trafictours is an incoming tour operator that offers excursions and other services to travellers vacationing in Mexico, the Dominican Republic and Jamaica. The purchase price amounted to $24,500, which is lower than the amount of $37,800 recorded in the Corporation's consolidated financial statements as at October 31, 2020, $15,000 of which was paid on May 31, 2021. The balance of $9,500, included in Trade and other payables as at October 31, 2022, was settled on November 2, 2022.

Up to May 31, 2021, the minority shareholder of the subsidiary Trafictours could require that the Corporation purchase its Trafictours shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash.

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

	2022	2021
	$	$
Balance, beginning of year	—	37,800
Net income	—	121
Other comprehensive loss	—	(4,008)
Change in fair value of non-controlling interest	—	(9,413)
Buyback of non-controlling interest	—	(24,500)
	—	—

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $9,497 as at October 31, 2022 [$9,775 as at October 31, 2021]. Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2022 and 2021. As at October 31, 2022, approximately 14% [approximately 11% as at October 31, 2021] of accounts receivable were over 90 days past due, whereas approximately 78% [approximately 85% as at October 31, 2021] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Receivables from two credit card processors totalled $196,894 [$77,733 as at October 31, 2021]. The credit risk for these receivables is negligible.

Pursuant to certain agreements entered into with its service providers, primarily hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $28,140 as at October 31, 2022 [$7,471 as at October 31, 2021]. These deposits are offset by purchases of person-nights at these hotels and purchases from suppliers. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights and that the suppliers might not be able to provide the required services. The Corporation strives to minimize its exposure by limiting deposits to only those hotel operators and suppliers that are recognized and reputable in the relevant markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $37,920 as at October 31, 2022 [$33,926 as at October 31, 2021] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2022, the cash security deposits with lessors that have been claimed totalled $9,959 [$1,610 as at October 31, 2021] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is negligible.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2022 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with only large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A2 (by Standard & Poor's) or P2 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2022.

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price *[see Note 2]*. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

The maturities of the Corporation's financial liabilities as at October 31, 2022 are summarized in the following table, excluding lease liabilities, which are disclosed in Note 14:

	Maturing in under 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Maturing in 5 years and up	Total contractual cash flows	Total carrying amount
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**277,319**	**—**	**—**	**—**	**277,319**	**277,319**
Long-term debt	**25,220**	**215,783**	**443,261**	**355,377**	**1,039,641**	**664,288**
Derivative financial instruments	**6,500**	**—**	**—**	**—**	**6,500**	**6,209**
Liability related to warrants	**16,799**	**7,561**	**—**	**—**	**24,360**	**24,360**
Total	**325,838**	**223,344**	**443,261**	**355,377**	**1,347,820**	**972,176**

Market risk

Foreign exchange risk

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as applicable. Approximately 66% of the Corporation's costs were incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 21% of revenues were earned in a currency other than the measurement currency of the reporting unit making the sale. To safeguard the value of commitments and anticipated transactions, the Corporation has a foreign currency risk management policy that authorizes the use of certain types of derivative financial instruments related to foreign currencies based on anticipated foreign exchange rate trends, expiring in generally less than 18 months. During fiscal 2022, the Corporation resumed the use of foreign currency derivatives to mitigate exchange rate fluctuations.

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

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
	$	$	$	$	$	$
2022						
Financial statement measurement currency of the group's companies						
U.S. dollar	—	—	—	19	(1,816)	(1,797)
Pound sterling	255	88	—	3,144	—	3,487
Canadian dollar	(1,046,906)	28,230	22,501	—	(210)	(996,385)
Other currencies	(1,592)	6	—	—	1,226	(360)
Total	**(1,048,243)**	**28,324**	**22,501**	**3,163**	**(800)**	**(995,055)**

For the year ended October 31, 2022, a 1% rise in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $9,353 decrease in the Corporation's net loss for the year, whereas other comprehensive loss would have decreased by $90. Conversely, a 1% fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $6,204 increase in the Corporation's net loss for the year, whereas other comprehensive loss would have increased by $90. Taking the U.S. dollar individually for the sensitivity analysis, the impact on the Corporation's net loss for the year would have resulted in a decrease of $9,401 had the Canadian dollar strengthened or an increase of $6,253 had it weakened. Also, for sensitivity analysis purposes, the impact of any other single currency on the Corporation's net loss would not be material.

As at October 31, 2022, 31% of estimated requirements for fiscal 2023 were covered by foreign exchange derivatives [none of the estimated requirements for fiscal 2022 were covered by foreign exchange derivatives as at October 31, 2021].

Risk of fluctuations in fuel prices

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes certain types of fuel-related derivative financial instruments, expiring in generally less than 12 months. During fiscal 2022, the Corporation resumed the use of fuel-related derivatives to mitigate fuel price fluctuations.

For the year ended October 31, 2022, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $4,410 decrease or increase in the Corporation's net loss.

As at October 31, 2022, 24% of estimated requirements for fiscal 2023 were covered by fuel-related derivatives [none of the estimated requirements for fiscal 2022 were covered by fuel-related derivatives as at October 31, 2021].

Interest rate risk

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

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

For the year ended October 31, 2022, a 25-basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $327 increase or decrease in the Corporation's net loss.

Capital risk management

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

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

Since October 31, 2021, the Corporation monitors its capitalization using the total net debt/total capitalization ratio, with a long-term target of less than 50%. This ratio is calculated by dividing total net debt by total capitalization, which is the sum of total net debt and market capitalization. Total net debt is equal to the aggregate of long-term debt, lease obligations, liability related to warrants and deferred government grant less deferred financing costs and cash and cash equivalents (not held in trust or otherwise reserved). Although commonly used, this measure does not reflect the fair value of leases as it does not take into account current rates for similar obligations with similar terms and risks. The calculation of the total net debt/total capitalization is summarized as follows:

	2022 $	2021 $
Total net debt		
Long-term debt	**664,160**	463,180
Deferred government grant	**169,025**	167,394
Liability related to warrants	**24,360**	36,557
Deferred financing costs	**(12,552)**	(19,368)
Lease liabilities	**1,087,908**	956,358
Cash and cash equivalents	**(322,535)**	(433,195)
	1,610,366	1,170,926
Number of outstanding shares (in thousands)	**38,012**	37,747
Closing share price	**2.60**	4.39
Market capitalization	**98,831**	165,709
Total net debt	**1,610,366**	1,170,926
Total capitalization	**1,709,197**	1,336,635
Total net debt/Total capitalization ratio	**94.2%**	87.6%

The Corporation's credit facilities are subject to certain covenants including a ratio related to adjusted operating results and a minimum level of cash and cash equivalents. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2022, the Corporation benefited from a temporary suspension of these ratios by its lenders up to October 29, 2023. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

Note 8 Deposits

	2022 $	2021 $
Maintenance deposits with lessors	**135,563**	80,777
Deposits on leased aircraft and engines	**37,920**	33,926
Deposits with suppliers	**28,140**	7,471
	201,623	122,174
Less current portion	**29,392**	10,130
	172,231	112,044

Note 9 Property, plant and equipment

	Leasehold improvements 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, 2021	**117,118**	**135,486**	**57,193**	**78,684**	**1,300,068**	**122,450**	**1,810,999**
Additions	**537**	**7,605**	**4,646**	**19**	**158,425**	**1,001**	**172,233**
Disposals	**(4,585)**	**(36)**	**(815)**	**(229)**	**(32,358)**	**(3,006)**	**(41,029)**
Write-offs	**(7,159)**	**(2)**	**(14,302)**	**(20,189)**	**(10,765)**	**(9,000)**	**(61,417)**
Depreciation	**—**	**(783)**	**—**	**—**	**—**	**—**	**(783)**
Exchange difference	**—**	**—**	**121**	**4,924**	**—**	**4**	**5,049**
Balance as at October 31, 2022	**105,911**	**142,270**	**46,843**	**63,209**	**1,415,370**	**111,449**	**1,885,052**
Accumulated depreciation							
Balance as at October 31, 2021	**67,277**	**78,803**	**43,180**	**30,168**	**539,787**	**77,555**	**836,770**
Depreciation	**8,115**	**7,611**	**4,506**	**1,680**	**118,148**	**6,287**	**146,347**
Disposals	**(4,585)**	**(36)**	**(663)**	**(229)**	**(29,028)**	**(2,486)**	**(37,027)**
Write-offs	**(7,159)**	**(2)**	**(14,302)**	**(20,189)**	**(10,765)**	**(9,000)**	**(61,417)**
Exchange difference	**—**	**—**	**121**	**104**	**—**	**3**	**228**
Balance as at October 31, 2022	**63,648**	**86,376**	**32,842**	**11,534**	**618,142**	**72,359**	**884,901**
Net book value as at October 31, 2022	**42,263**	**55,894**	**14,001**	**51,675**	**797,228**	**39,090**	**1,000,151**

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

Property, plant and equipment related to the fleet

During the year ended October 31, 2022, the Corporation early returned to the lessor a leased Airbus A330. This return resulted in disposals of property, plant and equipment and accumulated depreciation balances of $21,457. In addition, the Corporation took delivery of two Airbus A321LR aircraft.

During the year ended October 31, 2021, the Corporation early returned five leased aircraft to the lessors, four Airbus A330s and one Boeing 737-800 while two Airbus A330 leases expired. These returns resulted in disposals of property, plant and equipment and accumulated depreciation balances of $426,114 and $416,939, respectively. In addition, one leased Airbus A330 will not be used until it is returned to the lessor. An impairment charge equal to the full carrying value of the right-of-use assets, maintenance components and leasehold improvements for this aircraft has been recorded in the consolidated statement of operations under Special items; these impairment charges total $9,117 [*Note 20*].

Land, building and leasehold improvements

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

On May 20, 2021, due to the change in strategic objectives and the decrease in liquidity related to the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2022 and 2021, the land held in Mexico did not meet the criteria to be presented as an asset held for sale. Given the above factors and the uncertainty of the future use of the land held in Mexico, assessments of its recoverable amount compared to its carrying amount were performed as at October 31, 2022 and 2021. The recoverable amount of the land at each of these dates has been assessed based on fair value less costs to sell. The fair value less costs to sell was estimated based on Level 3 inputs, which are valuations prepared by an independent external evaluator as at October 13, 2022 and October 19, 2021, respectively. As at October 31, 2022 and 2021, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly no impairment charge was required.

Note 10 Intangible assets

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2021	**156,279**	**20,391**	**12,594**	**189,264**
Additions	**3,697**	**—**	**—**	**3,697**
Disposals	**(110)**	**—**	**—**	**(110)**
Write-offs	**(979)**	**—**	**—**	**(979)**
Exchange difference	**(167)**	**(126)**	**—**	**(293)**
Balance as at October 31, 2022	**158,720**	**20,265**	**12,594**	**191,579**
Accumulated amortization and impairment				
Balance as at October 31, 2021	**141,713**	**18,193**	**12,509**	**172,415**
Amortization	**6,997**	**—**	**85**	**7,082**
Disposals	**(65)**	**—**	**—**	**(65)**
Write-offs	**(979)**	**—**	**—**	**(979)**
Exchange difference	**(135)**	**—**	**—**	**(135)**
Balance as at October 31, 2022	**147,531**	**18,193**	**12,594**	**178,318**
Net book value as at October 31, 2022	**11,189**	**2,072**	**—**	**13,261**

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

Note 11 Investment

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

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

	2022 $	2021 $
Opening balance	**9,476**	14,509
Capital contribution	**707**	821
Share of net loss	**(2,477)**	(4,704)
Translation adjustment	**1,114**	(1,150)
Closing balance	**8,820**	9,476

The investment was translated at the USD/CAD closing rate of 1.3641 as at October 31, 2022 [1.2397 as at October 31, 2021].

As at October 31, 2022 and 2021, the Corporation determined that there was no objective evidence of impairment in its investment in a joint venture or increase in the value of the investment.

The following table shows the condensed financial information regarding Desarrollo Transimar as at October 31, 2022 and 2021:

	2022 $	2021 $
Statement of financial position:		
Current assets	**8,127**	6,667
Non-current assets	**87,330**	80,335
Current liabilities	**4,768**	3,875
Non-current liabilities	**73,049**	64,175
Net assets	**17,640**	18,952
Carrying amount of investment	**8,820**	9,476
Statement of comprehensive income:		
Revenues	**14,296**	12,402
Net loss and comprehensive loss	**(4,954)**	(9,408)
Share of net loss	**(2,477)**	(4,704)

Note 12 Other assets

	2022 $	2021 $
Deferred financing costs	**12,552**	19,368
	12,552	19,368

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

Note 13 Trade and other payables

	2022	2021
	$	$
Trade payables	**195,088**	72,127
Salaries and employee benefits payable	**59,351**	36,836
Accrued expenses	**22,880**	22,046
Government remittances	**12,578**	10,781
	289,897	141,790

Note 14 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at October 31, 2022 and 2021. The current portion of lease liabilities included deferred rent payments related to aircraft leases and real estate leases of $32,148 and $51, respectively [$80,989 and $2,340 in 2021, respectively]:

	Final maturity	Weighted average effective interest rate	2022	2021
		%	$	$
Long-term debt				
Secured debt - LEEFF	**2024**	**5.55**	**77,215**	43,827
Unsecured debt - LEEFF	**2026**	**13.27**	**284,757**	157,985
Unsecured credit facility - Travel credits	**2028**	**14.00**	**182,520**	140,590
Revolving credit facility	**2024**	**8.27**	**49,644**	49,805
Subordinated credit facility	**2024**	**13.55**	**70,024**	70,973
Long-term debt		**12.23**	**664,160**	463,180
Lease liabilities				
Fleet	**2023-2034**	**5.85**	**1,044,951**	904,922
Real estate and other	**2023-2037**	**5.43**	**42,957**	51,436
Lease liabilities		**5.83**	**1,087,908**	956,358
Total long-term debt and lease liabilities		**8.26**	**1,752,068**	1,419,538
Current portion of lease liabilities			**(137,165)**	(171,557)
Long-term debt and lease liabilities			**1,614,903**	1,247,981

Funding from the Government of Canada

On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada. The new agreement allows the Corporation to borrow up to $843,300 in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF), an increase of $100,000 from the original agreement. Under the new agreement, Transat also has access to an additional credit facility of up to $50,000 subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses on an as-needed basis, are as follows:

Secured debt – LEEFF

On July 29, 2022, the Corporation renegotiated its secured LEEFF financing agreement in order to borrow additional liquidity of $20,000, bringing the total amount of the credit facility to $98,000. The maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms of the agreement remain unchanged. The non-revolving facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions, and continues to bear interest at bankers' acceptance rate plus a premium of 4.5%, or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the year ended October 31, 2022, the Corporation drew down a total amount of $34,000. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022, an amount of $78,000 was drawn down [$44,000 as at October 31, 2021] with a carrying value of $77,215 [$43,827 as at October 31, 2021].

The Corporation concluded that the modification related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded in relation to this amendment.

In addition, the additional liquidity granted under the secured LEEFF financing agreement amended on July 29, 2022 has been treated as a new tranche of existing long-term debt. Future draw downs will be accounted for in the same manner as previous draw downs.

The financing arrangement also provides Transat with an additional credit facility of up to $10,000, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

Unsecured debt – LEEFF

On March 9, 2022 and July 29, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Accordingly, on July 29, 2022, the Corporation obtained additional liquidity of $80,000, bringing the total unsecured, non-revolving credit facility to $392,000. Under the agreement amended on March 9, 2022, the credit facility now bears interest at 5.0% until December 31, 2023 (previously until April 29, 2022), increasing to 8.0% until December 31, 2024 (previously until April 29, 2023) and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024 (previously until April 29, 2023). The maturity date for the initial amount of $312,000 of the credit facility remains April 29, 2026 while the additional amount of $80,000 will mature on July 29, 2027. In the event of a change in control, this credit facility becomes immediately due and payable.

The Corporation concluded that the interest rate modifications related to the LEEFF unsecured financing amended on March 9, 2022 were non-substantial, as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEFF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The $22,191 adjustment was recorded as a gain on long-term debt modification and was calculated as follows:

	$
Financial liability carrying amount before the modification as at March 9, 2022	265,906
Financial liability carrying amount under the new terms as at March 9, 2022	243,715
Gain on long-term debt modification	**(22,191)**

The additional liquidity granted under the agreement related to the LEEFF unsecured financing amended on July 29, 2022 will be treated as a new tranche of existing long-term debt. Future drawdowns will be accounted for in the same manner as previous drawdowns.

The financing arrangement also provides Transat with an additional credit facility of up to $40,000, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

As of October 31, 2022, $312,000 was drawn [$176,000 as at October 31, 2021] with a carrying amount of $284,757 [$157,985 as at October 31, 2021]. During the year ended October 31, 2022, the Corporation drew down a total of $136,000. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a deduction from the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of loss under Change in fair value of derivatives. As at October 31, 2022, the fair value of the prepayment option was $128 [$1,377 as at October 31, 2021] and was determined using a trinomial interest rate tree based on the Hull-White model.

As part of the amended financing package, the Corporation issued an additional 4,687,500 warrants, bringing the total warrants to 17,687,500 *[Note 15]* in connection with the unsecured financing - LEEFF.

Unsecured credit facility related to travel credits

On March 9, 2022, the Corporation renegotiated its agreement with the Government of Canada under the unsecured credit facility related to travel credits in order to borrow additional funds up to a maximum of $43,300. The Corporation has now access to an amount of $353,300 under the unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

Additional liquidity obtained under the unsecured credit facility related to travel credits was treated as a new tranche of existing long-term debt and was accounted for in the same way as previous tranches.

As at October 31, 2022, the credit facility was fully drawn [$310,000 as at October 31, 2021] and its carrying amount stood at $182,520 [$140,590 as at October 31, 2021]. An amount of $169,025 [$167,394 as at October 31, 2021] was also recognized as deferred government grant related to these drawdowns. During the year ended October 31, 2022, an amount of $18,864 [$5,056 for the year ended October 31, 2021] was recognized under proceeds from government grants as a reduction of financing costs.

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

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

Other credit facilities

Revolving credit facility

On July 29, 2022, the Corporation renegotiated its $50,000 revolving term credit agreement for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. This agreement can be extended for one year on each anniversary date subject to lender approval and becomes immediately due and payable in the event of a change of control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian and U.S. dollars. The agreement is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars, plus a premium of 4.5% or at the financial institution's prime rate, plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022 and 2021, the credit facility was fully drawn.

The Corporation concluded that the modification related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instrument*s. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded in relation to this amendment.

Subordinated credit facility

On July 29, 2022, the Corporation renegotiated its $70,000 subordinated credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. In the event of a change of control, the agreement becomes immediately due and payable. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate plus a premium of 6.0% or at the financial institution's prime rate, plus a premium of 5.0%. Until October 29, 2023 (previously October 31, 2022), an additional compounding premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at October 31, 2022 and 2021, the credit facility was fully drawn.

The Corporation concluded that the modification related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded in relation to this amendment.

Revolving credit facility agreement – Letters of credit

The Corporation has a $74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at October 31, 2022, $55,935 of the facility was drawn [$38,161 as at October 31, 2021], of which $31,273 was to secure the 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 the obligations under senior executive defined benefit pension agreements will be drawn.

Financing costs

Interest expense for the years ended October 31, 2022 and 2021 is detailed as follows:

	2022 $	2021 $
Interest expense on long-term debt	**50,377**	16,520
Interest expense on lease liabilities	**47,660**	45,567
Accretion on provision for return conditions	**2,973**	983
Other interest	**4,304**	13,954
Financing costs	**105,314**	77,024

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

Rent expense

Rent expense for the years ended October 31, 2022 and 2021 is detailed as follows:

	2022 $	2021 $
Variable lease payments	**6,018**	–
Aircraft rent	**6,018**	–
Variable lease payments	**1,059**	–
Short-term leases	**3,483**	950
Low value leases	**351**	558
	10,911	1,508

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities:

	2022			2021		
	Cash flows $	Non-cash changes $	Total $	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2021			**956,358**			853,906
Repayments	**(108,336)**	**–**	**(108,336)**	(74,539)	–	(74,539)
New lease liabilities (new contracts and amendments)	**–**	**145,656**	**145,656**	–	241,605	241,605
Interest portion of deferred rent payments	**–**	**12,162**	**12,162**	–	33,174	33,174
Offset of rent payments and lease terminations	**–**	**(9,842)**	**(9,842)**	–	(45,222)	(45,222)
Exchange difference	**–**	**91,910**	**91,910**	–	(52,566)	(52,566)
Balance as at October 31, 2022	**(108,336)**	**239,886**	**1,087,908**	(74,539)	176,991	956,358

Maturity analysis

Principal and interest payments on long-term debt and lease liabilities as at October 31, 2022 are detailed as follows. Interest on long-term debt only includes interest payable as at October 31, 2022. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.3641 as at October 31, 2022:

Year ending October 31	2023 $	2024 $	2025 $	2026 $	2027 $	2028 and up $	Total $
Long-term debt obligations	**—**	**196,883**	**—**	**284,757**	**—**	**182,520**	**664,160**
Fleet	187,173	168,155	171,292	151,442	136,467	497,990	**1,312,519**
Real estate and other	3,993	3,319	5,788	5,357	5,426	35,575	**59,458**
Lease liabilities	**191,166**	**171,474**	**177,080**	**156,799**	**141,893**	**533,565**	**1,371,977**
Total	**191,166**	**368,357**	**177,080**	**441,556**	**141,893**	**716,085**	**2,036,137**

Note 9 provides the information required for right-of-use assets and depreciation. Note 24 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 15 Liability related to warrants

In the context of the initial financing arrangement related to the unsecured facility – LEEFF *[Note 14]*, on April 29, 2021, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share, exercisable over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt – LEEFF.

On July 29, 2022, as part of the amendments to the financing package related to the LEEFF unsecured financing, the Corporation issued an additional 4,687,500 warrants to purchase an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $3.20 per share over a 10-year period, representing 18.75% of the additional commitment available under the LEEFF unsecured financing.

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was repaid prior to December 31, 2023 (previously April 29, 2022), 50% of the vested warrants would be forfeited.

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

As at October 31, 2022, a total of 13,000,000 warrants [7,333,333 warrants as at October 31, 2021] had vested following drawdowns on the unsecured debt – LEEFF and no warrants had been exercised.

Under the limitations set out above, if the 17,687,500 warrants issued are exercised:

- a maximum of 9,503,036 warrants could be exercised through the issuance of shares;
- 8,184,464 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,503,036 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,503,036 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, using the Black-Scholes model, the fair value of the 13,000,000 warrants issued on April 29, 2021 was estimated at $41,491 and recorded as a liability. In its model, the Corporation used a risk-free interest rate of 1.66%, expected volatility of 55.8% and a contractual term of 10 years. The fair value of the 4,687,500 warrants issued on July 29, 2022 was estimated at $9,792 and recorded as a liability. In its model, the Corporation used a risk-free interest rate of 2.69%, expected volatility of 53.3% and a contractual term of 10 years.

The initial fair value of the warrants was also recorded under other assets as deferred financing costs related to the unsecured debt – LEEFF. When the LEEFF unsecured financing is drawn, the deferred financing costs recorded as an asset are applied against the initial carrying amount of the liabilities recorded, pro rata to the amounts drawn. The resulting discount will form part of the determination of the effective rate of each drawdown in conjunction with the expected cash flows to repay the drawdowns.

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

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

The change in the liability related to warrants for the nine-month period ended October 31 is detailed as follows:

	2022	2021
	$	$
Opening balance	**36,557**	—
Issuance	**9,792**	41,491
Revaluation of liability related to warrants	**(21,989)**	(4,934)
Closing balance	**24,360**	36,557
Current liability	**16,799**	20,622
Non-current liability	**7,561**	15,935
Closing balance	**24,360**	36,557

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at October 31, 2022, the primary unobservable input used in the model is expected volatility, which is estimated at 52.7%. A 5.0% increase in the expected volatility used in the pricing model would result in a total increase of $2,100 in the liability related to the warrants as at October 31, 2022.

Note 16 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the year ended October 31, 2022 is detailed as follows:

	2022	2021
	$	$
Opening balance	**126,244**	143,598
Additional provisions	**49,858**	28,574
Changes in estimates	**(15,276)**	(18,527)
Utilization of provision	**(6,163)**	—
Unused amounts reversed	**(2,864)**	(28,384)
Accretion	**2,973**	983
Closing balance	**154,772**	126,244
Current provisions	**—**	3,065
Non-current provisions	**154,772**	123,179
Closing balance	**154,772**	126,244

Changes in estimates mainly include adjustments to the inflation rate to be applied to estimated current costs and to the discount rate for the provision for return conditions. As at October 31, 2022, the unused amounts reversed correspond to the reversals of the provision for return conditions for three aircraft, including one aircraft whose lease was terminated and two aircraft that were returned early in 2021.

As at October 31, 2021, the unused amounts recovered included $7,521 related to future repairs to aircraft that will not be made, $6,610 related to the leases that matured during the year and $14,253 related to reversals of provisions for return conditions for aircraft whose leases were terminated.

Note 17 Employee future benefits

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

Defined benefit arrangements and post-employment benefits

The defined benefit pension arrangements offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $31,273 letter of credit to the trustee *[Note 5]*. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation as at October 31, 2022 and 2021:

	2022 **$**	**2021** **$**
Present value of obligations, beginning of year	**27,120**	49,862
Current service cost	**1,108**	1,360
Cost of plan amendments	**(1,579)**	3,295
Financial costs	**848**	1,099
Benefits paid	**(1,120)**	(29,094)
Experience losses	**286**	2,350
Actuarial gain on obligation	**(5,890)**	(1,752)
Present value of obligations, end of year	**20,773**	27,120

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

	2022 **$**	**2021** **$**
Current service cost	**1,108**	1,360
Cost of plan amendments	**(1,579)**	3,295
Interest cost	**848**	1,099
Total retirement benefit expense	**377**	5,754

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2022:

	$
1 year and less	**1,183**
1 to 5 years	**5,515**
5 to 10 years	**7,060**
10 to 15 years	**7,585**
15 to 20 years	**6,688**
	28,031

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.3 years as at October 31, 2022.

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

	2022 %	2021 %
Retirement benefit obligation		
Discount rate	**5.25**	3.25
Rate of increase in eligible earnings	**2.75**	2.75
Retirement benefit expense		
Discount rate	**3.25**	2.75
Rate of increase in eligible earnings	**2.75**	2.75

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

Increase (decrease)	**Retirement benefit expense for the year ended October 31, 2022** **$**	**Retirement benefit obligation as at October 31, 2022** **$**
Discount rate	**(32)**	**(594)**
Rate of increase in eligible earnings	**22**	**51**

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

	2022 $	2021 $
Plan assets at fair value	**—**	—
Accrued benefit obligation	**20,773**	27,120
Retirement benefit deficit	**20,773**	27,120

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

Gains (losses)	**$**
October 31, 2020	(15,254)
Actuarial losses	(597)
October 31, 2021	**(15,851)**
Actuarial gains	**5,603**
October 31, 2022	**(10,248)**

Defined contribution pension plans

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

Contributions to defined contribution pension plans, which correspond to the cost recognized, amounted to $12,584 for the year ended October 31, 2022 [$6,114 for the year ended October 31, 2021].

Note 18 Equity

Authorized share capital

Class A Variable Voting Shares

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

- first, if applicable, there will be a reduction in the voting rights of any non-Canadian individual (including a non-Canadian authorized to provide an air service) whose votes total more than 25% of the votes cast, so that such non-Canadian holder may never hold more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast at a meeting;
- next, if applicable, and once the pro rata distribution as described above is made, a further pro rata reduction will be made in the voting rights of all non-Canadian holders of Class A Shares authorized to provide an air service, so that such non-Canadian holders may never hold votes totalling more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting;
- last, if applicable, and once the two pro rata allocations described above have been made, a proportional reduction will be made in the voting rights of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares may never hold votes totalling more than 49% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting.

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

Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

The changes affecting the Class A and Class B shares were as follows:

	Number of shares	$
Balance as at October 31, 2020	37,747,090	221,012
Balance as at October 31, 2021	37,747,090	221,012
Issued from treasury	265,054	912
Balance as at October 31, 2022	**38,012,144**	**221,924**

As at October 31, 2022, the number of Class A Shares and Class B Shares stood at 1,428,479 and 36,583,665, respectively [1,694,125 and 36,052,965 as at October 31, 2021].

Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 1,406,508 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the vesting conditions, if any, are determined at each grant. The options granted before October 31, 2013, are exercisable over a ten-year period, whereas those granted after that date are exercisable over a seven-year period. Under the plan, in the event of a change of control, all outstanding stock options vest.

The following tables summarize all outstanding options:

	2022		2021	
	Number of options	Weighted average price ($)	Number of options	Weighted average price ($)
Beginning of year	**1,108,262**	**7.55**	1,738,570	10.13
Granted	**150,000**	**4.18**	150,000	4.61
Cancelled	**(672,898)**	**7.77**	(128,953)	10.96
Expired	**(104,517)**	**7.86**	(651,355)	13.07
End of year	**480,847**	**6.13**	1,108,262	7.55
Options exercisable, end of year	**180,847**	**9.01**	958,262	8.01

	Outstanding options			Options exercisable	
Range of exercise price	Number of options outstanding as at October 31, 2022	Weighted average remaining life	Weighted average price	Number of options exercisable as at October 31, 2022	Weighted average price
$			$		$
4.18 to 4.61	**300,000**	**6.3**	**4.40**	**—**	**—**
6.01 to 10.94	**180,847**	**1.1**	**9.01**	**180,847**	**9.01**
	480,847	**4.3**	**6.13**	**180,847**	**9.01**

Compensation expense related to stock option plan

During the year ended October 31, 2022, the Corporation granted 150,000 stock options [150,000 in 2021] to its key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant were as follows:

	2022	2021
Risk-free interest rate	**3.09%**	0.96%
Expected life	**4 years**	4 years
Expected volatility	**64.7%**	67.0%
Dividend yield	**0.0%**	0.0%
Weighted average fair value at date of grant	**$2.15**	$2.34

During the year ended October 31, 2022, the Corporation recorded a compensation expense of $144 [nil compensation expense in 2021] for its stock option plan.

Performance share unit plan

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

During the years ended October 31, 2022 and 2021, the Corporation did not grant any PSUs to its key executives and employees. As at October 31, 2022 and 2021, no PSUs were awarded. During the year ended October 31, 2022, the Corporation did not recognize any compensation expense [compensation expense reversal of $1,843 in 2021, which was recorded in full as a cash-settled transaction] for its PSU plan.

Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2022, the Corporation was authorized to issue up to 805,736 shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 265,054 shares [nil shares in 2021] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

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

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

During the year ended October 31, 2022, the Corporation recognized compensation expense of $127 [no compensation expense in 2021] for its stock ownership incentive and capital accumulation plan.

Permanent stock ownership incentive plan

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

During the year ended October 31, 2022, the Corporation recognized compensation expense of $184 [no compensation expense in 2021] for its permanent stock ownership incentive plan.

Deferred share unit plan

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

As at October 31, 2022, the number of DSUs awarded amounted to 360,439 [302,203 as at October 31, 2021]. During the year ended October 31, 2022, the Corporation recorded a compensation expense reversal of $94 [compensation expense of $171 in 2021] for its deferred share unit plan.

Restricted share unit plan

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

As at October 31, 2022 and 2021, there were no RSUs awarded. During the year ended October 31, 2022, the Corporation did not record compensation expense [compensation expense reversal of $4,687 in 2021] for its restricted share unit plan.

Warrants

No warrants were exercised during the year ended October 31, 2022 and 2021. Accordingly, the Corporation issued no shares related to the exercise of warrants *[Note 15]*.

Loss per share

Basic and diluted loss per share was calculated as follows:

(in thousands of dollars, except per share data)	2022 $	2021 $
NUMERATOR		
Net loss attributable to shareholders used in computing basic loss per share	**(445,324)**	(389,559)
Effect of deemed conversion of warrants	**(21,989)**	(4,934)
Less anti-dilutive impact	**21,989**	4,934
Net loss attributable to shareholders used in computing diluted loss per share	**(445,324)**	(389,559)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,838**	37,747
Effect of potential dilutive securities		
Stock options	**—**	18
Warrants	**—**	1,807
Less anti-dilutive impact	**—**	(1,825)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**37,838**	37,747
Loss per share		
Basic	**(11.77)**	(10.32)
Diluted	**(11.77)**	(10.32)

For the year ended October 31, 2022, the 480,847 outstanding stock options and the 9,503,036 vested warrants that can be exercised through the issuance of shares were excluded from the calculation since their exercise price exceeded the average share price for the period [1,108,262 stock options and 9,436,772 warrants for the year ended October 31, 2021].

Note 19 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

Revenue from contracts with customers is broken down as follows:

	2022 $	2021 $
Customers		
Americas	**870,660**	88,611
Transatlantic	**752,419**	26,383
Other	**18,959**	9,824
Total revenues	**1,642,038**	124,818

Contract balances

Contract balances with customers are detailed as follows:

	2022 $	2021 $
Trade accounts receivable *[Note 6]*	**9,497**	9,775
Other receivables *[Note 6]*	**196,894**	77,733
Contract costs, included in Prepaid expenses	**11,973**	5,543
Customer deposits and deferred revenues	**602,509**	292,158

Salaries and employee benefits

	2022 $	2021 $
Salaries and other employee benefits	**288,368**	117,016
Long-term employee benefits *[Note 17]*	**377**	5,754
Share-based payment expense	**144**	—
	288,889	122,770

From March 15, 2020 to May 7, 2022, the Corporation took advantage of wage subsidies for businesses affected by COVID-19 for its Canadian workforce. These subsidies allowed the Corporation, among other things, and until August 28, 2021, to offer temporarily laid off employees a portion of their salary equivalent to the amount of the grant received, without any work required. The Corporation determined it met the employer eligibility criteria and claimed the CEWS for the period from March 15, 2020 to October 23, 2021 as well as the THRP and HHBRP subsidies from October 24, 2021 to May 7, 2022.

During the year ended October 31, 2022, the Corporation made use of the THRP and the HHBRP, an amount of $24,403 was recorded under these programs. During the year ended October 31, 2021, the Corporation made use of the CEWS: amounts of $25,758 and $80,901, respectively, were recognized in connection with active employees and inactive employees, which corresponds to the salaries paid to them.

Depreciation and amortization

	2022 $	2021 $
Property, plant and equipment	**146,347**	150,590
Intangible assets subject to amortization	**7,082**	9,175
	153,429	159,765

Note 20 Special items

	2022 $	2021 $
Special items		
Severance	**847**	6,739
Impairment of assets	**783**	—
Impairment of contract balances and other assets	**—**	24,333
Impairment of the fleet (including right-of-use assets) *[Note 9]*	**—**	9,117
	1,630	40,189
Special items related to the transaction with Air Canada		
Termination payment	**—**	(12,500)
Professional fees	**—**	6,106
Reversal of compensation expense	**—**	(6,223)
	—	(12,617)
	1,630	27,572

Special items generally include restructuring charges and other significant unusual items, including impairment losses.

Special items

As a result of the global COVID-19 pandemic since the beginning of 2020, the Corporation's operations have been significantly disrupted. As a result, the Corporation had to make significant capacity reductions, primarily in 2021, and recognize impairment charges in this respect as well as other charges. These charges and impairment losses are included in Special items.

As at October 31, 2022, special items included severance costs of $847 in respect of estimated employee termination benefits and an asset impairment charge of $783 for the impairment of rotable Boeing 737 spare parts.

The change in the provision for employee termination benefits for the year ended October 31 was as follows:

	2022 $	2021 $
Opening balance	**5,220**	–
Additional provisions	**847**	6,739
Utilization of provision	**(4,052)**	(1,519)
Closing balance	**2,015**	5,220

As at October 31, 2021, special items included the impairment of contract balances of $21,917 related to commissions, global distribution system fees and credit card fees that will not be refunded to the Corporation as part of the traveller refunds. In addition, the Corporation recorded an impairment charge of $2,416 related to deposits associated with an impaired aircraft.

During the year ended October 31, 2021, it was determined that a leased Airbus A330 will not be used until it is returned to the lessor. An impairment charge totalling $9,117 has been recorded to this effect.

As a result of the COVID-19 pandemic, the Corporation has undertaken to reduce its workforce through permanent layoffs. Severance costs of $6,739 have been accrued in 2021, of which $5,220 was included in Trade and other payables as at October 31, 2021. The provision includes the estimated costs of notices and severance benefits provided for in the Corporation's collective agreements and applicable laws, the amount of which could be adjusted based on various factors such as the relevant notice period and the number of employees being laid off and the period for which they remain laid off.

Special items related to the Air Canada transaction

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

Note 21 Gain on asset disposals

The gain on disposal of assets relates to asset disposals and lease terminations.

During the year ended October 31, 2022, the $3,934 gain on asset disposals was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4,085 gain, which resulted from the reversal of lease liabilities of $3,976 and other assets and liabilities totalling $109. The carrying amount of the right-of-use asset for this aircraft lease was fully impaired during the year ended October 31, 2021.

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

Note 22 Income Taxes

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

Consolidated statements of loss	2022 $	2021 $
Current		
Current income taxes	**1,078**	(172)
Adjustment to taxes (recoverable) payable for prior years	**(4,252)**	120
	(3,174)	(52)
Deferred		
Relating to temporary differences	**1,195**	1,837
Adjustment to deferred taxes for prior years	**114**	(19)
Recognition of previously unrecognized temporary difference	**(2,284)**	(1,743)
	(975)	75
Income tax expense (recovery)	**(4,149)**	23

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

	2022		2021	
	%	$	%	$
Income taxes at the statutory rate	**26.5**	**(119,110)**	26.5	(103,194)
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	**0.3**	**(1,258)**	–	34
Non-deductible non-taxable items	**–**	**(107)**	(1.0)	3,845
Unrecognized losses for the current year	**(27.2)**	**122,061**	(25.9)	100,745
Recognition of previously unrecognized temporary difference	**0.5**	**(2,284)**	0.4	(1,743)
Adjustments for prior years	**0.9**	**(4,138)**	–	101
Effect of tax rate changes	**–**	**–**	0.1	(143)
Other	**(0.1)**	**687**	(0.1)	378
	0.9	**(4,149)**	–	23

The applicable statutory income tax rate was 26.5% for the year ended October 31, 2022 [26.5% for the year ended October 31, 2021].

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components and changes in temporary differences in deferred tax assets and liabilities for fiscal 2022 and 2021 were as follows:

	2022				
	Balance, beginning of year $	Recognized in net income $	Recognized in other comprehensive income $	Exchange differences $	Balance, end of year $
Non-capital losses carried forward	**5,009**	**527**	**–**	**–**	**5,536**
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	**(229,762)**	**(7,516)**	**–**	**(53)**	**(237,331)**
Intangible assets, excluding software	**111**	**(29)**	**–**	**–**	**82**
Lease liabilities	**227,832**	**14,426**	**–**	**–**	**242,258**
Derivative financial instruments	**–**	**(177)**	**–**	**–**	**(177)**
Other financial assets and other assets	**(3,836)**	**(6,503)**	**–**	**–**	**(10,339)**
Provisions	**33**	**247**	**–**	**–**	**280**
Deferred tax	**(613)**	**975**	**–**	**(53)**	**309**

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

The net deferred tax assets are detailed below:

	2022	**2021**
	$	**$**
Deferred tax assets	**953**	—
Deferred tax liabilities	**(644)**	(613)
Net deferred tax assets	**309**	(613)

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

	Unrecognized	**Recognized**
Year of expiry	**$**	**$**
2023 - 2027	**4,426**	**—**
2028 - 2032	**—**	**672**
2033 - 2037	**3,416**	**—**
2038 - 2042	**1,045,761**	**18,744**
With no expiry	**777**	**2,898**
	1,054,380	**22,314**

As at October 31, 2022, non-capital losses carried forward and other unrecognized temporary differences were as follows:

	Canada				
	Federal	**Québec**	**Mexico**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Non-capital losses carried forward	1,041,836	1,047,158	2,356	10,188	1,054,380
Capital losses	2,629	2,629	—	—	2,629
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	14,318	13,531	28,145	52	42,515
Intangible assets, excluding software	2,953	2,953	—	—	2,953
Lease liabilities	174,400	174,400	—	38	174,438
Derivative financial instruments	239	239	—	—	239
Other financial assets and other assets	10,315	10,315	—	—	10,315
Provisions	34,077	34,077	—	—	34,077
Employee benefits	20,773	20,773	—	—	20,773
Deferred donations	971	1,438	—	—	971
	1,302,511	**1,307,513**	**30,501**	**10,278**	**1,343,290**

The Corporation recognized a deferred tax liability of $4,700 on retained earnings of one of its foreign subsidiaries. The Corporation recognized no other deferred tax liability on retained earnings of its foreign subsidiaries and its joint venture as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad.

In previous fiscal years, the tax authorities had questioned the deductibility of tax losses the Corporation reported on its ABCP (Asset-Backed Commercial Paper) investments. In relation to this situation, in 2015, the Corporation paid a total of $15,100 to the tax authorities and objected to the notices of assessment received. During the year ended October 31, 2022, the Corporation and the tax authorities came to an agreement on the tax treatment of the deductibility of ABCP-related tax losses. As a result, under this settlement agreement, in addition to recovering the $15,100 paid in 2015, the Corporation recorded an additional income tax recovery of $5,347 and interest of $2,129. As at October 31, 2022, the income tax receivable balance included an amount of $4,884 [$15,100 as at October 31, 2021] related to this settlement agreement while the accounts receivable balance included an amount of $1,862 related to accrued interest receivable.

Note 23 Related party transactions and balances

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

		Interest (%)	
	Country of incorporation	**2022**	**2021**
Air Transat A.T. inc.	Canada	**100.0**	100.0
Transat Tours Canada inc.	Canada	**100.0**	100.0
Transat Distribution Canada inc.	Canada	**100.0**	100.0
11061987 Florida Inc.	United States	**100.0**	100.0
Transat Holidays USA Inc.	United States	**100.0**	100.0
The Airline Seat Company Ltd.	United Kingdom	**100.0**	100.0
Air Consultants France S.A.S.	France	**100.0**	100.0
Caribbean Transportation Inc.	Barbados	**100.0**	100.0
CTI Logistics Inc.	Barbados	**100.0**	100.0
Sun Excursions Caribbean Inc.	Barbados	**100.0**	100.0
Propiedades Profesionales Dominicanas Carhel S.R.L.	Dominican Republic	**100.0**	100.0
Servicios y Transportes Punta Cana S.R.L.	Dominican Republic	**100.0**	100.0
TTDR Travel Company S.A.S.	Dominican Republic	**100.0**	100.0
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	**100.0**	100.0
Turissimo Jamaica Ltd.	Jamaica	**100.0**	100.0
Laminama S.A. de C.V.	Mexico	**100.0**	100.0
Promociones Residencial Morelos S.A. de C.V.	Mexico	**100.0**	100.0
Promotora Turística Regional S.A. de C.V.	Mexico	**100.0**	100.0
Trafictours de Mexico S.A. de C.V.	Mexico	**100.0**	100.0
Desarrollo Transimar S.A. de C.V.	Mexico	**50.0**	50.0

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

Compensation of key senior executives

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

	2022	**2021**
	$	**$**
Salaries and other employee benefits	**5,627**	5,876
Long-term employee benefits	**(471)**	4,655

Note 24 Commitments and contingencies

Leases and other commitments

As at October 31, 2022, the Corporation was party to agreements to lease seven Airbus A321LRs for delivery up to 2024, three Airbus A321XLRs to be delivered in 2025 and 2026 and one Airbus A321ceo for delivery in 2023. The Corporation also has 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, particularly in connection with information technology service contracts, undertaken in the normal course of business. The following table sets out the minimum payments due under aircraft leases to be delivered over the next few years and under leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations:

Year ending October 31	2023 $	2024 $	2025 $	2026 $	2027 $	2028 and up $	Total $
Leases (aircraft and other)	7,822	46,548	58,206	75,677	80,840	707,417	**976,510**
Purchase obligations	9,385	3,139	4,782	32	14	—	**17,352**
	17,207	**49,687**	**62,988**	**75,709**	**80,854**	**707,417**	**993,862**

Litigation

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. There are often many uncertainties surrounding these disputes and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation’s financial position, subject to the paragraph hereunder. The Corporation has directors’ and officers’ liability insurance and professional liability insurance, with coverage under said insurance policies that is usually sufficient to pay amounts that the Corporation may be required to disburse in connection with these lawsuits that are specific to the directors and officers, and not the Corporation. In addition, the Corporation holds professional liability and general liability insurance for lawsuits relating to non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has always defended itself vigorously and intends to continue to do so.

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of applications for authorization to institute class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. While some of these applications have not yet been definitively settled, the Corporation has refunded almost all of the customers, particularly since April 2021, using the unsecured credit facility related to travel credits. Consequently, applications for authorization to institute class actions that have not yet been settled may become moot. In any event, the Corporation will continue to defend itself vigorously in this respect. 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 (loss) and could have an unfavourable effect on cash.

Other

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is difficult to predict with certainty, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss.

Note 25 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 prior representations or warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 5, 14, 17 and 24 to the consolidated financial statements provide information about some of these agreements. The following constitutes additional disclosure.

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2022, the total amount of these guarantees unsecured by deposits amounted to $469. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2022, no amounts had been accrued with respect to the above-mentioned agreements.

Note 26 Segment disclosures

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

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Information

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For additional information, write to the Chief Financial Officer.

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Annual Shareholders Meeting

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