TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2022

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Ticker symbol
TSX: TRZ

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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 quarter ended January 31 2022, compared with the quarter ended January 31, 2021, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2021 and accompanying notes and the 2021 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first-quarter update to the information contained in the MD&A section of our 2021 Annual Report. The risks and uncertainties set out in the MD&A of the 2021 Annual Report are herein incorporated by reference and remain substantially unchanged. Unless otherwise indicated, the information contained herein is dated as of March 9, 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 quarter ended January 31, 2022 and the Annual Information Form for the year ended October 31, 2021.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

As at January 31, 2022, a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. The MD&A's Section 7. Financial position, liquidity and capital resources and Note 2 to the interim condensed consolidated financial statements contain more detail on this issue.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. 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. The Corporation cannot predict 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. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2022, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2021 Annual Report.

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 7. Financial position, liquidity and capital resources of the MD&A and Note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

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

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

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

2. NON-IFRS FINANCIAL MEASURES

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

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our 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 fuel-related derivatives and other derivatives, gain (loss) on asset disposals, restructuring charges, asset impairment, depreciation and amortization, foreign exchange gains (losses) and other significant unusual items, and by including premiums for fuel-related derivatives and other derivatives matured during the period, we believe this MD&A helps users to better analyze our results, as well as our ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

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

Adjusted operating income (loss)	Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus 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.

As the Corporation has ceased to recognize deferred tax assets, the presentation of the adjusted loss before tax expense has been suspended, this result being similar to the adjusted net loss, which continues to be presented.

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

	Quarters ended January 31	
(in thousands of Canadian dollars, except per share amounts)	2022 $	2021 $
Operating loss	**(73,841)**	(98,048)
Special items	**—**	6,926
Depreciation and amortization	**37,472**	37,490
Adjusted operating loss	**(36,369)**	(53,632)
Net loss attributable to shareholders	**(114,345)**	(60,534)
Special items	**—**	6,926
Change in fair value of fuel-related derivatives and other derivatives	**528**	(5,196)
Revaluation of liability related to warrants	**456**	—
Gain on asset disposals	**(3,952)**	(17,372)
Foreign exchange (gain) loss	**21,996**	(32,873)
Adjusted net loss	**(95,317)**	(109,049)
Adjusted net loss	**(95,317)**	(109,049)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,747**	37,747
Adjusted net loss per share	**(2.53)**	(2.89)

(in thousands of dollars)	As at January 31, 2022 $	As at October 31, 2021 $
Long-term debt	**501,201**	463,180
Deferred government grant	**163,360**	167,394
Liability related to warrants	**37,013**	36,557
Deferred financing costs	**(19,157)**	(19,368)
Lease liabilities	**943,202**	956,358
Total debt	**1,625,619**	1,604,121
Total debt	**1,625,619**	1,604,121
Cash and cash equivalents	**(343,131)**	(433,195)
Total net debt	**1,282,488**	1,170,926

3. FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
	2022	2021	Difference	Difference
(in thousands of Canadian dollars, except per share amounts)	$	$	$	%
Consolidated Statements of Income (Loss)				
Revenues	**202,438**	41,920	160,518	382.9
Operating loss	**(73,841)**	(98,048)	24,207	24.7
Net loss attributable to shareholders	**(114,345)**	(60,534)	(53,811)	(88.9)
Basic loss per share	**(3.03)**	(1.60)	(1.43)	(89.4)
Diluted loss per share	**(3.03)**	(1.60)	(1.43)	(89.4)
Adjusted operating loss[1]	**(36,369)**	(53,632)	17,263	32.2
Adjusted net loss[1]	**(95,317)**	(109,049)	13,732	12.6
Adjusted net loss per share[1]	**(2.53)**	(2.89)	0.36	12.5
Consolidated Statements of Cash Flows				
Operating activities	**(79,709)**	(106,295)	26,586	25.0
Investing activities	**(4,163)**	(1,874)	(2,289)	(122.1)
Financing activities	**(6,567)**	(15,143)	8,576	56.6
Effect of exchange rate changes on cash and cash equivalents	**375**	(275)	650	236.4
Net change in cash and cash equivalents	**(90,064)**	(123,587)	33,523	27.1

	As at January 31, 2022	As at October 31, 2021	Difference	Difference
	$	$	$	%
Consolidated Statements of Financial Position				
Cash and cash equivalents	**343,131**	433,195	(90,064)	(20.8)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**203,106**	170,311	32,795	19.3
	546,237	603,506	(57,269)	(9.5)
Total assets	**1,899,831**	1,897,658	2,173	0.1
Debt (current and non-current)	**501,201**	463,180	38,021	8.2
Total debt [1]	**1,625,619**	1,604,121	21,498	1.3
Total net debt [1]	**1,282,488**	1,170,926	111,562	9.5

[1] See Non-IFRS Financial Measures section

4. HIGHLIGHTS OF THE QUARTER

IMPACT OF THE COVID-19 PANDEMIC

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. 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. The Corporation cannot predict 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. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2022, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

Preserving cash is a priority for the Corporation. During the quarter ended January 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.

- During the quarter ended January 31, 2022, the Corporation drew down $28.0 million under credit facilities related to the LEEFF. As described in the Financing section, the available financing represents a maximum of $863.3 million, of which $678.0 million was drawn as at January 31, 2022.

- During the quarter ended January 31, 2022, 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 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 capacity of the winter season by 22% compared with the initially deployed capacity.

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

- The Corporation 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 continue to offer support for salaries and rent.

- As at January 31, 2022, cash and cash equivalents amounted to $343.1 million.

5. OVERVIEW

CORE BUSINESS, VISION AND STRATEGY

Core Business

Founded in Montreal 35 years ago, Transat has grown to become a holiday travel reference worldwide, particularly as an air carrier under the Air Transat brand. Voted World's Best Leisure Airline by passengers at the Skytrax World Airline Awards, it flies to international and Canadian destinations, striving to serve its customers with enthusiasm and friendliness at every stage of their trip or stay, and emphasizing safety throughout.

Transat has been Travelife-certified since 2018, renewing its fleet with aircraft considered the greenest in their category as part of a commitment to a healthier environment, knowing that this is essential to the integrity of its operations and the destinations it serves.

6. CONSOLIDATED OPERATIONS

(in thousands of dollars)	Quarters ended January 31 2022 $	2021 $	Difference $	Difference %
Revenues	**202,438**	41,920	160,518	382.9
Operating expenses				
Costs of providing tourism services	**66,218**	10,019	56,199	560.9
Salaries and employee benefits	**46,320**	28,212	18,108	64.2
Aircraft fuel	**36,313**	7,548	28,765	381.1
Aircraft maintenance	**18,229**	16,448	1,781	10.8
Sales and distribution costs	**16,156**	1,948	14,208	729.4
Airport and navigation fees	**15,914**	4,790	11,124	232.2
Aircraft rent	**776**	–	776	100.0
Other airline costs	**20,588**	8,330	12,258	147.2
Other	**17,914**	15,677	2,237	14.3
Share of net loss of a joint venture	**379**	2,580	(2,201)	(85.3)
Depreciation and amortization	**37,472**	37,490	(18)	–
Special items	**–**	6,926	(6,926)	(100.0)
	276,279	139,968	136,311	97.4
Operating loss	**(73,841)**	(98,048)	24,207	24.7
Financing costs	**21,968**	19,145	2,823	14.7
Financing income	**(989)**	(1,447)	458	31.7
Change in fair value of fuel-related derivatives and other derivatives	**528**	(5,196)	5,724	110.2
Revaluation of liability related to warrants	**456**	–	456	100.0
Gain on asset disposals	**(3,952)**	(17,372)	13,420	77.3
Foreign exchange (gain) loss	**21,996**	(32,873)	54,869	166.9
Loss before income tax expense	**(113,848)**	(60,305)	(53,543)	(88.8)
Income taxes				
Current	**497**	123	374	304.1
Deferred	**–**	75	(75)	(100.0)
	497	198	299	151.0
Net loss for the period	**(114,345)**	(60,503)	(53,842)	(89.0)
Net income (loss) attributable to:				
Shareholders	**(114,345)**	(60,534)	(53,811)	(88.9)
Non-controlling interests	**–**	31	(31)	(100.0)
	(114,345)	(60,503)	(53,842)	(89.0)

REVENUES

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

Compared with 2021, revenues for the quarter ended January 31, 2022 were up $160.5 million (382.9%). Compared with the same quarter of fiscal 2019, revenues for the current quarter were down 68.7%. Since mid-March of 2020, restrictions on international travel and government-imposed quarantine measures have made travel sales very difficult. Revenue growth in the quarter was dampened by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant during the quarter and the new restrictive measures put in place by the federal government on December 15, 2021. As a result, the Corporation cancelled nearly 30% of flights scheduled for January. Due to the COVID-19 pandemic, demand for the first quarter of fiscal 2022 remained well below the 2019 level. For the quarter, higher revenues resulted mainly from a rise in the number of travellers combined with a slight increase in average selling prices.

OPERATING EXPENSES

Total operating expenses were up $136.3 million (97.4%) for the quarter, compared with 2021. The increase is attributable to the greater capacity deployed compared with the first quarter of 2021 due to higher demand compared with last year.

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. Compared with 2021, these costs were up $56.2 million (560.9%) for the quarter. This 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 $18.1 million (64.2%) for the quarter, compared with 2021. Following the gradual resumption of its airline operations since July 2021, the Corporation recalled some of its employees. Also, the Corporation continues to benefit from wage subsidies for businesses affected by COVID-19 for its personnel in Canada. During the quarter ended January 31, 2022, the Corporation made use of the THRP and the HHBRP, recording an amount of $15.1 million under these programs. During the quarter ended January 31, 2021, the Corporation made use of the CEWS: an amount of $11.7 million has been recognized in connection with active employees and an amount of $21.7 million has been recognized in connection with inactive employees, which corresponds to the salaries paid to them.

Aircraft fuel

Aircraft fuel expense was up $28.8 million (381.1%) for the quarter. The increase was attributable to a higher capacity compared with 2021, combined with the rise in fuel prices.

Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. Compared with 2021, these expenses rose $1.8 million (10.8%) during the quarter. The increase was attributable to the greater capacity deployed compared with the first quarter of 2021.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were up $14.2 million (729.4%) during the quarter, compared with 2021. The increase was mainly driven by higher revenues and costs related to booking cancellations. Other factors were the higher advertising expenses due to the gradual resumption of operations and the increase in sales of packages, which have higher commissions.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $11.1 million (232.2%) for the quarter, compared with 2021. This increase was mainly attributable to the greater capacity deployed 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 $12.3 million (147.2%) for the quarter, compared with 2021. The increase was due to higher capacity, compared with 2021.

Other

Other costs were up $2.2 million (14.3%) for the quarter, 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 the first quarter totalled $0.4 million, compared with $2.6 million for the corresponding quarter of 2021. Operations at our hotel joint venture were substantially scaled down compared with 2021. Moreover, certain assets were impaired during the first quarter of 2021.

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. These expenses for the quarter were stable compared with 2021. The impact on the amortization expense resulting from the commissioning of four Airbus A321neoLRs in 2021 was offset by the decrease in additions to property, plant and equipment and intangible assets due to cost reduction measures related to the COVID-19 pandemic.

Special items

	Quarters ended January 31	
	2022	**2021**
	$	**$**
Special items related to the transaction with Air Canada		
Professional fees	–	5,143
Compensation expense	–	1,783
	–	6,926

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. For the quarter ended January 31, 2021, professional fees of $5.1 million and compensation expenses of $1.8 million were recorded in connection with the transaction with Air Canada. The compensation expenses were mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of compensation expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

OPERATING RESULTS

Given the above, we recorded an operating loss of $73.8 million (36.5%) for the first quarter, compared with $98.0 million (233.9%) in 2021. The improvement in operating results was attributable to the gradual and partial resumption of airline operations. This improvement in operating results was however reined in by the cancellation of nearly 30% of flights scheduled for January due to the sharp decline in demand and booking cancellations following the emergence of the Omicron variant and new restrictive measures put in place by the federal government on December 15, 2021. Demand remained weak due to the COVID-19 pandemic with the Corporation’s capacity in the first quarter of 2022 representing a fraction of the 2019 level.

For the quarter, the Corporation reported an adjusted operating loss of $36.4 million (18.0%) compared with $53.6 million (127.9%) 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 $2.8 million (14.7%) during the quarter, compared with 2021. The increase resulted from higher debt following the new credit facilities entered into with the Government of Canada through the LEEFF.

Financing income

Financing income was down $0.5 million (31.7%) during the quarter compared with 2021, mainly as a result of decreases in average balances of cash and cash equivalents compared with 2021.

Change in fair value of fuel-related derivatives and other derivatives

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange as well as the change in fair value of the pre-payment option on the unsecured debt - LEEFF. Since April 30, 2021, all the fuel-related derivatives and foreign exchange derivatives held by the Corporation have matured and the Corporation no longer holds any fuel-related derivatives and foreign exchange derivatives. During the quarter ended January 31, 2022, the fair value of the pre-payment option related to the unsecured debt – LEEFF decreased by $0.5 million. During the quarter ended January 31, 2021, the fair value of fuel-related derivatives and other derivatives increased by $5.2 million.

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 quarter ended January 31, 2022, the fair value of warrants increased by $0.5 million, driven by the increase in the closing price of the share from $4.39 to $4.58 between October 31, 2021 and January 31, 2022.

Gain on asset disposals

During the quarter ended January 31, 2022, the gain on asset disposals is 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.

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

Foreign exchange (gain) loss

During the quarter, the Corporation recognized a $22.0 million foreign exchange loss, compared with a foreign exchange gain of $32.9 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

Income tax expense for the first quarter amounted to $0.5 million, compared with $0.2 million for the corresponding quarter of last year. The effective tax rate was -0.4% for the quarter ended January 31, 2022 compared with -0.3% for the quarter ended January 31, 2021.

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 quarter ended January 31, 2022, no deferred tax assets of Canadian subsidiaries were recognized.

NET LOSS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $114.3 million for the quarter ended January 31, 2022, compared with $60.5 million in 2021.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

For the first quarter of fiscal 2022, net loss attributable to shareholders amounted to $114.3 million or $3.03 per share (basic and diluted) compared with $60.5 million or $1.60 per share (basic and diluted) for the corresponding quarter of last year. The weighted average number of outstanding shares used to compute basic per share amounts was 37,747,000 for fiscal 2022 and 37,747,000 for fiscal 2021 (37,747,000 and 37,747,000, respectively, for diluted per share amounts).

For the first quarter, adjusted net loss was $95.3 million ($2.53 per share) compared with $109.0 million ($2.89 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. Compared with the corresponding quarters of the previous year, revenues were up for the first part of the winter (Q1) as well as for the summer season (Q3 and Q4). The revenue growth was attributable to partial and gradual resumption of operations mainly following the gradual easing of health measures that sparked a recovery in demand. During the second part of winter (Q2), the fall in revenues was attributable to the suspension of our airline operations for the second quarter of 2021, combined with the sharp decline in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic.

The improvement in our operating results for the first part of winter (Q1) was driven by the partial and gradual resumption of operations. The increase in operating loss during the second part of winter (Q2) was 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. For the 2020 summer season (Q3 and Q4), operating results were affected by the special items and the unfavourable settlement of fuel-related derivative contracts. For the second part of summer (Q4), the recovery of demand was stronger in 2021 than in 2020, and accordingly operating results for the 2021 summer season improved compared with 2020. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information

(in thousands of dollars, except per share data)	Q2-2020 $	Q3-2020 $	Q4-2020 $	Q1-2021 $	Q2-2021 $	Q3-2021 $	Q4-2021 $	Q1-2022 $
Revenues	571,298	9,546	28,426	41,920	**7,569**	**12,548**	**62,781**	**202,438**
Operating loss	(29,551)	(132,013)	(239,332)	(98,048)	**(86,480)**	**(98,368)**	**(118,326)**	**(73,841)**
Net loss	(179,712)	(45,721)	(238,370)	(60,503)	**(69,537)**	**(138,059)**	**(121,339)**	**(114,345)**
Net loss attributable to shareholders	(179,548)	(45,115)	(238,077)	(60,534)	**(69,561)**	**(138,125)**	**(121,339)**	**(114,345)**
Basic loss per share	(4.76)	(1.20)	(6.31)	(1.60)	**(1.84)**	**(3.66)**	**(3.21)**	**(3.03)**
Diluted loss per share	(4.76)	(1.20)	(6.31)	(1.60)	**(1.84)**	**(3.66)**	**(3.21)**	**(3.03)**
Adjusted operating income (loss)[1]	21,108	(79,941)	(90,735)	(53,632)	**(50,963)**	**(50,928)**	**(58,362)**	**(36,369)**
Adjusted net loss[1]	(38,792)	(139,848)	(156,392)	(109,049)	**(103,287)**	**(115,641)**	**(118,400)**	**(95,317)**
Adjusted net loss per share[1]	(1.03)	(3.70)	(4.14)	(2.89)	**(2.74)**	**(3.06)**	**(3.14)**	**(2.53)**

[1] See non-IFRS financial measures

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 January 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, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $114.3 million and generated negative cash flows related to operations totalling $79.7 million for the quarter ended January 31, 2022. However, as discussed in Note 9, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $743.3 million in additional liquidity through the Large Employer Emergency Financing Facility and on March 9, 2022, the Corporation renegotiated certain terms of this agreement. The ratios applicable to credit facilities are suspended until October 31, 2022. Therefore, available credit amounts to a maximum of $863.3 million, of which an amount of $678.0 million was drawn down as at January 31, 2022 and $790.0 million as at March 9, 2022.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada that allows it to borrow additional cash resources up to a maximum of $743.3 million through the LEEFF, bringing total available financing to a maximum of $863.3 million. 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 November 1, 2022. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management is actively seeking to secure new financing and is currently in discussions with potential lenders, including federal and provincial authorities. These discussions include the possibility of a new application to the LEEFF and requests for amendments to certain terms and conditions of the credit facilities currently in place. Management is also continuing to monitor possible government assistance programs.

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 financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

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

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at January 31, 2022 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.

CONSOLIDATED FINANCIAL POSITION

As at January 31, 2022, cash and cash equivalents totalled $343.1 million compared with $433.2 million as at October 31, 2021. Cash and cash equivalents in trust or otherwise reserved amounted to $203.1 million at the end of the first quarter of 2022, compared with $170.3 million as at October 31, 2021. The Corporation's statement of financial position reflected $37.6 million in working capital, for a ratio of 1.05, compared with $89.7 million and a ratio of 1.14 as at October 31, 2021.

Total assets increased by $2.2 million (0.1%), from $1,897.7 million as at October 31, 2021 to $1,899.8 million as at January 31, 2022. This increase is explained in the financial position table provided below. Equity decreased by $114.5 million, from a negative amount of $315.1 million as at October 31, 2021 to negative equity of $429.6 million as at January 31, 2022. The deterioration resulted primarily from a $114.3 million net loss attributable to shareholders.

(in thousands of dollars)	January 31, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**343,131**	433,195	(90,064)	See Cash flows section
Cash and cash equivalents otherwise reserved	**203,106**	170,311	32,795	Seasonal nature of operations combined with higher business volume
Trade and other receivables	**177,459**	108,857	68,602	Increase in amounts receivable from credit card processors and government grants receivable
Income taxes receivable	**16,214**	16,220	(6)	No significant difference
Inventories	**13,116**	10,514	2,602	Increase in inventory of consumable parts
Prepaid expenses	**26,338**	16,465	9,873	Increase in prepaid insurance and business volume
Deposits	**132,681**	122,174	10,507	Increase in deposits for aircraft maintenance
Property, plant and equipment	**943,972**	974,229	(30,257)	Amortization for the period
Intangible assets	**15,633**	16,849	(1,216)	Amortization for the period, partially offset by the acquisitions
Investment	**9,024**	9,476	(452)	Share of net loss of a joint venture
Deferred financing costs	**19,157**	19,368	(211)	No significant difference

(in thousands of dollars)	January 31, 2022 $	October 31, 2021 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**205,080**	141,413	63,667	Seasonal nature of operations combined with higher business volume
Income taxes payable	**1,791**	1,354	437	No significant difference
Customer deposits and deferred revenues	**309,178**	292,158	17,020	Seasonal nature of operations combined with higher business volume
Long-term debt and lease liabilities	**1,444,403**	1,419,538	24,865	Drawdowns on the LEEFF credit facility and weakening of the dollar against the U.S. dollar, partially offset by principal repayments and the early return of an aircraft
Provision for return conditions	**140,498**	126,244	14,254	Increase related to the passage of time, combined with the weakening of the dollar against the U.S. dollar
Liability related to warrants	**37,013**	36,557	456	Increase in fair value of warrants during the period
Deferred government grant	**163,360**	167,394	(4,034)	Proceeds from government grants during the period
Other liabilities	**27,524**	27,497	27	No significant difference
Deferred tax liabilities	**627**	613	14	No significant difference
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,977**	15,948	29	No significant difference
Deficit	**(659,226)**	(544,881)	(114,345)	Net loss
Cumulative exchange differences	**(7,406)**	(7,189)	(217)	No significant difference

CASH FLOWS

	Quarters ended January 31		
	2022	**2021**	**Difference**
(in thousands of dollars)	**$**	**$**	**$**
Cash flows related to operating activities	**(79,709)**	(106,295)	26,586
Cash flows related to investing activities	**(4,163)**	(1,874)	(2,289)
Cash flows related to financing activities	**(6,567)**	(15,143)	8,576
Effect of exchange rate changes on cash	**375**	(275)	650
Net change in cash and cash equivalents	**(90,064)**	(123,587)	33,523

Operating activities

Operating activities used cash flows of $79.7 million during the first quarter, compared with $106.3 million in 2021. The $26.6 million decrease resulted from the improvement in our operating results following the gradual and partial resumption of airline operations, combined with a $14.3 million increase in the net change in the provision for return conditions and an $9.7 million increase in non-cash working capital balances related to operations, partially offset by the $19.8 million decrease in the net change in other assets and liabilities related to operations.

Investing activities

Cash flows used in investing activities amounted to $4.2 million for the first quarter compared with $1.9 million in 2021, representing an increase of $2.3 million. Additions to property, plant and equipment and intangible assets amounted to $4.2 million during the quarter, consisting primarily in aircraft maintenance and spare parts, compared with $2.3 million in 2021.

Financing activities

For the first quarter, cash flows used in financing activities decreased by $8.6 million from $15.1 million in 2021 to $6.6 million in 2022. During the quarter ended January 31, 2022, the Corporation drew down a total of $28.0 million from its credit facilities, compared with a nil amount in the first quarter of 2021. In addition, during the quarter ended January 31, 2022, the Corporation made repayments on its lease liabilities amounting to $34.6 million compared with $15.1 million in 2021. In 2021, the Corporation was able to negotiate rent deferral with certain lessors.

FINANCING

Funding from the Government of Canada

The Corporation has entered into an agreement with the Government of Canada that allows it to borrow up to $743.3 million in additional liquidity through the Large Employer Emergency Financing Facility [“LEEFF’]. 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

An amount of $78.0 million available for drawdown until October 29, 2022, in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of 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 4.5% or at the financial institution’s prime rate plus a premium of 3.5%. In the event of a change in control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and conditions. As at January 31, 2022, the Corporation benefited from a waiver of certain financial ratios and covenants from its lenders until October 31, 2022 and $72.0 million of the credit facility was drawn [$44.0 million as at October 31, 2021], which has a carrying amount of $71.3 million.

Unsecured debt – LEEFF

On March 9, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Under the amended agreement, the Corporation continues to have access to an amount of $312.0 million available for drawdown until October 29, 2022, in the form of an unsecured, non-revolving credit facility maturing on April 29, 2026. 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. Interest may be capitalized until December 31, 2024 (previously until April 29, 2023). In the event of a change in control, this credit facility becomes immediately due and payable.

As at January 31, 2022, $176.0 million of the credit facility was drawn, which has a carrying amount of $163.8 million. On February 9, 2022, the Corporation drew down an additional amount of $112.0 million, which will be recognized under long-term debt during the second quarter.

As part of the financing package related to the unsecured financing facility - LEEFF, the Corporation issued a total of 13,000,000 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 $4.50 per share (representing the volume-weighted average price for the five trading days immediately preceding the issuance of the warrants) over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt - LEEFF. Warrants are to vest in proportion to the drawings that will be made. Under the terms of the 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.

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).

Under the limitations set out in the preceding paragraph, if the 13,000,000 warrants are exercised:

- a maximum of 9,436,772 warrants could be exercised through the issuance of shares;
- 3,563,228 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

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 to borrow additional funds up to a maximum of $43.3 million. The Corporation has now access to an amount of $353.3 million 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.

As at January, 31, 2022, $310.0 million of the credit facility was drawn. As at January 31, 2022, the carrying amount of the credit facility was $144.7 million, and an amount of $163.4 million 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 existing credit facilities

Revolving credit facility

The Corporation has a $50.0 million revolving credit facility for its operations which expires on April 29, 2023. 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 LIBOR (London Interbank Offered 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%. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at January 31, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn.

Subordinated credit facility

The Corporation also has a $70,000 subordinated credit facility for its operations. The facility expires on April 29, 2023 and becomes immediately due and payable in the event of a change in control. 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, plus a 6.0% premium, or the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to interest. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at January 31, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions by its lenders until October 31, 2022 and 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 interim condensed 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 $563.1 million as at January 31, 2022 ($549.8 million as at October 31, 2021) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at January 31, 2022** **$**	**As at October 31, 2021** **$**
Guarantees		
Irrevocable letters of credit	**1,255**	6,951
Collateral security contracts	**436**	425
Leases		
Lease obligations	**561,446**	542,397
	563,137	549,773

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 January 31, 2022, $46.5 million had been drawn down under the facility ($38.2 million as at October 31, 2021), including $30.7 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 down.

Following the Government of Canada funding and amendments to the existing revolving credit facility agreement and subordinated credit facility agreement, on May 28, 2021, the lender terminated the guarantee facility that allowed the Corporation to issue letters of credit to certain of its service providers, for a maximum term of three years and for a total amount of $13.0 million, without pledging cash for the total amount of letters of credit issued. As at January 31, 2022, an amount of $0.3 million was drawn down under this credit facility maturing on April 30, 2022.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £2.3 million ($3.9 million), which has been fully drawn down.

As at January 2022, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $13.4 million compared with October 31, 2021. This increase resulted primarily from the strengthening of the dollar against the U.S. dollar.

Subject to going concern uncertainty discussed in Section 7. Financial position, liquidity and capital resources and Note 2 to the interim condensed consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

Debt levels

The Corporation reported $501.2 million in long-term debt and $943.2 million in lease liabilities on the consolidated statement of financial position.

The Corporation's total debt stood at $1,625.6 million as at January 31, 2022, up $21.5 million from October 31, 2021. The increase was due primarily to a drawdown of $28.0 million from credit facilities and the strengthening of the U.S. dollar against the dollar, partially offset by the payment of lease liabilities.

Total net debt increased by $111.6 million, from $1,170.9 million as at October 31, 2021 to $1,282.5 million as at January 31, 2022. The increase in total net debt resulted primarily from the decrease in cash and cash equivalents.

Outstanding shares

As at January 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 March 4, 2022, there were 37,786,489 total voting shares outstanding.

Stock options

As at March 4, 2022, there were a total of 330,847 stock options outstanding, 180,847 of which were exercisable.

Warrants

As at January 31, 2022 and as at March 4, 2022, a total of 13,000,000 warrants was issued. As at January 31, 2022 a total of 7,333,333 warrants had vested and as at March 4, 2022, a total of 12,000,000 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 January 31, 2022, Air Transat's fleet consisted of twelve Airbus A330s (332 or 345 seats), ten Airbus A321neoLRs (199 seats), seven Airbus A321ceos (199 seats) and one Boeing 737-800 (189 seats). Due to the COVID-19 pandemic and the resulting significant capacity reductions, one Airbus A330 was returned to the lessor early during the quarter ended January 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.

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. However, under the unsecured credit facility related to travel credits, travel credits issued as a result of flight cancellations arising from the COVID-19 pandemic were eligible for refund. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation has defended its position in the past and will continue to do so with vigour. 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. Nevertheless, the Corporation completed the process of reimbursing travel credits to customers who submitted a request, which could mitigate the impact of any unfavourable decision on cash flow and results.

9. ACCOUNTING

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2021. There have been no significant changes to the Corporation's accounting policies since that date.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Impairment of non-financial assets

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

The 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 mentioned in the financial statements for the year ended October 31, 2021, the Corporation determined at that date that the declines in revenues and demand owing to the COVID-19 pandemic, and the resulting significant reductions in capacity were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of CGUs was determined based on their useful value, applying a discounted cash flow model. As at October 31, 2021, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount was higher than their carrying amount.

As at January 31, 2022, the Corporation reviewed and updated certain assumptions used in the most recent impairment test performed as at October 31, 2021. The Corporation determined that these adjustments did not give rise to any changes to the results of the impairment testing of its CGUs performed as at October 31, 2021.

Provision for return conditions

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

Liability related to warrants

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

Changes in accounting policies

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

In August 2020, the IASB published amendments to the following standards: 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 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.

10. CONTROLS AND PROCEDURES

In accordance with the National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer who, among other things, deem adequate as at January 31, 2022 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;

- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2022 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

11. OUTLOOK

Impact of the coronavirus on outlook - The Corporation continues to implement a series of operational, commercial and financial measures, including cost reduction, to preserve its cash flow. The Corporation continues to monitor the situation on a daily basis in order to adjust these measures as the situation evolves.

Following the recent announcements regarding the easing of health measures and travel restrictions by various governments in Canada and other countries, the current situation is showing encouraging signs in terms of bookings. However, it remains impossible at this time to predict the impact of the COVID-19 pandemic on future bookings, and on financial results. Consequently, the Corporation is not currently providing an outlook for the second quarter or for summer 2022.

Second quarter 2022 – Across all our markets, the capacity for the second quarter of the fiscal year represents 48.0% of the overall capacity of 2019. For the sun destinations program, the Corporation's main market for the winter season, the capacity in 2022 represents 44.0% of the 2019 levels. In the transatlantic market, where it is the low season, the Corporation's capacity represents 59% of the 2019 levels while the transborder market represents 94%.

Summer 2022 – Across all our markets, the planned capacity for summer 2022 is 91% of the 2019 overall capacity. For the transatlantic program, the Corporation's main market for the summer season, the planned capacity in 2022 is 78% of the 2019 levels. In the sun destinations program, where it is the low season, the Corporation's planned capacity represents 96% of the 2019 levels. Moreover, the Corporation plans to increase its presence in the transborder market by quadrupling its capacity compared with 2019 by offering, among other things, new flights from Montreal to Los Angeles and San Francisco. Lastly, the Corporation also plans to increase its capacity by 9.0% in the domestic market compared with 2019.

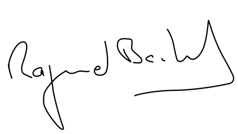
TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	*Notes*	As at January 31, 2022 $	As at October 31, 2021 $
ASSETS			
Cash and cash equivalents		**343,131**	433,195
Cash and cash equivalents in trust or otherwise reserved	*4*	**172,378**	139,583
Trade and other receivables	*5*	**177,459**	108,857
Income taxes receivable		**1,114**	1,120
Inventories		**13,116**	10,514
Prepaid expenses		**26,338**	16,465
Current portion of deposits	*6*	**7,528**	10,130
Current assets		**741,064**	719,864
Cash and cash equivalents reserved	*4*	**30,728**	30,728
Deposits	*6*	**125,153**	112,044
Income taxes receivable	*17*	**15,100**	15,100
Property, plant and equipment	*7*	**943,972**	974,229
Intangible assets		**15,633**	16,849
Investment	*8*	**9,024**	9,476
Deferred financing costs		**19,157**	19,368
Non-current assets		**1,158,767**	1,177,794
		1,899,831	1,897,658
LIABILITIES			
Trade and other payables		**205,080**	141,413
Income taxes payable		**1,791**	1,354
Customer deposits and deferred revenues		**309,178**	292,158
Current portion of lease liabilities	*9*	**162,601**	171,557
Current portion of liability related to warrants	*10*	**20,879**	20,622
Current portion of provision for return conditions	*11*	**3,972**	3,065
Current liabilities		**703,501**	630,169
Long-term debt and lease liabilities	*9*	**1,281,802**	1,247,981
Liability related to warrants	*10*	**16,134**	15,935
Deferred government grant	*9*	**163,360**	167,394
Provision for return conditions	*11*	**136,526**	123,179
Other liabilities	*12*	**27,524**	27,497
Deferred tax liabilities		**627**	613
Non-current liabilities		**1,625,973**	1,582,599
NEGATIVE EQUITY			
Share capital	*13*	**221,012**	221,012
Share-based payment reserve		**15,977**	15,948
Deficit		**(659,226)**	(544,881)
Cumulative exchange differences		**(7,406)**	(7,189)
		(429,643)	(315,110)
		1,899,831	1,897,658

See accompanying notes to the interim unaudited condensed 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]

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended January 31 2022 $	2021 $
Revenues	14	**202,438**	41,920
Operating expenses			
Costs of providing tourism services		**66,218**	10,019
Salaries and employee benefits	14	**46,320**	28,212
Aircraft fuel		**36,313**	7,548
Aircraft maintenance		**18,229**	16,448
Sales and distribution costs		**16,156**	1,948
Airport and navigation fees		**15,914**	4,790
Aircraft rent	9	**776**	—
Other airline costs		**20,588**	8,330
Other		**17,914**	15,677
Share of net loss of a joint venture	8	**379**	2,580
Depreciation and amortization		**37,472**	37,490
Special items	15	**—**	6,926
		276,279	139,968
Operating loss		**(73,841)**	(98,048)
Financing costs	9	**21,968**	19,145
Financing income		**(989)**	(1,447)
Change in fair value of fuel-related derivatives and other derivatives		**528**	(5,196)
Revaluation of liability related to warrants	10	**456**	—
Gain on asset disposals	16	**(3,952)**	(17,372)
Foreign exchange (gain) loss		**21,996**	(32,873)
Loss before income tax expense		**(113,848)**	(60,305)
Income taxes			
Current		**497**	123
Deferred		**—**	75
		497	198
Net loss for the period		**(114,345)**	(60,503)
Net income (loss) attributable to:			
Shareholders		**(114,345)**	(60,534)
Non-controlling interests		**—**	31
		(114,345)	(60,503)
Loss per share	13		
Basic		**(3.03)**	(1.60)
Diluted		**(3.03)**	(1.60)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Quarters ended January 31 2022 $	 2021 $
Net loss for the period	**(114,345)**	(60,503)
Other comprehensive income (loss)		
Items that will be reclassified to net income (loss)		
Reclassification to net income (loss)	**—**	447
Deferred taxes	**—**	75
	—	522
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries for the period	**143**	(736)
Reclassification to net income (loss)	**(360)**	—
	(217)	(736)
Total other comprehensive income	**(217)**	(214)
Comprehensive loss for the period	**(114,562)**	(60,717)
Comprehensive loss attributable to:		
Shareholders	**(114,562)**	(58,979)
Non-controlling interests	**—**	(1,738)
	(114,562)	(60,717)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Retained earnings (deficit) $	Accumulated other comprehensive income (loss): Unrealized gain (loss) on cash flow hedges $	Accumulated other comprehensive income (loss): 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 period	—	—	(60,534)	—	—	(60,534)	31	(60,503)
Other comprehensive income (loss)	—	—	—	522	1,033	1,555	(1,769)	(214)
Comprehensive income (loss) for the period	—	—	(60,534)	522	1,033	(58,979)	(1,738)	(60,717)
Fair value changes of non-controlling interest liabilities	—	—	(238)	—	—	(238)	238	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(269)	(269)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,769)	(1,769)	1,769	—
	—	—	(238)	—	(1,769)	(2,007)	1,738	(269)
Balance as at January 31, 2021	**221,012**	**15,948**	**(224,910)**	**—**	**(6,729)**	**5,321**	**—**	**5,321**
Net income (loss) for the period	—	—	(329,025)	—	—	(329,025)	90	(328,935)
Other comprehensive income (loss)	—	—	(597)	—	1,779	1,182	(2,239)	(1,057)
Comprehensive income (loss) for the period	—	—	(329,622)	—	1,779	(327,843)	(2,149)	(329,992)
Fair value changes of non-controlling interest liabilities	—	—	9,651	—	—	9,651	(9,651)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	9,561	9,561
Reclassification of non-controlling interest exchange difference	—	—	—	—	(2,239)	(2,239)	2,239	—
	—	—	9,651	—	(2,239)	7,412	2,149	9,561
Balance as at October 31, 2021	221,012	15,948	(544,881)	—	(7,189)	(315,110)	—	(315,110)
Net loss for the period	—	—	(114,345)	—	—	(114,345)	—	(114,345)
Other comprehensive loss	—	—	—	—	(217)	(217)	—	(217)
Comprehensive loss for the period	—	—	(114,345)	—	(217)	(114,562)	—	(114,562)
Share-based payment expense	—	29	—	—	—	29	—	29
	—	29	—	—	—	29	—	29
Balance as at January 31, 2022	**221,012**	**15,977**	**(659,226)**	**—**	**(7,406)**	**(429,643)**	**—**	**(429,643)**

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Notes	Quarters ended January 31 2022 $	2021 $
OPERATING ACTIVITIES			
Net loss for the period		**(114,345)**	(60,503)
Operating items not involving an outlay (receipt) of cash:			
Depreciation and amortization		**37,472**	37,490
Change in fair value of fuel-related derivatives and other derivatives		**528**	(5,196)
Revaluation of liability related to warrants		**456**	—
Gain on asset disposals	*16*	**(3,952)**	(17,372)
Foreign exchange (gain) loss		**21,996**	(32,873)
Share of net loss of a joint venture	*8*	**379**	2,580
Capitalized interests on long term debt and lease liabilities		**10,219**	5,894
Deferred taxes		**—**	75
Employee benefits		**480**	769
Share-based payment expense		**29**	—
		(46,738)	(69,136)
Net change in non-cash working capital balances related to operations		**(32,325)**	(42,005)
Net change in provision for return conditions		**11,019**	(3,315)
Net change in other assets and liabilities related to operations		**(11,665)**	8,161
Cash flows related to operating activities		**(79,709)**	(106,295)
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(4,163)**	(2,296)
Proceeds from sale of assets	*16*	**—**	422
Cash flows related to investing activities		**(4,163)**	(1,874)
FINANCING ACTIVITIES			
Proceeds from borrowings	*9*	**28,000**	—
Repayment of lease liabilities	*9*	**(34,567)**	(15,143)
Cash flows related to financing activities		**(6,567)**	(15,143)
Effect of exchange rate changes on cash and cash equivalents		**375**	(275)
Net change in cash and cash equivalents		**(90,064)**	(123,587)
Cash and cash equivalents, beginning of period		**433,195**	426,433
Cash and cash equivalents, end of period		**343,131**	302,846
Supplementary information (as reported in operating activities)			
Net income taxes paid (recovered)		**71**	(158)
Interest paid		**3,656**	746

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

Note 1 Corporate information

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

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel. 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.

These interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2022 were approved by the Corporation's Board of Directors on March 9, 2022.

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

Note 2 Uncertainty related to going concern

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from January 31, 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, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of $114,345 and generated negative cash flows related to operations totalling $79,709 for the quarter ended January 31, 2022. However, as discussed in Note 9, the Corporation entered into an agreement with the Government of Canada that allows it to borrow up to $743,300 in additional liquidity through the Large Enterprise Emergency Financing Facility ("LEEFF") and on March 9, 2022, the Corporation renegotiated certain terms of this agreement. The ratios applicable to credit facilities are suspended until October 31, 2022. Therefore, available credit amounts to a maximum of $863,300, of which an amount of $678,000 was drawn down as at January 31, 2022 and $790,000 as at March 9, 2022.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. 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. The Corporation cannot predict 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. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2022, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada that allows it to borrow additional cash resources up to a maximum of $743,300 through the LEEFF, bringing total available financing to a maximum of $863,300. 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 November 1, 2022. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management is actively seeking to secure new financing and is currently in discussions with potential lenders, including federal and provincial authorities. These discussions include the possibility of a new application to the LEEFF and requests for amendments to certain terms and conditions of the credit facilities currently in place. Management is also continuing to monitor possible government assistance programs.

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 financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

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

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at January 31, 2022 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.

Note 3 Significant accounting policies

Basis of preparation

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2021.

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

Significant accounting estimates and judgments

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

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

Impairment of non-financial assets

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

The 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 mentioned in the financial statements for the year ended October 31, 2021, the Corporation determined at that date that the declines in revenues and demand owing to the COVID-19 pandemic, and the resulting significant reductions in capacity were indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of CGUs was determined based on their useful value, applying a discounted cash flow model. As at October 31, 2021, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount was higher than their carrying amount.

As at January 31, 2022, the Corporation reviewed and updated certain assumptions used in the most recent impairment test performed at October 31, 2021. The Corporation determined that these adjustments did not give rise to any changes to the results of the impairment testing of its CGU performed as at October 31, 2021.

Provision for return conditions

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

Liability related to warrants

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, the liability related to warrants, totalling $41,491, 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.

Changes in accounting method

Reform of interbank offered rates ("IBOR") – Phase 2

In August 2020, the IASB published amendments to the following standards: 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 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.

Note 4 Cash and cash equivalents in trust or otherwise reserved

As at January 31, 2022, cash and cash equivalents in trust or otherwise reserved included $152,588 [$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 $50,518, $30,728 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 5 Trade and other receivables

	As at January 31, 2022 $	As at October 31, 2021 $
Credit card processors receivables	**124,967**	77,733
Government receivables	**28,853**	13,111
Trade receivables	**11,833**	9,775
Cash receivable from lessors	**1,276**	1,610
Other receivables	**10,530**	6,628
	177,459	108,857

As at January 31, 2022, government receivables included a wage subsidy in the amount of $15,066 receivable under the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP") *[Note 14]* [a wage subsidy of $1,296 under the Canada Emergency Wage Subsidy ("CEWS"] program as at October 31, 2021].

Note 6 Deposits

	As at January 31, 2022 $	As at October 31, 2021 $
Maintenance deposits with lessors	**93,641**	80,777
Deposits on leased aircraft and engines	**32,500**	33,926
Deposits with suppliers	**6,540**	7,471
	132,681	122,174
Less current portion	**7,528**	10,130
	125,153	112,044

Note 7 Property, plant and equipment

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2021	**117,118**	**135,486**	**57,193**	**78,684**	**1,300,068**	**122,450**	**1,810,999**
Additions	**386**	**1,359**	**571**	**4**	**1,842**	**155**	**4,317**
Disposals	**(4,585)**	**(36)**	**—**	**—**	**(24,565)**	**(304)**	**(29,490)**
Write-offs	**—**	**—**	**(91)**	**(188)**	**—**	**(1,171)**	**(1,450)**
Exchange difference	**—**	**—**	**24**	**1,151**	**—**	**78**	**1,253**
Balance as at January 31, 2022	**112,919**	**136,809**	**57,697**	**79,651**	**1,277,345**	**121,208**	**1,785,629**
Accumulated depreciation							
Balance as at October 31, 2021	**67,277**	**78,803**	**43,180**	**30,168**	**539,787**	**77,555**	**836,770**
Depreciation	**2,280**	**2,064**	**1,137**	**355**	**28,033**	**1,728**	**35,597**
Disposals	**(4,585)**	**(36)**	**—**	**—**	**(24,565)**	**(163)**	**(29,349)**
Write-offs	**—**	**—**	**(91)**	**(188)**	**—**	**(1,171)**	**(1,450)**
Exchange difference	**—**	**—**	**17**	**7**	**—**	**65**	**89**
Balance as at January 31, 2022	**64,972**	**80,831**	**44,243**	**30,342**	**543,255**	**78,014**	**841,657**
Net book value as at January 31, 2022	**47,947**	**55,978**	**13,454**	**49,309**	**734,090**	**43,194**	**943,972**

	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

During the quarter ended January 31, 2022, the Corporation early returned to the lessor a leased aircraft, namely an Airbus A330. This return resulted in disposals of property, plant and equipment and accumulated amortization of $21,457.

Note 8 Investment

As at January 31, 2022, the change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2021	**9,476**
Share of net loss	**(379)**
Translation adjustment	**(73)**
Balance as at January 31, 2022	**9,024**

The investment was translated at the USD/CAD closing rate of 1.2697 as at January 31, 2022 [1.2397 as at October 31, 2021].

Note 9 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 January 31, 2022 and October 31, 2021. The current portion of lease liabilities includes deferred rent payments related to aircraft leases and real estate leases of $76,728 and $1,513, respectively [$80,989 and $2,340 in 2021, respectively]:

	Final maturity	Weighted average effective interest rate	As at January 31, 2022	As at October 31, 2021
		%	$	$
Long-term debt				
Unsecured debt - LEEFF	**2026**	**12.95**	**163,759**	157,985
Unsecured credit facility - Travel credits	**2028**	**14.28**	**144,746**	140,590
Subordinated credit facility	**2023**	**10.31**	**71,603**	70,973
Revolving credit facility	**2023**	**5.02**	**49,787**	49,805
Secured debt - LEEFF	**2023**	**5.52**	**71,306**	43,827
Long-term debt		**11.11**	**501,201**	463,180
Lease liabilities				
Fleet	**2022-2033**	**5.25**	**894,784**	904,922
Real estate and other	**2022-2037**	**5.37**	**48,418**	51,436
Lease liabilities		**5.26**	**943,202**	956,358
Total long-term debt and lease liabilities		**7.29**	**1,444,403**	1,419,538
Current portion of lease liabilities			**(162,601)**	(171,557)
Long-term debt and lease liabilities			**1,281,802**	1,247,981

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada to borrow up to $743,300 in liquidity through the Large Employer Emergency Financing Facility (LEEFF). The fully repayable credit facilities are delivered through the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only as needed, are as follows:

Secured debt - LEEFF

An amount of $78,000 available for drawdown until October 29, 2022, in the form of a non-revolving and secured credit facility maturing on April 29, 2023; the facility is secured by a first-ranking charge on the assets of 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 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change in control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. As at January 31, 2022, the Corporation benefited from a waiver of certain financial ratios and covenants from its lenders until October 31, 2022 and $72,000 of the credit facility was drawn [$44,000 as at October 31, 2021], which has a carrying amount of $71,306.

Unsecured debt - LEEFF

On March 9, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Under the amended agreement, the Corporation continues to have access to an amount of $312,000 available for drawdown until October 29, 2022, in the form of an unsecured, non-revolving credit facility maturing on April 29, 2026. 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. Interest may be capitalized until December 31, 2024 (previously until April 29, 2023). In the event of a change in control, this credit facility becomes immediately due and payable.

As at January 31, 2022, $176,000 of the credit facility was drawn, which has a carrying amount of $163,759. On February 9, 2022, the Corporation drew down an additional amount of $112,000, which will be recognized as long-term debt during the second quarter. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a reduction of the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated as at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of income (loss) under Change in fair value of fuel-related derivatives and other derivatives. As at January 31, 2022, the fair value of the prepayment option of $849 [$1,377 as at October 31, 2021] was determined using a trinomial tree approach based on the Hull-White model.

In the context of the financing arrangement, the Corporation issued a total of 13,000,000 warrants *[Note 10]* related to unsecured financing facility - 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 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.

As at January, 31, 2022, $310,000 of the credit facility was drawn. As at January 31, 2022, the carrying amount of the credit facility was $144,746, and an amount of $163,360 was also recognized as deferred government grant related to these drawdowns. During the quarter ended January 31, 2022, an amount of $4,157 was recognized as 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

The Corporation has a $50,000 revolving credit facility for its operations which expires on April 29, 2023. 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 LIBOR (London Interbank Offered 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%. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at January 31, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn.

Subordinated credit facility

The Corporation also has a $70,000 subordinated credit facility for its operations. The facility expires on April 29, 2023 and becomes immediately due and payable in the event of a change in control. 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, plus a 6.0% premium, or the financial institution's prime rate, plus a 5.0% premium. Until October 31, 2022, an additional capitalizable premium of 3.75% will be added to interest. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at January 31, 2022, the Corporation benefited from a waiver of certain financial ratios and conditions by its lenders until October 31, 2022 and the credit facility was fully drawn.

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 January 31, 2022, $46,501 of the facility was drawn [$38,161 as at October 31, 2021], of which $30,728 was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn.

Financing costs

Interest expense for the quarter ended January 31, 2022 and 2021 is detailed as follows:

	Quarters ended January 31	
	2022	**2021**
	$	**$**
Interest on lease liabilities	**11,429**	11,359
Interest on long-term debt	**9,114**	610
Accretion on provision for return conditions	**491**	149
Other interest	**934**	7,027
Financing costs	**21,968**	19,145

Other interest for the quarter ended January 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 quarter ended January 31, 2022 and 2021 is detailed as follows:

	Quarters ended January 31	
	2022	**2021**
	$	**$**
Variable lease payments	**776**	—
Aircraft rent	**776**	—
Short-term leases	**737**	488
Low value leases	**74**	116
	1,587	604

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the quarter ended January 31, 2022:

	Cash flows	Non-cash changes	Total
	$	$	$
Balance as at October 31, 2021			**956,358**
Repayments	**(34,567)**	**—**	**(34,567)**
New lease liabilities (new contracts and amendments)	**—**	**1,020**	**1,020**
Interest portion of deferred rent payments	**—**	**4,230**	**4,230**
Offset of rent payments and lease terminations	**—**	**(5,368)**	**(5,368)**
Exchange difference	**—**	**21,529**	**21,529**
Balance as at January 31, 2022	**(34,567)**	**21,411**	**943,202**

Maturity analysis

Repayment of principal and interest on long-term debt and lease liabilities as at January 31, 2022 is detailed as follows. Interest on long-term debt only includes interest payable as at January 31, 2022. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.2697 as at January 31, 2022:

Year ended October 31	2022	2023	2024	2025	2026	2027 and up	Total
	$	$	$	$	$	$	$
Long-term debt obligations	**—**	**192,696**	**—**	**—**	**163,759**	**144,746**	**501,201**
Fleet	165,609	130,989	119,953	115,277	111,147	461,485	**1,104,460**
Real estate and other	7,664	3,846	3,229	5,723	5,304	40,951	**66,717**
Lease liabilities	**173,273**	**134,835**	**123,182**	**121,000**	**116,451**	**502,436**	**1,171,177**
Total	**173,273**	**327,531**	**123,182**	**121,000**	**280,210**	**647,182**	**1,672,378**

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

Note 10 Liability related to warrants

As part of the financing package related to the unsecured debt – LEEFF *[Note 9]*, on April 29, 2021, the Corporation issued to the Government of Canada a total of 13,000,000 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 $4.50 per share exercisable over a 10-year period, representing 18.75% of the total commitment available under the above unsecured debt – LEEFF. The warrants are to vest in proportion to the drawings that will be made. Under the terms of the financing agreement amended on March 9, 2022, if the loan were to be repaid before December 31, 2023 (previously before 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).

Under the limitations set out in the preceding paragraph, if the 13,000,000 warrants are exercised:

- a maximum of 9,436,772 warrants could be exercised through the issuance of shares;
- 3,563,228 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

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

As at January 31, 2022, a total of 7,333,333 warrants had vested following drawdowns on the unsecured debt – LEEFF and no warrants had been exercised.

Due to the existence of settlement mechanisms on a net cash or share basis, the warrants are recorded as derivative financial instruments in the Corporation's liabilities. As at the issuance date, using the Black-Scholes model, the fair value of the 13,000,000 warrants issued was estimated at $41,491 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 initial fair value of the warrants was also recorded under other assets as a deferred financing cost related to the unsecured debt – LEEFF. Upon drawdown of the unsecured debt – LEEFF, the deferred financing costs recorded as an asset are applied against the initial carrying amount of the liabilities recorded, pro rata to the amounts drawn. The resulting discount will be included in the calculation of the effective rate of each drawdown in conjunction with the expected cash flows to repay such drawdowns

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

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

The change in the liability related to warrants for the quarter ended January 31 is detailed as follows:

	As at January 31, 2022	As at October 31, 2021
	$	$
Opening balance	**36,557**	—
Issuance	**—**	41,491
Revaluation of liability related to warrants	**456**	(4,934)
Closing balance	**37,013**	36,557
Current liability	**20,879**	20,622
Non-current liability	**16,134**	15,935
Closing balance	**37,013**	36,557

To remeasure the liability related to warrants classified in Level 3, the Corporation used the Black-Scholes model. The main non-observable input used in the model is expected volatility, which was estimated at 53.6% as at January 31, 2022. A 5.0% increase in the expected volatility used in the pricing model would result in a $2,281 increase in the liability related to the warrants as at January 31, 2022.

Note 11 Provision for return conditions

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

	As at January 31, 2022 $	As at October 31, 2021 $
Opening balance	**126,244**	143,598
Additional provisions	**13,181**	28,574
Change in estimate	**2,189**	(18,527)
Unused amounts reversed	**(1,607)**	(28,384)
Accretion	**491**	983
Closing balance	**140,498**	126,244
Current provisions	**3,972**	3,065
Non-current provisions	**136,526**	123,179
Closing balance	**140,498**	126,244

Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at January 31, 2022, the unused amounts recovered included $1,607 related to reversals of the provision for return conditions for an aircraft whose lease had been terminated.

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 had been terminated.

Note 12 Other liabilities

	As at January 31, 2022 $	As at October 31, 2021 $
Employee benefits	**27,328**	27,120
Other liabilities	**196**	377
	27,524	27,497

Note 13 Equity

Authorized share capital

CLASS A VARIABLE VOTING SHARES

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

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

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

Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

During the quarter ended January 31, 2022 and the year ended October 31, 2021, no changes were made to the Class A and Class B shares.

As at January 31, 2022, the number of Class A Shares and Class B Shares stood at 1,642,645 and 36,104,445, respectively [1,694,125 and 36,052,965, respectively, as at October 31, 2021], for a total number of shares of 37,747,090 with a carrying amount of $221,012.

Stock option plan

	Number of options	Weighted average price ($)
Balance as at October 31, 2021	1,108,262	7.55
Cancelled	(672,898)	7.77
Expired	(104,517)	7.86
Balance as at January 31, 2022	**330,847**	**7.01**
Options exercisable as at January 31, 2022	**180,847**	**9.01**

Warrants

No warrants were exercised during the quarter ended January 31, 2022. Accordingly, the Corporation issued no shares related to the exercise of warrants *[Note 10]*.

Earnings per share

Basic and diluted loss per share were calculated as follows:

	Quarters ended January 31	
	2022	**2021**
(in thousands of dollars, except per share data)	**$**	**$**
NUMERATOR		
Net loss attributable to shareholders used in computing basic loss per share	**(114,345)**	(60,534)
Effect of deemed conversion of warrants	**456**	—
Less anti-dilutive impact	**(456)**	—
Net loss attributable to shareholders used in computing diluted loss per share	**(114,345)**	(60,534)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,747**	37,747
Effect of potential dilutive securities		
Warrants	**144**	—
Less anti-dilutive impact	**(144)**	—
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**37,747**	37,747
Loss per share		
Basic	**(3.03)**	(1.60)
Diluted	**(3.03)**	(1.60)

During the quarter ended January 31, 2022, 330,847 outstanding stock options were excluded from the calculation since the exercise price exceeded the average share price for the period [1,724,570 stock options for the quarter ended January 31, 2021].

Note 14 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

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

	Quarters ended January 31	
	2022	**2021**
	$	**$**
Customers		
Transatlantic	**31,561**	6,070
Americas	**167,899**	31,581
Other	**2,978**	4,269
Total revenues	**202,438**	41,920

Government grants

During the quarter ended January 31, 2022, the Corporation recognized a deduction of $15,066 from Salaries and employee benefits related to the new subsidy programs (THRP and HHBRP). During the quarter ended January 31, 2021, the Corporation had recognized a deduction of $33,344 from Salaries and employee benefits related to the CEWS program, including $11,685 for active employees.

Note 15 Special items

	Quarters ended January 31	
	2022 $	2021 $
Special items related to the transaction with Air Canada		
Professional fees	—	5,143
Compensation expense	—	1,783
	—	6,926

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. During the quarter ended January 31, 2021, professional fees of $5,143 and compensation expenses of $1,783 were recorded in connection with the transaction with Air Canada. The compensation expenses were mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of compensation expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold was not met.

Note 16 Loss (gain) on asset disposals

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

During the quarter ended January 31, 2022, the gain on asset disposals is 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 right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2021.

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

Note 17 Commitments and contingencies

Leases and other commitments

As at January 31, 2022, the Corporation was party to agreements to lease seven Airbus A321neos for delivery up to 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 ended October 31	2022 $	2023 $	2024 $	2025 $	2026 $	2027 and up $	Total $
Leases (aircraft)	6,537	18,254	33,284	46,798	46,798	409,775	**561,446**
Purchase obligations	6,840	4,579	2,949	4,750	—	—	**19,118**
	13,377	**22,833**	**36,233**	**51,548**	**46,798**	**409,775**	**580,564**

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. However, under the unsecured credit facility related to travel credits, travel credits issued as a result of flight cancellations arising from the COVID-19 pandemic were eligible for refund. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation has defended its position in the past and will continue to do so with vigour. 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. Nevertheless, the Corporation completed the process of reimbursing travel credits to customers who submitted a request, which could mitigate the impact of any unfavourable decision on cash flow and results.

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. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions were made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15,100 to the tax authorities in relation to this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount was recognized as income taxes receivable as at January 31, 2022 and October 31, 2021.

Note 18 Guarantees

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

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

Notes 5, 7, 14, 24 and 25 to the consolidated financial statements for the year ended October 31, 2021 provide information about some of these agreements. The following constitutes additional disclosure.

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2022, the total amount of these guarantees unsecured by deposits totalled $436. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2022, no amounts had been accrued with respect to the above-mentioned agreements.

Irrevocable credit facility unsecured by deposits

Following the Government of Canada funding and amendments to the existing revolving credit facility agreement and subordinated credit facility agreement, on May 28, 2021, the lender terminated the guarantee facility that allowed the Corporation to issue letters of credit to certain of its service providers, for a maximum term of three years and for a total amount of $13,000, without pledging cash for the total amount of the letters of credit issued. As at January 31, 2022, an amount of $282 was drawn down under this credit facility maturing on April 30, 2022.

Note 19 Segmented disclosure

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

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