# TRANSAT A.T. Inc.
## THIRD QUARTERLY REPORT
**Period ended July 31, 2019**

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**Ticker symbol**
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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 July 31, 2019, compared with the quarter ended July 31, 2018, and should be read in conjunction with the restated audited consolidated financial statements for the year ended October 31, 2018 and the restated accompanying notes and the 2018 Restated Annual Report, including the restated MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the restated MD&A section of our 2018 Restated Annual Report. The risks and uncertainties set out in the restated MD&A of the 2018 Restated Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 11, 2019. 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 July 31, 2019 and the Annual Information Form for the year ended October 31, 2018.

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

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. 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. Results indicated in 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 2018 Annual Report.

This MD&A also contains certain forward-looking statements about the Corporation concerning a potential transaction involving the acquisition of all the shares of the Corporation. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of a transaction will be subject to certain closing conditions, including regulatory approvals described in Transat's management information circular dated July 19, 2019, as well as other customary closing conditions. In addition, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is now expected that the transaction will be completed by the second quarter of the 2020 calendar year. In addition, statements regarding the results of a potential transaction will depend on the purchaser's plans following the completion of a potential transaction.

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 Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is now expected that the potential transaction with Air Canada will be completed by the second quarter of the 2020 calendar year.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for the fourth quarter of 2019 on the transatlantic market, the impact of currency variations, combined with lower fuel costs in U.S. dollars, will not result in a significant increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.
- The outlook whereby the Corporation expects its results for the fourth quarter to be slightly higher than those of last year.

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities 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 year and that fuel prices, foreign exchange rates, selling prices and hotel and other costs will remain stable. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

## NON-IFRS FINANCIAL MEASURES

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

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our consolidated financial statements with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to fulfill its financial obligations.

By excluding from our results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect our operating performance for the period, such as the change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposals, restructuring charges, asset impairment, depreciation and amortization and other significant unusual items, and by including premiums for fuel-related derivatives and other derivatives that matured during the period, we believe this MD&A helps users to better analyze our results, as well as our ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

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

| | |
|---|---|
| **Adjusted operating income (loss)** | Operating income (loss) before depreciation and amortization expense, restructuring charge and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results. |
| **Adjusted pre-tax income (loss)** | Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposal, restructuring charge, asset impairment 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 financial performance of its activities before the aforementioned items to ensure better comparability of financial results. |
| **Adjusted net income (loss)** | Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposal, restructuring charge, asset impairment 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. |
| **Adjusted operating leases** | Aircraft rental expense for the past four quarters multiplied by 5. |
| **Total debt** | Long-term debt plus the amount for adjusted operating leases. 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 (Cash and cash equivalents, net of total debt)** | Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations. |

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

| (in thousands of Canadian dollars, except per share amounts) | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | **2019** | **2018 Restated[(1)]** | **2019** | **2018 Restated[(1)]** |
| | **$** | **$** | **$** | **$** |
| Operating income (loss) | **(7,617)** | (10,735) | **(73,274)** | (57,443) |
| Special items | **13,731** | — | **13,731** | — |
| Depreciation and amortization | **15,710** | 13,215 | **46,852** | 43,294 |
| Premiums related to fuel-related derivatives and other derivatives matured during the period | **—** | (130) | **(167)** | (130) |
| **Adjusted operating income (loss)** | **21,824** | 2,350 | **(12,858)** | (14,279) |
| Income (loss) before income tax expense | **(12,256)** | (6,123) | **(67,270)** | (5,665) |
| Special items | **13,731** | — | **13,731** | — |
| Change in fair value of fuel-related derivatives and other derivatives | **8,819** | 140 | **9,110** | (8,932) |
| Gain on business disposals | **(8)** | — | **(8)** | (31,064) |
| Premiums related to fuel-related derivatives and other derivatives matured during the period | **—** | (130) | **(167)** | (130) |
| **Adjusted pre-tax income (loss)** | **10,286** | (6,113) | **(44,604)** | (45,791) |
| Net income (loss) attributable to shareholders | **(11,043)** | (5,045) | **(53,475)** | (302) |
| Special items | **13,731** | — | **13,731** | — |
| Change in fair value of fuel-related derivatives and other derivatives | **8,819** | 140 | **9,110** | (8,932) |
| Gain on business disposals | **(8)** | — | **(8)** | (31,064) |
| Premiums related to fuel-related derivatives and other derivatives matured during the period | **—** | (130) | **(167)** | (130) |
| Tax impact | **(5,807)** | (5) | **(5,840)** | 2,736 |
| **Adjusted net income (loss)** | **5,692** | (5,040) | **(36,649)** | (37,692) |
| Adjusted net income (loss) | **5,692** | (5,040) | **(36,649)** | (37,692) |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share | **37,728** | 37,463 | **37,648** | 37,351 |
| **Adjusted net income (loss) per share** | **0.15** | (0.13) | **(0.97)** | (1.01) |

1 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section.

| | **As at July 31, 2019** | **As at October 31, 2018** |
|---|---|---|
| | **$** | **$** |
| Aircraft rent for the past four quarters | **138,728** | 124,454 |
| Multiple | **5** | 5 |
| **Adjusted operating leases** | **693,640** | 622,270 |
| Long-term debt | **—** | — |
| Adjusted operating leases | **693,640** | 622,270 |
| **Total debt** | **693,640** | 622,270 |
| Total debt | **693,640** | 622,270 |
| Cash and cash equivalents | **(723,843)** | (593,654) |
| **Total net debt (Cash and cash equivalents, net of total debt)** | **(30,203)** | 28,616 |

## FINANCIAL HIGHLIGHTS

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars, except per share amounts) | 2019 $ | 2018 Restated(2) $ | Difference $ | Difference % | 2019 $ | 2018 Restated(2) $ | Difference $ | Difference % |
| **Consolidated Statements of Income (Loss)** | | | | | | | | |
| Revenues | **698,916** | 664,569 | 34,347 | 5.2 | **2,243,895** | 2,180,112 | 63,783 | 2.9 |
| Operating income (loss) | **(7,617)** | (10,735) | 3,118 | 29.0 | **(73,274)** | (57,443) | (15,831) | (27.6) |
| Net income (loss) attributable to shareholders | **(11,043)** | (5,045) | (5,998) | (118.9) | **(53,475)** | (302) | (53,173) | (17,607.0) |
| Basic earnings (loss) per share | **(0.29)** | (0.13) | (0.16) | (123.1) | **(1.42)** | (0.01) | (1.41) | (14,100.0) |
| Diluted earnings (loss) per share | **(0.29)** | (0.13) | (0.16) | (123.1) | **(1.42)** | (0.01) | (1.41) | (14,100.0) |
| Adjusted operating income (loss)(1) | **21,824** | 2,350 | 19,474 | 828.7 | **(12,858)** | (14,279) | 1,421 | 10.0 |
| Adjusted net income (loss)(1) | **5,692** | (5,040) | 10,732 | 212.9 | **(36,649)** | (37,692) | 1,043 | 2.8 |
| Adjusted net income (loss) per share(1) | **0.15** | (0.13) | 0.28 | 215.4 | **(0.97)** | (1.01) | 0.04 | 4.0 |
| **Consolidated Statements of Cash Flows** | | | | | | | | |
| Operating activities | **(36,214)** | (16,401) | (19,813) | (120.8) | **209,636** | 265,306 | (55,670) | (21.0) |
| Investing activities | **(28,885)** | (17,243) | (11,642) | (67.5) | **(77,215)** | (17,094) | (60,121) | (351.7) |
| Financing activities | **(928)** | (761) | (167) | (21.9) | **(988)** | (820) | (168) | (20.5) |
| Effect of exchange rate changes on cash and cash equivalents | **(6,452)** | (1,648) | (4,804) | (291.5) | **(1,244)** | (51) | (1,193) | (2,339.2) |
| Net change in cash and cash equivalents | **(72,479)** | (36,053) | (36,426) | (101.0) | **130,189** | 247,341 | (117,152) | (47.4) |

| | As at July 31, 2019 $ | As at October 31, 2018 Restated(2) $ | Difference $ | Difference % |
|---|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | | |
| Cash and cash equivalents | **723,843** | 593,654 | 130,189 | 21.9 |
| Cash and cash equivalents in trust or otherwise reserved (current and non-current) | **249,255** | 338,919 | (89,664) | (26.5) |
| | **973,098** | 932,573 | 40,525 | 4.3 |
| Total assets | **1,641,533** | 1,566,790 | 74,743 | 4.8 |
| Debt (current and non-current) | **—** | — | — | — |
| Total debt(1) | **693,640** | 622,270 | 71,370 | 11.5 |
| Total net debt (Cash and cash equivalents, net of total debt)(1) | **(30,203)** | 28,616 | (58,819) | (205.5) |

1 See Non-IFRS Financial Measures section.

2 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation has also restated its consolidated statements of financial position as at October 31, 2018. See Restatement section.

# OVERVIEW

## CORE BUSINESS

Transat is a leading integrated international tourism company specializing in holiday travel, which operates and markets its services in the Americas and Europe. It develops and markets holiday travel services in packages, including air travel and hotel stays, and air-only formats. Transat operates under the Transat and Air Transat brands mainly in Canada, France, the United Kingdom and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. It offers destination services in Mexico, the Dominican Republic and Jamaica. Recently, Transat started setting up a division with a mission to own and operate hotels in the Caribbean and Mexico and to market them, particularly in the United States, in Europe and in Canada.

## VISION

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

## STRATEGY

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

Hotel development will be achieved by creating a business unit to operate all-inclusive hotels in the Caribbean and Mexico, some wholly owned and some not. This hotel chain will strengthen Transat's profitability, particularly during winter, while enabling it to deliver a controlled end-to-end experience to its Canadian, European and U.S. customers.

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

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

For 2019, Transat has set the following objectives at the beginning of the reporting period:

1. Develop our hotel division: start construction work on the first hotel in Mexico, acquire a second parcel of land or a hotel in operation and finish setting up the team, subject to recent developments

2. Strengthen our air network: increase network density by increasing frequencies on our main routes and consider potential feeder/defeeder alliances to increase route density

3. Increase our revenues, by improving ancillary revenue streams and by finalizing the improvement of our level of expertise and the implementation of new practices within the revenue management department

4. Transform our fleet: complete the changes planned for this year, including the introduction of the first A321neoLRs, finalize fleet planning over 3–5 years, while improving reliability, and integrating new pilot fatigue rules and the passenger bill of rights

5. Reduce and control costs

6. Optimize distribution, namely by increasing our involvement in direct distribution channels

7. Increase customer satisfaction, measured by our Net Promoter Score

8. Expand our digital footprint with customers and digitize and automate business processes

9. Unite our teams and maintain their engagement

Our key performance drivers are adjusted operating income (loss), market share and revenue growth, which are essential to successfully implement our strategy and meet our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives. Our financial resources consist primarily of cash not held in trust or otherwise reserved and the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

## REVISITING OUR JUNE 12, 2019 OUTLOOK

According to the MD&A for the period ended April 30, 2019, the Corporation expected its results for the third quarter to be slightly higher than those of last year. Adjusted operating income amounted to $21.8 million for the third quarter of 2019, up $19.5 million from the same period last year but down $37.2 million compared with the third quarter of 2017, which was one of the Corporation's best ever third quarters.

## RECENT DEVELOPMENTS

On August 23, 2019, a significant majority of the Corporation's shareholders voted in favour of the special resolution approving the previously announced plan of arrangement pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for a cash consideration of $18.00 per share.

On August 29, 2019, the Corporation announced that the Superior Court of Quebec issued a final order approving the plan of arrangement with Air Canada. The arrangement remains subject to certain closing conditions, including regulatory approvals described in Transat's management information circular dated July 19, 2019, as well as other customary closing conditions. In addition, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is now expected that the transaction will be completed by the second quarter of the 2020 calendar year.

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

## RESTATEMENT

On June 27, 2019, the Corporation announced that it needed to restate its consolidated financial statements and MD&A for the year ended October 31, 2018 as well as for the first quarter ended January 31, 2019 and the second quarter ended April 30, 2019. Management has concluded that a restatement of its consolidated financial statements was necessary regarding the carrying amount of the non-controlling interest in the Trafictours Canada Inc. subsidiary.

The carrying amount of the non-controlling interest is related to the Trafictours Canada Inc. subsidiary and the right of the minority shareholder to require the Corporation to purchase the Trafictours Canada Inc. shares it holds at a price calculated in accordance with a pre-determined formula, subject to adjustment based on the circumstances, payable in cash. The estimated repurchase value of this option is taken into account in the carrying amount of the non-controlling interest. The difference results from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest. As a result, the liability for the non-controlling interest reported under Trade and other payables in the consolidated statements of financial position is undervalued by $25.9 million, $23.3 million and $20.5 million as at October 31, 2018, January 31, 2019 and April 30, 2019, respectively. These undervaluations had no impact on the Corporation's consolidated statements of income for the aforementioned periods as these adjustments are recorded as equity transactions in Retained earnings.

As part of the restatement of its consolidated financial statements as at October 31, 2018, the Corporation reviewed subsequent events up to September 11, 2019, the new date of authorization to publish the financial statements for the year ended October 31, 2018. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5.0 million [$6.7 million], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded under Special items in the restated consolidated statement of income for the year ended October 31, 2018 and derecognized in the restated consolidated statements of income for the period ended April 30, 2019. This adjustment is included under Trade and other payables and Retained earnings in the restated consolidated statements of financial position as at October 31, 2018. No provision was recorded in the financial statements as at October 31, 2018 as initially published as it was not possible to determine with any degree of certainty the extent of any financial liability that would have arisen had the Corporation been unsuccessful in its defence of this lawsuit.

For further information on the restatement, see note 3 to the interim condensed consolidated financial statements.

## BUSINESS DISPOSALS

### JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price amounted to $48.9 million. During the quarter ended July 31, 2019, the Corporation recorded a $0.3 million downward adjustment to the gain on business disposal related to the amount claimed by H.I.S. Co. Ltd. for uncollected trade receivables as at May 31, 2019. During the nine-month period ended July 31, 2018, the Corporation recognized a gain on business disposal of $31.3 million.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income (loss) from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month period ended July 31, 2018.

### OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels. Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1.5 million [$1.9 million] to US$149 million [$185.6 million]. During the nine-month period ended July 31, 2018, as a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a $0.2 million downward adjustment to the gain on business disposal.

## CONSOLIDATED OPERATIONS

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 Restated[(1)] | Difference | Difference | 2019 | 2018 Restated[(1)] | Difference | Difference |
| (in thousands of dollars) | $ | $ | $ | % | $ | $ | $ | % |
| **Revenues** | **698,916** | 664,569 | 34,347 | 5.2 | **2,243,895** | 2,180,112 | 63,783 | 2.9 |
| **Operating expenses** | | | | | | | | |
| Costs of providing tourism services | **111,772** | 121,856 | (10,084) | (8.3) | **714,710** | 759,923 | (45,213) | (5.9) |
| Aircraft fuel | **158,049** | 158,018 | 31 | 0.0 | **369,529** | 341,878 | 27,651 | 8.1 |
| Salaries and employee benefits | **105,826** | 100,060 | 5,766 | 5.8 | **309,569** | 290,488 | 19,081 | 6.6 |
| Airport maintenance | **76,579** | 62,708 | 13,871 | 22.1 | **198,981** | 170,540 | 28,441 | 16.7 |
| Sales and distribution costs | **44,432** | 45,433 | (1,001) | (2.2) | **169,249** | 172,070 | (2,821) | (1.6) |
| Airport and navigation fees | **46,070** | 44,864 | 1,206 | 2.7 | **113,575** | 105,708 | 7,867 | 7.4 |
| Aircraft rent | **30,186** | 32,090 | (1,904) | (5.9) | **109,885** | 95,611 | 14,274 | 14.9 |
| Other airline costs | **75,603** | 73,803 | 1,800 | 2.4 | **188,942** | 183,865 | 5,077 | 2.8 |
| Other | **28,216** | 23,600 | 4,616 | 19.6 | **81,714** | 74,871 | 6,843 | 9.1 |
| Share of net loss (income) of a joint venture | **359** | (343) | 702 | (204.7) | **432** | (693) | 1,125 | (162.3) |
| Depreciation and amortization | **15,710** | 13,215 | 2,495 | 18.9 | **46,852** | 43,294 | 3,558 | 8.2 |
| Special items | **13,731** | — | 13,731 | 100.0 | **13,731** | — | 13,731 | 100.0 |
| | **706,533** | 675,304 | 31,229 | 4.6 | **2,317,169** | 2,237,555 | 79,614 | 3.6 |
| **Operating income (loss)** | **(7,617)** | (10,735) | 3,118 | 29.0 | **(73,274)** | (57,443) | (15,831) | (27.6) |
| Financing costs | **397** | 424 | (27) | (6.4) | **1,181** | 1,504 | (323) | (21.5) |
| Financing income | **(5,469)** | (4,725) | (744) | 15.7 | **(16,309)** | (13,307) | (3,002) | 22.6 |
| Change in fair value of fuel-related derivatives and other derivatives | **8,819** | 140 | 8,679 | 6,199.3 | **9,110** | (8,932) | 18,042 | 202.0 |
| Gain on business disposals | **(8)** | — | (8) | 100.0 | **(8)** | (31,064) | 31,056 | 100.0 |
| Foreign exchange loss (gain) on non-current monetary items | **900** | (451) | 1,351 | 299.6 | **22** | 21 | 1 | 4.8 |
| **Income (loss) before income tax expense** | **(12,256)** | (6,123) | (6,133) | (100.2) | **(67,270)** | (5,665) | (61,605) | (1,087.5) |
| **Income taxes (recovery)** | | | | | | | | |
| Current | **(1,141)** | (130) | (1,011) | (777.7) | **(84)** | (2,417) | 2,333 | 96.5 |
| Deferred | **(385)** | (1,301) | 916 | 70.4 | **(16,593)** | (6,458) | (10,135) | (156.9) |
| | **(1,526)** | (1,431) | (95) | (6.6) | **(16,677)** | (8,875) | (7,802) | (87.9) |
| **Net income (loss) for the period** | **(10,730)** | (4,692) | (6,038) | (128.7) | **(50,593)** | 3,210 | (53,803) | (1,676.1) |
| **Net income (loss) attributable to:** | | | | | | | | |
| Shareholders | **(11,043)** | (5,045) | (5,998) | (118.9) | **(53,475)** | (302) | (53,173) | (17,607.0) |
| Non-controlling interests | **313** | 353 | (40) | (11.3) | **2,882** | 3,512 | (630) | (17.9) |
| | **(10,730)** | (4,692) | (6,038) | (128.7) | **(50,593)** | 3,210 | (53,803) | (1,676.1) |

[1] The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section.

### RESTATEMENT OF COMPARATIVE FIGURES

The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and the consolidated statement of income (loss) for the period ended July 31, 2018 has been restated. Total revenues for the period ended July 31, 2018 have been restated to present revenues on the same basis as for the period ended July 31, 2019. Costs of providing tourism services, sales and distribution costs, other costs and the change in fair value of fuel-related derivatives and other derivatives for the period ended on July 31, 2018 were also restated. The main changes related to the adoption of IFRS 9 and IFRS 15 are described in note 3 to the interim condensed consolidated financial statements for the period ended July 31, 2019.

## REVENUES

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

Compared with 2018, our revenues were up $34.3 million (5.2%) for the quarter ended July 31, 2019 and $63.8 million (2.9%) for the nine-month period. The higher revenues recorded during the quarter was attributable to the increase in average selling prices and load factors across all of our markets, combined with a 4.3% rise in the number of travellers in the transatlantic market, our main market for the period.

The higher revenues recorded during the winter season is mainly attributable to the increase in average selling prices across all of our markets, combined with a 2.8% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity in that market. The increase in revenues was offset by a greater proportion of flight-only sales, which generate lower unit revenues than packages.

## OPERATING EXPENSES

Total operating expenses were up $31.2 million (4.6%) for the quarter and $79.6 million (3.6%) for the nine-month period, compared with 2018. For the quarter, the increase was attributable to fleet expansion compared with 2018 coupled with the costs related to the potential acquisition transaction of the Corporation by Air Canada.

For the winter season, the increase was mainly attributable to the higher number of travellers, driven by our decision to increase our capacity in the sun destinations market by 2.2%, our main market for the period, combined with the weakening of the Canadian dollar against the U.S. dollar and higher fuel prices.

### COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2018, these costs were down $10.1 million (8.3%) for the quarter and $45.2 million (5.9%) for the nine-month period. For the quarter and nine-month period, these decreases were mainly due to the lower number of packages sold than in 2018, partially offset by the unfavourable impact of the weakening of the Canadian dollar against the U.S. dollar.

### AIRCRAFT FUEL

Aircraft fuel expense was stable for the quarter but increased $27.7 million (8.1%) for the nine-month period. For the nine-month period, this increase was mainly attributable to our winter season during which the Canadian dollar weakened against the U.S. dollar, combined with a rise in fuel price indices in financial markets and a higher capacity compared with 2018.

### SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $5.8 million (5.8%) for the quarter and $19.1 million (6.6%) for the nine-month period compared with 2018. The increases resulted primarily from annual salary reviews and the hiring of pilots and mechanics following the increased capacity in 2019.

#### AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat for leased aircraft. Compared with 2018, these costs were up $13.9 million (22.1%) for the quarter and $28.4 million (16.7%) for the nine-month period. These increases were mainly attributable to the expansion of our fleet compared with 2018, our higher capacity and the weakening of the Canadian dollar against the U.S. dollar.

#### 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 down $1.0 million (2.2%) for the quarter and $2.8 million (1.6%) for the nine-month period, compared with 2018. For the quarter and the nine-month period, the decrease resulted primarily from lower marketing expenses, in line with our cost reduction initiatives.

#### AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $1.2 million (2.7%) for the quarter and $7.9 million (7.4%) for the nine-month period, compared with 2018. These increases were attributable to the higher capacity compared with 2018. For the nine-month period, the increase also resulted from a higher number of flights in the domestic market during winter.

#### AIRCRAFT RENT

Aircrat rent decreased $1.9 million (5.9%) for the quarter but increased $14.3 million (14.9%) for the nine-month period. For the quarter, the decrease is attributable to seasonal aircrafts leased for the 2018 winter season which were returned during the summer, partially offset by the growth in our permanent fleet and the weakening of the Canadian dollar against the U.S. dollar. The increase for the nine-month period was attributable to the increase in the number of seasonal aircraft and the expansion in our permanent fleet, compared with 2018, combined with the weakening of the Canadian dollar against the U.S. dollar.

#### OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew and catering costs. Other airline costs were up $1.8 million (2.4%) for the quarter and $5.1 million (2.8%) for the nine-month period, compared with 2018. These increases were attributable to the higher capacity compared with 2018.

#### OTHER

Other costs were up $4.6 million (19.6%) for the quarter and $6.8 million (9.1%) for the nine-month period, compared with 2018. These increases were mainly attributable to a service provider whose bankruptcy caused losses for the Corporation during the third quarter. For the nine-month period, the increase was accentuated by higher professional fees and pilot training costs.

#### SHARE OF NET INCOME (LOSS) OF A JOINT VENTURE

Our 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 third quarter totalled $0.4 million, compared with a $0.3 million share of net income for the corresponding quarter of 2018. For the nine-month period, our share of net loss totalled $0.4 million, compared with a $0.7 million share of net income for 2018.

#### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment, intangible assets subject to amortization and deferred lease incentives. Depreciation and amortization expense increased by $2.5 million (18.9%) for the third quarter and by $3.6 million (8.2%) for the nine-month period, compared with 2018.These increases were primarily attributable to software, fleet expansion and to capitalized Airbus A310 maintenance costs, partially offset by the extension of the depreciation periods of leasehold improvements of certain Airbus A330s in our fleet for which leases were renegotiated in 2018.

### SPECIAL ITEMS

Special items generally include the restructuring charges and other significant unusual items. For the quarter ended July 31, 2019, professional fees of $6.0 million and compensation expenses of $7.7 million were recorded in connection with the potential acquisition transaction of the Corporation by Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions subsequent to the significant rise in the share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period. The share closing price of $11.48 as at July 31, 2019 was used to calculate expenses related to the stock-based compensation plans, when applicable.

## OPERATING RESULTS

Given the above, we recorded an operating loss of $7.6 million (1.1%) for the third quarter, compared with $10.7 million (1.6%) in 2018. This decrease is mainly attributable to higher average selling prices and load factors across all of our markets, partially offset by the costs related to the potential acquisition transaction of the Corporation by Air Canada.

For the nine-month period, we recorded an operating loss of $73.3 million (3.3%), compared with $57.4 million (2.6%) in 2018. This increase in our operating loss is mainly attributable to our winter season during which the increase in fuel prices, combined with the weakening of the Canadian dollar against the U.S. dollar, and the additional costs incurred for the transition and optimization of the Corporation's fleet, were in total higher than the increase in the average selling prices of packages. The increase in our operating loss was partially offset by the decrease in our operating loss during the summer season, mainly due to higher average selling prices and load factors across all of our markets.

For the quarter, we reported $21.8 million (3.1%) in adjusted operating income compared with $2.4 million (0.4%) in 2018. For the nine-month period, the Corporation reported an adjusted operating loss of $12.9 million (0.6%), compared with $14.3 million (0.7%) in 2018.

## OTHER EXPENSES AND REVENUES

### FINANCING COSTS

Financing costs include interest on long-term debt and other interest, standby fees, as well as financial expenses. Financing costs remained stable for the quarter but were down $0.3 million (21.5%) for the nine-month period, compared with 2018.

### FINANCING INCOME

Financing income was up $0.7 million (15.7%) for the third quarter and $3.0 million (22.6%) for the nine-month period, compared with 2018, as a result of rising interest rates since last year.

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

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives decreased by $8.8 million, compared with $0.1 million in 2018. This decrease was mainly due to the lower fair value of fuel-related derivatives. For the nine-month period, the fair value of fuel-related derivatives and other derivatives was down $9.1 million, compared with an $8.9 million increase in fair value in 2018. This decrease was due to the maturing of fuel-related derivatives, combined with the lower fair value of fuel-related derivatives.

#### GAIN ON BUSINESS DISPOSALS

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview for a consideration of $48.9 million. The Corporation recognized a gain on business disposal of $31.3 million in 2018. Following the sale of its 35% minority interest in Ocean Hotels on October 4, 2017, the Corporation recorded a $0.2 million downward adjustment to the gain on business disposal during the nine-month period ended July 31, 2018.

#### FOREIGN EXCHANGE LOSS (GAIN) ON NON-CURRENT MONETARY ITEMS

During the quarter, the Corporation recognized a $0.9 million foreign exchange loss on non-current monetary items, compared with a foreign exchange gain of $0.5 million in 2018. For the nine-month period, the Corporation recorded a foreign exchange loss of $0.0 million on non-current monetary items, compared with $0.0 million in 2018. For the quarter, the change is principally due to the unfavourable foreign exchange effect on foreign currency deposits, as a result of the weakening of the U.S. dollar against the Canadian dollar, compared with the corresponding period of 2018.

### INCOME TAXES

Income tax recovery for the third quarter totalled $1.5 million, compared with $1.4 million for the corresponding quarter of last year. Income tax recovery for the nine-month period amounted to $16.7 million compared with $8.9 million in 2018. Excluding the gain on business disposals and the share of net income (loss) of a joint venture, the effective tax rate was 12.8% for the quarter and 24.9% for the nine-month period, compared with 22.1% and 23.7%, respectively, for the corresponding periods of 2018. For the quarter, the change in tax rates arose from non-deductible expenses. For the nine-month period, the change in tax rates was due to the differences in statutory tax rates by country applicable to the foreign subsidiaries' results.

### NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $10.7 million for the quarter ended July 31, 2019, compared with $4.7 million in 2018. Net loss attributable to shareholders amounted to $11.0 million or $0.29 per share (basic and diluted) compared with $5.0 million or $0.13 per share (basic and diluted) for the corresponding quarter of last year. For the third quarter of 2019, the weighted average number of outstanding shares used to compute earnings per share was 37,728,000 (basic and diluted), compared with 37,463,000 (basic and diluted) for the corresponding quarter of 2018.

For the nine-month period ended July 31, 2019, we reported a net loss of $50.6 million, compared with net income of $3.2 million in 2018. Net loss attributable to shareholders amounted to $53.5 million or $1.42 per share (basic and diluted) compared with $0.3 million or $0.01 per share (basic and diluted) for the corresponding nine-month period of last year. For the nine-month period of 2019, the weighted average number of outstanding shares used to compute earnings per share was 37,648,000 (basic and diluted), compared with 37,351,000 (basic and diluted) for the corresponding period of 2018.

For the quarter and nine-month period ended July 31, 2019, we reported adjusted net income of $5.7 million ($0.15 per share) and an adjusted net loss of $36.6 million ($0.97 per share), respectively, compared with adjusted net losses of $5.0 million ($0.13 per share) and $37.7 million ($1.01 per share), respectively, for the corresponding periods of 2018.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the quarterly financial information shown in the table below for 2018. However, the analysis of the quarterly financial information for 2018 compared with 2017 was carried out on the results before restatement to ensure comparability.

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, quarterly revenues were higher in Q2 and Q3 and lower in Q1 and Q4. The higher revenues recorded during the winter season (Q1 and Q2) is mainly attributable to the increase in average selling prices across all of our markets, combined with a 2.8% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity in that market. The increase in revenues was offset by a greater proportion of flight-only sales, which generate less revenues than packages. The higher revenues recorded durng the first part of the summer (Q3) was attributable to the increase in average selling prices across all of our markets, combined with a 4.3% rise in the number of travellers in the transatlantic market, our main market for the period. For the second part of the summer (Q4), the decrease in revenues was due to the sale of our subsidiary Jonview, partially offset by an increase in business volume in the transatlantic market.

In terms of our operating results, for the winter season (Q1 and Q2), the increase in our operating loss resulted primarily from the increase in fuel prices, combined with the weakening of the Canadian dollar against the U.S. dollar, and the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total were higher than the increase in the average selling prices of packages. The improvement in our operating results during the first part of the summer (Q3) was mainly attributable to the increase in average selling prices across all of our markets, partially offset by costs related to the potential acquisition transaction of the Corporation by Air Canada. For the second part of the summer (Q4), the deterioration in our operating income resulted mainly from higher fuel prices, combined with the foreign exchange effect. 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) | Q4-2017 | Q1-2018 | Q2-2018 | Q3-2018 | Q4-2018 | Q1-2019 | Q2-2019 | Q3-2018 |
|---|---|---|---|---|---|---|---|---|
| | | | Restated[2] | | | | Restated[2] | |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenues | 698,551 | 648,389 | 867,154 | 664,569 | 668,843 | 647,566 | 897,413 | 698,916 |
| Aircraft rent | 26,285 | 30,169 | 33,352 | 32,090 | 28,843 | 38,596 | 73,361 | 30,186 |
| Operating income (loss) | 59,500 | (43,528) | (3,179) | (10,736) | 6,851 | (52,555) | (13,102) | (7,617) |
| Net income (loss) | 148,413 | (1,840) | 9,743 | (4,693) | 6,784 | (48,659) | 8,796 | (10,730) |
| Net income (loss) attributable to shareholders | 148,147 | (3,195) | 7,939 | (5,046) | 6,754 | (49,646) | 7,214 | (11,043) |
| Basic earnings (loss) per share | 4.00 | (0.09) | 0.21 | (0.13) | 0.18 | (1.32) | 0.19 | (0.29) |
| Diluted earnings (loss) per share | 3.97 | (0.09) | 0.21 | (0.13) | 0.18 | (1.32) | 0.19 | (0.29) |
| Adjusted operating income (loss)[1] | 78,541 | (28,759) | 12,130 | 2,350 | 31,474 | (37,728) | 3,046 | 21,824 |
| Adjusted net income (loss)[1] | 46,381 | (32,196) | (456) | (5,040) | 13,659 | (36,029) | (6,312) | 5,692 |
| Adjusted net income (loss) per share[1] | 1.24 | (0.87) | (0.01) | (0.13) | 0.36 | (0.96) | (0.17) | 0.15 |

[1] See Non-IFRS Financial Measures section.

[2] The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation has also restated its consolidated financial statements as at April 30, 2019 and October 31, 2018. See Restatement section.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2019, cash and cash equivalents totalled $723.8 million compared with $593.7 million as at October 31, 2018. Cash and cash equivalents in trust or otherwise reserved amounted to $249.3 million at the end of the third quarter of 2019, compared with $338.9 million as at October 31, 2018. The Corporation's statement of financial position reflected $183.4 million in working capital, for a ratio of 1.19, compared with $287.5 million and a ratio of 1.33 as at October 31, 2018.

Total assets increased by $74.7 million (4.8%), from $1,566.8 million as at October 31, 2018 to $1,641.5 million as at July 31, 2019. This increase is explained in the financial position table provided below. Equity decreased by $56.2 million, from $571.6 million as at October 31, 2018 to $515.5 million as at July 31, 2019. This decrease resulted from a $53.5 million net loss attributable to shareholders, combined with a $7.6 million unrealized loss on cash flow hedges and a $1.5 million foreign exchange loss on the translation of the financial statements of foreign subsidiaries.

### CASH FLOWS

| | Quarters ended July 31 | | | Nine-month periods ended July 31 | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018 Restated[(1)]** | **Difference** | **2019** | **2018 Restated[(1)]** | **Difference** |
| (in thousands of dollars) | **$** | **$** | **$** | **$** | **$** | **$** |
| Cash flows related to operating activities | **(36,214)** | (16,401) | (19,813) | **209,636** | 265,306 | (55,670) |
| Cash flows related to investing activities | **(28,885)** | (17,243) | (11,642) | **(77,215)** | (17,094) | (60,121) |
| Cash flows related to financing activities | **(928)** | (761) | (167) | **(988)** | (820) | (168) |
| Effect of exchange rate changes on cash | **(6,452)** | (1,648) | (4,804) | **(1,244)** | (51) | (1,193) |
| **Net change in cash and cash equivalents** | **(72,479)** | (36,053) | (36,426) | **130,189** | 247,341 | (117,152) |

[1] The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section.

#### OPERATING ACTIVITIES

Operating activities used cash flows of $36.2 million during the third quarter, compared with $16.4 million in 2018. The $19.8 million increase resulted from a $24.6 million reduction in the net change in non-cash working capital balances related to operations combined with a $3.2 million decrease in the net change in other assets and liabilities related to operations, partially offset by an $8.1 million increase in net income before operating items not involving an outlay (receipt) of cash.

For the nine-month period, cash flows from operating activities decreased by $55.7 million, from $265.3 million in 2018 to $209.6 million in 2019. The decrease resulted from a $21.7 million reduction in the net change in non-cash working capital balances related to operations combined with a $16.5 million decrease in the net change in other assets and liabilities related to operations and a $10.2 million decrease in net income before operating items not involving an outlay (receipt) of cash.

Adoption of IFRS 15 has led to a change in how the balance of Cash and cash equivalents in trust or otherwise reserved is calculated from November 1, 2018 onwards. The impact of this change is an increase of $21.3 million in the balance of Cash and cash equivalents in trust or otherwise reserved as at July 31, 2019 and an equivalent decrease in the balance of Cash and cash equivalents.

#### INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $28.9 million for the third quarter compared with $17.2 million in 2018, representing an increase of $11.6 million. Additions to property, plant and equipment and intangible assets amounted to $28.0 million during the quarter, compared with $17.2 million in 2018. The $10.7 million increase resulted primarily from acquisitions related to fleet expansion, mainly the purchase of a spare engine for an Airbus A321neoLR in the amount of $16.8 million.

For the nine-month period, cash flows used in investing activities totalled $77.2 million compared with $17.1 million in 2018, representing an increase of $60.1 million. Additions to property, plant and equipment and other intangible assets increased by $34.9 million compared with 2018, due to the acquisition on November 28, 2018 of a second parcel of land in Puerto Morelos, Mexico, adjacent to the first land acquired in 2018, for an amount of $15.8 million, and to acquisitions related to fleet expansion, mainly the purchase of an Airbus A321neoLR spare engine. During the first quarter of 2018, the Corporation received consideration, net of cash disposed, of $28.6 million following the disposal of its subsidiary Jonview.

#### FINANCING ACTIVITIES

Cash flows used in financing activities went from $0.8 million for the third quarter of 2018 to $0.9 million 2019, representing an increase of $0.2 million. For the nine-month period, financing activities used cash flows of $1.0 million, compared with $0.8 million in 2018.

## CONSOLIDATED FINANCIAL POSITION

| | July 31, 2019 $ | October 31, 2018 Restated(1) $ | Difference $ | Main reasons for significant differences |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **723,843** | 593,654 | 130,189 | See the Cash flows section |
| Cash and cash equivalents in trust or otherwise reserved | **249,255** | 338,919 | (89,664) | Seasonal nature of operations |
| Trade and other receivables | **159,465** | 139,979 | 19,486 | Increase in receivables from lessors due to aircraft maintenance and sales taxes receivable |
| Income taxes receivable | **17,451** | 26,505 | (9,054) | Collection of income taxes recoverable |
| Inventories | **13,203** | 14,464 | (1,261) | Seasonal nature of operations |
| Prepaid expenses | **60,159** | 68,890 | (8,731) | Decrease in prepayments to hotels due to the seasonal nature of operations |
| Deposits | **53,640** | 61,992 | (8,352) | Decrease in deposits with hotels due to the seasonal nature of operations |
| Deferred tax assets | **32,155** | 14,954 | 17,201 | Increase in non-capital losses carried forward and deferred taxes related to financial instruments |
| Property, plant and equipment | **235,721** | 201,478 | 34,243 | Additions during the period, partially offset by amortization |
| Intangible assets | **38,773** | 42,689 | (3,916) | Amortization for the period, partially offset by additions |
| Derivative financial instruments | **9,392** | 20,497 | (11,105) | Maturing of foreign exchange derivatives and fuel-related derivatives during the period |
| Investment | **17,336** | 16,084 | 1,252 | Capital contribution, partially offset by the share of net loss of a joint venture |
| Other assets | **31,140** | 26,685 | 4,455 | Increase in deferred rent |
| **Liabilities** | | | | |
| Trade and other payables | **342,267** | 320,732 | 21,535 | Increase in business volume and seasonal nature of operations |
| Provision for overhaul of leased aircraft | **61,840** | 57,228 | 4,612 | Increase in the number of aircraft leased |
| Income taxes payable | **3,320** | 1,117 | 2,203 | Collection of income taxes recoverable |
| Derivative financial instruments | **11,993** | 3,445 | 8,548 | Unfavourable change in fuel prices and currency related to contracted derivatives |
| Customer deposits and deferred revenues | **611,094** | 517,352 | 93,742 | Seasonal nature of operations and increase in business volume |
| Other liabilities | **94,847** | 92,025 | 2,822 | Increase in deferred lease incentives related to aircraft and retirement benefit obligations |
| Deferred tax liabilities | **685** | 3,252 | (2,567) | Increase in non-capital losses carried forward |
| **Equity** | | | | |
| Share capital | **221,012** | 219,684 | 1,328 | Issuance of shares from treasury and exercise of options |
| Share-based payment reserve | **15,948** | 18,017 | (2,069) | Reclassification of contributed surplus, partiallly offset by share-based payment expense |
| Retained earnings | **294,376** | 340,766 | (46,390) | Net loss |
| Unrealized gain (loss) on cash flow hedges | **(5,596)** | 1,971 | (7,567) | Net loss on financial instruments designated as cash flow hedges |
| Cumulative exchange differences | **(10,253)** | (8,799) | (1,454) | Foreign exchange loss on translation of financial statements of foreign subsidiaries |

[1] The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation has also restated its consolidated statements of financial position as at October 31, 2018. See Restatement section.

## FINANCING

As at September 11, 2019, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50 million revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial ratios and conditions. As at July 31, 2019, all financial ratios and conditions were met and the credit facility was undrawn.

### OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and 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. The Corporation did not report any obligations in the statement of financial position as at July 31, 2019 and October 31, 2018.

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

- Guarantees
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $2,354.1 million as at July 31, 2019 ($2,506.9 million as at October 31, 2018) and are detailed as follows:

| **OFF-BALANCE SHEET ARRANGEMENTS**<br>(in thousands of dollars) | **As at July 31, 2019**<br>**$** | **As at October 31, 2018**<br>**$** |
|---|---|---|
| **Guarantees** | | |
| Irrevocable letters of credit | **26,208** | 31,221 |
| Collateral security contracts | **472** | 419 |
| **Operating leases** | | |
| Obligations under operating leases | **2,327,433** | 2,475,276 |
| | **2,354,113** | 2,506,916 |

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2019, $56.1 million had been drawn down under the facility, of which $51.2 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at July 31, 2019, $25.2 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £3.6 million ($5.7 million), which has been fully drawn down.

As at July 31, 2019, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $152.8 million compared with October 31, 2018.This decrease resulted primarily from repayments made during the nine-month period, partially offset by the weakening of the Canadian dollar against the U.S. dollar.

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 did not report any debt on its consolidated statement of financial position.

The Corporation's total debt stood at $693.6 million as at July 31, 2019, up $71.4 million from October 31, 2018.The increase was due to the addition of aircraft to our fleet during the past twelve months, partially offset by the renegotiation of lease agreements for Airbus A330s.

Total net debt decreased by $58.8 million, from $28.6 million as at October 31, 2018 to cash and cash equivalents net of total debt of $30.2 million as at July 31, 2019. The decrease in total net debt resulted from higher cash and cash equivalent balances than as at October 31, 2018, partially offset by the increase in total debt.

### OUTSTANDING SHARES

On May 8, 2019, the Superior Court of Québec approved an amendment to the Corporation's articles of incorporation to align the permitted levels of foreign ownership and control of its voting shares within its articles with those prescribed by the new definition of "Canadian" in the *Canada Transportation Act* (the "CTA"), as amended in June 2018. With these amendments to the CTA, the permitted limit on foreign ownership of Canadian air carriers is increased from 25% to 49%. The CTA amendments also introduced two new limitations on voting ownership and control, by capping the voting interests of single non-Canadians and of the aggregate of non-Canadian air carriers at 25%.

As at July 31, 2019, 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 September 6, 2019, there were 37,747,090 total voting shares outstanding.

### STOCK OPTIONS

As at September 6, 2019, there were a total of 1,748,570 stock options outstanding, 1,428,716 of which were exercisable.

## OTHER

### FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), six Airbus A310s (250 seats), five Boeing 737-800s (189 seats) and four Airbus A321ceos (199 seats), two of which were commissioned in the second quarter of 2019, and two Airbus A321neoLRs (199 seats).

During winter 2019, the Corporation also had seasonal rentals for nine Boeing 737-800s (189 seats), eight Airbus A321ceos (190 seats), three Boeing 737-700s (149 seats) and two Airbus A320s (199 seats).

During the quarter ended July 31, 2019, the Corporation took delivery of its first two Airbus A321neoLRs out of 15 new aircrafts that will be added to its fleet by 2022.

## CHANGES IN ACCOUNTING POLICIES

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2018. There have been no significant changes to the Corporation's accounting policies since that date, except for the adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*.

### IFRS 9, *FINANCIAL INSTRUMENTS*

IFRS 9, *Financial Instruments*, addresses the classification and measurement of financial assets and financial liabilities and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation adopted IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The Corporation applies the new hedge accounting model and foreign exchange risk management disclosure requirements with prospective application as of November 1, 2018. For hedging relationships including options that existed as at November 1, 2017 or those that have been designated since then, the Corporation accounts for the changes related to the time value of the options retrospectively, with restatement of comparative figures. The accounting policies and the main changes related to the adoption of IFRS 9 are explained in notes 2 and 3, respectively, to the interim condensed consolidated financial statements for the period ended July 31, 2019.

### IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers, and requires the provision of more informative and relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 was applied retrospectively on November 1, 2018 with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income (loss) for the quarter and nine-month period ended on July 31, 2018. The accounting policies and the main changes related to the adoption of IFRS 15 are explained in notes 2 and 3, respectively, to the interim condensed consolidated financial statements for the period ended July 31, 2019.

## FUTURE CHANGES IN ACCOUNTING POLICIES

A standard issued but not yet effective is described below. The Corporation has not early adopted this standard.

### IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under the current IAS 17 standard, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged. Certain exemptions will apply to short-term leases and leases of low value assets.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize a right-of-use asset and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

For leased aircraft, the right-of-use assets will be broken down and eligible maintenance costs will be capitalized and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft is expected to decrease and the depreciation expense is expected to increase following the adoption of IFRS 16.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation intends to apply the retrospective method with restatement for each prior reporting period presented. The Corporation intends to apply the practical expedient relating to the accounting for short-term leases and to reassess its previous conclusions to determine whether its contracts contain leases at the date of initial application, as it does not expect to use the practical expedient described in IFRS 16 paragraph C3. The Corporation continues to assess the impact of the adoption of this new standard on its consolidated financial statements.

### IFRIC 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to consider in the assement of an uncertain tax treatment to determine whether it is probable that a taxation authority will accept the treatment. The application of IFRIC 23 will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation is currently assessing the impact of the adoption of this new IFRIC interpretation on its consolidated financial statements.

## CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2019 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 internal control framework, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

### CHANGES IN ICFR

Following the Restated financial statements of October 31, 2018, January 31, 2019 and April 30, 2019 and to remediate the material weakness raised in the Corporation's ICFR, remedial actions have been reinforced in June 2019 to correct this material weakness in the ICFR, as referred to the Section "Controls and Procedures" of the restated financial statements of October 31, 2018.

Despite the adoption of these remedial actions, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have not identified, under their evaluation, other significant changes in ICFR occurred during the third quarter ended July 31, 2019 that have materially affected or are reasonably likely to materially affect the Corporation's ICFR.

## OUTLOOK

***2019 fourth quarter –*** The transatlantic market outbound from Canada and Europe accounts for a substantial portion of Transat's business during the summer season. For the period from August to October 2019, Transat's capacity is similar to that deployed on the same date last year. To date, 83% of the capacity has been sold, the load factors are lower by 0.9% compared with summer 2018 and selling prices of bookings taken are 2.1% higher than those recorded at the same date in 2018. The impact of currency variations, combined with lower fuel costs in U.S. dollars, will not result in a significant increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.

On the sun destinations market outbound from Canada, for which summer is low season, 83% of capacity is sold and the load factors are 5.6% higher compared with 2018. Unit margins are currently higher compared with those recorded on the same date last year.

If the current trends hold, Transat the Corporation expects its results for the fourth quarter to be slightly higher than those of last year.

***2020 winter –*** On the sun destinations market, the Corporation's main market during the winter season, Transat's capacity is 9% higher than that deployed on the same date last year. To date, 27% of the capacity has been sold and load factors are 1.8% higher compared with 2019. The impact of lower fuel costs, combined with fluctuations of the Canadian dollar, will not result in a significant increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar.

The Corporation believes it is still too early to draw any conclusions regarding winter season results.

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

| (in thousands of Canadian dollars) | Notes | As at July 31, 2019 $ | As at October 31, 2018 Restated [note 3] $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **723,843** | 593,654 |
| Cash and cash equivalents in trust or otherwise reserved | 6 | **198,031** | 287,735 |
| Trade and other receivables | | **159,465** | 139,979 |
| Income taxes receivable | | **2,351** | 11,405 |
| Inventories | | **13,203** | 14,464 |
| Prepaid expenses | | **60,159** | 68,890 |
| Derivative financial instruments | | **9,386** | 20,413 |
| Current portion of deposits | | **7,999** | 20,250 |
| **Current assets** | | **1,174,437** | 1,156,790 |
| Cash and cash equivalents reserved | 6 | **51,224** | 51,184 |
| Deposits | | **45,641** | 41,742 |
| Income taxes receivable | | **15,100** | 15,100 |
| Deferred tax assets | | **32,155** | 14,954 |
| Property, plant and equipment | | **235,721** | 201,478 |
| Intangible assets | | **38,773** | 42,689 |
| Derivative financial instruments | | **6** | 84 |
| Investment | 7 | **17,336** | 16,084 |
| Other assets | | **31,140** | 26,685 |
| **Non-current assets** | | **467,096** | 410,000 |
| | | **1,641,533** | 1,566,790 |
| **LIABILITIES** | | | |
| Trade and other payables | | **342,267** | 320,732 |
| Current portion of provision for overhaul of leased aircraft | 8 | **25,478** | 27,313 |
| Income taxes payable | | **3,320** | 1,117 |
| Customer deposits and deferred revenues | | **611,094** | 517,352 |
| Derivative financial instruments | | **8,846** | 2,766 |
| **Current liabilities** | | **991,005** | 869,280 |
| Provision for overhaul of leased aircraft | 8 | **36,362** | 29,915 |
| Other liabilities | 10 | **94,847** | 92,025 |
| Derivative financial instruments | | **3,147** | 679 |
| Deferred tax liabilities | | **685** | 3,252 |
| **Non-current liabilities** | | **135,041** | 125,871 |
| **EQUITY** | | | |
| Share capital | 11 | **221,012** | 219,684 |
| Share-based payment reserve | | **15,948** | 18,017 |
| Retained earnings | | **294,376** | 340,766 |
| Unrealized gain on cash flow hedges | | **(5,596)** | 1,971 |
| Cumulative exchange differences | | **(10,253)** | (8,799) |
| | | **515,487** | 571,639 |
| | | **1,641,533** | 1,566,790 |

See accompanying notes to unaudited interim condensed consolidated financial statements

**NOTICE**

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

# TRANSAT A.T. INC.
# CONSOLIDATED STATEMENTS OF INCOME (LOSS)

| (in thousands of Canadian dollars, except per share amounts) | Notes | Quarters ended July 31 2019 $ | Quarters ended July 31 2018 Restated *[note 3]* $ | Nine-month periods ended July 31 2019 $ | Nine-month periods ended July 31 2018 Restated *[note 3]* $ |
|---|---|---|---|---|---|
| **Revenues** | | **698,916** | 664,569 | **2,243,895** | 2,180,112 |
| **Operating expenses** | | | | | |
| Costs of providing tourism services | | **111,772** | 121,856 | **714,710** | 759,923 |
| Aircraft fuel | | **158,049** | 158,018 | **369,529** | 341,878 |
| Salaries and employee benefits | | **105,826** | 100,060 | **309,569** | 290,488 |
| Aircraft maintenance | | **76,579** | 62,708 | **198,981** | 170,540 |
| Sales and distribution costs | | **44,432** | 45,433 | **169,249** | 172,070 |
| Airport and navigation fees | | **46,070** | 44,864 | **113,575** | 105,708 |
| Aircraft rent | | **30,186** | 32,090 | **109,885** | 95,611 |
| Other airline costs | | **75,603** | 73,803 | **188,942** | 183,865 |
| Other | | **28,216** | 23,600 | **81,714** | 74,871 |
| Share of net loss (income) of a joint venture | | **359** | (343) | **432** | (693) |
| Depreciation and amortization | | **15,710** | 13,215 | **46,852** | 43,294 |
| Special items | 14 | **13,731** | — | **13,731** | — |
| | | **706,533** | 675,304 | **2,317,169** | 2,237,555 |
| **Operating income (loss)** | | **(7,617)** | (10,735) | **(73,274)** | (57,443) |
| Financing costs | | **397** | 424 | **1,181** | 1,504 |
| Financing income | | **(5,469)** | (4,725) | **(16,309)** | (13,307) |
| Change in fair value of fuel-related derivatives and other derivatives | | **8,819** | 140 | **9,110** | (8,932) |
| Gain on business disposals | 5 | **(8)** | — | **(8)** | (31,064) |
| Foreign exchange loss (gain) on non-current monetary items | | **900** | (451) | **22** | 21 |
| **Income (loss) before income tax expense** | | **(12,256)** | (6,123) | **(67,270)** | (5,665) |
| **Income taxes (recovery)** | | | | | |
| Current | | **(1,141)** | (130) | **(84)** | (2,417) |
| Deferred | | **(385)** | (1,301) | **(16,593)** | (6,458) |
| | | **(1,526)** | (1,431) | **(16,677)** | (8,875) |
| **Net income (loss) for the period** | | **(10,730)** | (4,692) | **(50,593)** | 3,210 |
| | | | | | |
| **Net income (loss) attributable to:** | | | | | |
| Shareholders | | **(11,043)** | (5,045) | **(53,475)** | (302) |
| Non-controlling interests | | **313** | 353 | **2,882** | 3,512 |
| | | **(10,730)** | (4,692) | **(50,593)** | 3,210 |
| Earnings (loss) per share | 11 | | | | |
| Basic | | **(0.29)** | (0.13) | **(1.42)** | (0.01) |
| Diluted | | **(0.29)** | (0.13) | **(1.42)** | (0.01) |

See accompanying notes to unaudited interim condensed consolidated financial statements

# TRANSAT A.T. INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | **2019** | **2018 Restated** *[note 3]* | **2019** | **2018 Restated** *[note 3]* |
| (in thousands of Canadian dollars) | **$** | **$** | **$** | **$** |
| **Net income (loss) for the period** | **(10,730)** | (4,692) | **(50,593)** | 3,210 |
| **Other comprehensive income (loss)** | | | | |
| **Items that will be reclassified to net income (loss)** | | | | |
| Change in fair value of derivatives designated as cash flow hedges | **(8,792)** | (5,251) | **(21,736)** | 3,842 |
| Reclassification to net income (loss) | **2,667** | 1,066 | **11,416** | (7,648) |
| Deferred taxes | **1,645** | 1,130 | **2,753** | 1,019 |
| | **(4,480)** | (3,055) | **(7,567)** | (2,787) |
| Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries | **(5,233)** | (1,886) | **(1,454)** | 2,099 |
| Total other comprehensive income (loss) | **(9,713)** | (4,941) | **(9,021)** | (688) |
| **Comprehensive income (loss) for the period** | **(20,443)** | (9,633) | **(59,614)** | 2,522 |
| **Comprehensive income (loss) for the period attributable to:** | | | | |
| Shareholders | **(19,845)** | (10,571) | **(62,496)** | (1,331) |
| Non-controlling interests | **(598)** | 938 | **2,882** | 3,853 |
| | **(20,443)** | (9,633) | **(59,614)** | 2,522 |

See accompanying notes to unaudited interim condensed consolidated financial statements

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

| | | | | Accumulated other comprehensive income (loss) | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share-based payment reserve | Retained earnings Restated *[note 3]* | Unrealized gain (loss) on cash flow hedges Restated *[note 3]* | Cumulative exchange differences Restated *[note 3]* | Total Restated *[note 3]* | Non-controlling interests | Total equity Restated *[note 3]* |
| (in thousands of Canadian dollars) | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance as at October 31, 2017** | 215,444 | 17,817 | 330,856 | 3,849 | (10,385) | 557,581 | — | 557,581 |
| Net income for the period | — | — | 3,210 | — | — | 3,210 | 3,512 | 6,722 |
| Other comprehensive income (loss) | — | — | — | (2,787) | 1,758 | (1,029) | 341 | (688) |
| Comprehensive income (loss) for the period | — | — | 3,210 | (2,787) | 1,758 | 2,181 | 3,853 | 6,034 |
| Issued from treasury | 1,205 | — | — | — | — | 1,205 | — | 1,205 |
| Exercise of options | 2,627 | (794) | — | — | — | 1,833 | — | 1,833 |
| Vesting of PSUs | — | (1,198) | — | — | — | (1,198) | — | (1,198) |
| Share-based payment expense | — | 1,724 | — | — | — | 1,724 | — | 1,724 |
| Dividends | — | — | — | — | — | — | (3,302) | (3,302) |
| Reclassification of non-controlling interest liabilities | — | — | — | — | — | — | (210) | (210) |
| Reclassification of non-controlling interest exchange difference | — | — | — | — | 341 | 341 | (341) | — |
| | 3,832 | (268) | — | — | 341 | 3,905 | (3,853) | 52 |
| **Balance as at July 31, 2018** | 219,276 | 17,549 | 334,066 | 1,062 | (8,286) | 563,667 | — | 563,667 |
| Net income for the period | — | — | 3,241 | — | — | 3,241 | 30 | 3,271 |
| Other comprehensive income (loss) | — | — | 1,624 | 909 | (1,167) | 1,366 | 654 | 2,020 |
| Comprehensive income (loss) for the period | — | — | 4,865 | 909 | (1,167) | 4,607 | 684 | 5,291 |
| Issued from treasury | 350 | — | — | — | — | 350 | — | 350 |
| Exercise of options | 58 | (18) | — | — | — | 40 | — | 40 |
| Share-based payment expense | — | 486 | — | — | — | 486 | — | 486 |
| Fair value changes of non-controlling interest | — | — | 1,835 | — | — | 1,835 | (1,835) | — |
| Reclassification of non-controlling interest liabilities | — | — | — | — | — | — | 1,805 | 1,805 |
| Reclassification of non-controlling interest exchange difference | — | — | — | — | 654 | 654 | (654) | — |
| | 408 | 468 | 1,835 | — | 654 | 3,365 | (684) | 2,681 |
| **Balance as at October 31, 2018** | 219,684 | 18,017 | 340,766 | 1,971 | (8,799) | 571,639 | — | 571,639 |
| Net income (loss) for the period | — | — | (53,475) | — | — | (53,475) | 2,882 | (50,593) |
| Other comprehensive income (loss) | — | — | — | (7,567) | (1,454) | (9,021) | — | (9,021) |
| Comprehensive income (loss) for the period | — | — | (53,475) | (7,567) | (1,454) | (62,496) | 2,882 | (59,614) |
| Issued from treasury | 940 | — | — | — | — | 940 | — | 940 |
| Exercise of options | 388 | (120) | — | — | — | 268 | — | 268 |
| Vesting of PSUs | — | (19) | — | — | — | (19) | — | (19) |
| Share-based payment expense | — | 1,612 | — | — | — | 1,612 | — | 1,612 |
| Reclassification to liabilities | — | (3,542) | — | — | — | (3,542) | — | (3,542) |
| Dividends | — | — | — | — | — | — | (2,196) | (2,196) |
| Fair value changes of non-controlling interest | — | — | 7,085 | — | — | 7,085 | (7,085) | — |
| Reclassification of non-controlling interest liabilities | — | — | — | — | — | — | 6,399 | 6,399 |
| | 1,328 | (2,069) | 7,085 | — | — | 6,344 | (2,882) | 3,462 |
| **Balance as at July 31, 2019** | **221,012** | **15,948** | **294,376** | **(5,596)** | **(10,253)** | **515,487** | **—** | **515,487** |

See accompanying notes to unaudited interim condensed consolidated financial statements

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

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | 2019 | 2018 Restated *[note 3]* | 2019 | 2018 Restated *[note 3]* |
| (in thousands of Canadian dollars) | $ | $ | $ | $ |
| **OPERATING ACTIVITIES** | | | | |
| Net income (loss) for the period | **(10,730)** | (4,692) | **(50,593)** | 3,210 |
| Operating items not involving an outlay (receipt) of cash: | | | | |
| Depreciation and amortization | **15,710** | 13,215 | **46,852** | 43,294 |
| Change in fair value of fuel-related derivatives and other derivatives | **8,819** | 140 | **9,110** | (8,932) |
| Gain on business disposals | **(8)** | — | **(8)** | (31,064) |
| Foreign exchange loss (gain) on non-current monetary items | **900** | (451) | **22** | 21 |
| Share of net loss (income) of a joint venture | **359** | (343) | **432** | (693) |
| Deferred taxes | **(385)** | (1,301) | **(16,593)** | (6,458) |
| Employee benefits | **736** | 700 | **2,218** | 2,100 |
| Share-based payment expense | **555** | 610 | **1,612** | 1,724 |
| | **15,956** | 7,878 | **(6,948)** | 3,202 |
| Net change in non-cash working capital balances related to operations | **(52,142)** | (27,524) | **219,687** | 241,377 |
| Net change in provision for overhaul of leased aircraft | **5,595** | 5,713 | **4,612** | 11,973 |
| Net change in other assets and liabilities related to operations | **(5,623)** | (2,468) | **(7,715)** | 8,754 |
| **Cash flows related to operating activities** | **(36,214)** | (16,401) | **209,636** | 265,306 |
| **INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment and other intangible assets | **(27,979)** | (17,243) | **(77,369)** | (42,503) |
| Increase in cash and cash equivalents reserved | **—** | — | **(40)** | (1,084) |
| Consideration paid for a business acquisition | **(1,690)** | — | **(1,690)** | — |
| Consideration received on business disposals, net of cash disposed of | **784** | — | **1,884** | 26,493 |
| **Cash flows related to investing activities** | **(28,885)** | (17,243) | **(77,215)** | (17,094) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of shares | **467** | 439 | **1,208** | 3,038 |
| Repurchase of shares related to stock-based compensation | **—** | (17) | **—** | (556) |
| Dividends paid by a subsidiary to a non-controlling shareholder | **(1,395)** | (1,183) | **(2,196)** | (3,302) |
| **Cash flows related to financing activities** | **(928)** | (761) | **(988)** | (820) |
| Effect of exchange rate changes on cash and cash equivalents | **(6,452)** | (1,648) | **(1,244)** | (51) |
| **Net change in cash and cash equivalents** | **(72,479)** | (36,053) | **130,189** | 247,341 |
| Cash and cash equivalents held for sale, beginning of period | **—** | — | **—** | 26,324 |
| Cash and cash equivalents, beginning of period | **796,322** | 903,300 | **593,654** | 593,582 |
| **Cash and cash equivalents, end of period** | **723,843** | 867,247 | **723,843** | 867,247 |
| **Supplementary information (as reported in operating activities)** | | | | |
| Net income taxes paid (recovered) | **(14,980)** | 155 | **(12,674)** | 10,136 |
| Interest paid | **246** | 76 | **681** | 246 |

See accompanying notes to unaudited interim condensed consolidated financial statements

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

## Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2019 were approved by the Corporation's Board of Directors on September 11, 2019.

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 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 restated consolidated financial statements with the exception of the adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, for which the effects are described in note 3. The interim condensed consolidated financial statements should be read in conjunction with the restated audited annual consolidated financial statements and notes included in the Corporation's restated Annual Report for the year ended October 31, 2018.

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 measured at fair value.

### REVENUE RECOGNITION

The Corporation recognizes revenue when it satisfies the performance obligation, that is, when the service is transferred to the customer and the customer obtains control of that service. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred revenues.

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

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

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

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

| | | Quarters ended July 31 | | Nine-month periods ended July 31 |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | | **Restated** *[note 3]* | | **Restated** *[note 3]* |
| | **$** | **$** | **$** | **$** |
| **Customers** | | | | |
| Transatlantic | **495,258** | 470,859 | **653,256** | 620,840 |
| Americas | **194,582** | 185,425 | **1,542,659** | 1,512,735 |
| **Other** | **9,076** | 8,285 | **47,980** | 46,537 |
| **Total revenues** | **698,916** | 664,569 | **2,243,895** | 2,180,112 |

CONTRACT BALANCES

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

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

Contract balances with customers are detailed as follows:

| | As at July 31, 2019 | As at October 31, 2018 | As at October 31, 2017 |
|---|---|---|---|
| | | **Restated** *[note 3]* | **Restated** *[note 3]* |
| | **$** | **$** | **$** |
| Trade accounts receivable, included in Trade and other receivables | **36,977** | 30,831 | 33,486 |
| Contract costs, included in Prepaid expenses | **30,900** | 38,414 | 43,537 |
| Customer deposits and deferred revenues | **611,094** | 517,352 | 440,411 |

## Note 3 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS AND CHANGES IN ACCOUNTING POLICIES

### RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

On June 27, 2019, the Corporation announced that it needed to restate its consolidated financial statements and MD&A for the year ended October 31, 2018 as well as for the first quarter ended January 31, 2019 and the second quarter ended April 30, 2019. Management has concluded that a restatement of its consolidated financial statements was necessary regarding the carrying amount of the non-controlling interest in the Trafictours Canada Inc. subsidiary.

The carrying amount of the non-controlling interest is related to the Trafictours Canada Inc. subsidiary and the right of the minority shareholder to require the Corporation to purchase the Trafictours Canada Inc. shares it holds at a price calculated in accordance with a pre-determined formula, subject to adjustment based on the circumstances, payable in cash. The estimated repurchase value of this option is taken into account in the carrying amount of the non-controlling interest. The difference results from from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest. As a result, the liability for the non-controlling interest reported under Trade and other payables in the consolidated statements of financial position is undervalued by $25,900, $23,290 and $20,521 as at October 31, 2018, January 31, 2019 and April 30, 2019, respectively. These undervaluations had no impact on the Corporation's consolidated statements of income for the aforementioned periods as these adjustments are recorded as equity transactions in Retained earnings.

As part of the restatement of its consolidated financial statements as at October 31, 2018, the Corporation reviewed subsequent events up to September 11, 2019, the new date of authorization to publish the financial statements for the year ended October 31, 2018. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5.0 million [$6.7 million], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded under Special items in the restated consolidated statement of income for the year ended October 31, 2018 and derecognized in the restated consolidated statements of income for the period ended April 30, 2019. This adjustment is included under Trade and other payables and Retained earnings in the restated consolidated statements of financial position as at October 31, 2018. No provision was recorded in the financial statements as at October 31, 2018 as initially published as it was not possible to determine with any degree of certainty the extent of any financial liability that would have arisen had the Corporation been unsuccessful in its defence of this lawsuit.

### IFRS 9, *FINANCIAL INSTRUMENTS*

IFRS 9, *Financial Instruments*, addresses the classification and measurement of financial assets and financial liabilities and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation adopted IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The main changes are explained below.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. Financial assets previously classified as "loans and receivables" are now included in the "amortized cost" category. With respect to financial liabilities, trade and other payables that were formerly classified as "other financial liabilities" are now included in the "amortized cost" category. The Corporation has determined that this change has no other impact on its consolidated financial statements, particularly with respect to the measurement of financial assets and financial liabilities.

IFRS 9 also introduces a new expected loss impairment model requiring timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis. The Corporation has determined that this change had no impact on its consolidated financial statements.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosure requirements regarding risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that allows entities to better reflect their risk management activities in their consolidated financial statements.

The Corporation applies the new hedge accounting model and foreign exchange risk management disclosure requirements with prospective application as of November 1, 2018. The Corporation enters into foreign currency contract options and designates the intrinsic value of these contracts as cash flow hedging on future purchases of foreign currencies. Applying the new hedge accounting model will give rise to the recognition of the time value of the options, including premiums paid, in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss) for the effective hedging relationships. The time value of these options, including premiums paid, remains in Other comprehensive income (loss) as “Unrealized Gain (Loss) on Cash Flow Hedges” until the settlement of the underlying hedged item, at which time the premiums paid accounted for under “Unrealized Gain (Loss) on Cash Flow Hedges” are reclassified under the same account in the consolidated statement of income (loss) than the underlying hedged item. The Corporation’s hedging policy remains unchanged with the exception of the above-mentioned modifications

The Corporation separates the intrinsic value and time value of an option and designates as the hedging instrument only the change in intrinsic value of an option; this method was also applied under IAS 39. Accordingly, for effective hedging relationships in existence as at November 1, 2017 or designated thereafter, the Corporation is required to account for the time value of the options retrospectively in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss). The cumulative effect of the adoption of IFRS 9 on the consolidated statement of financial position and the consolidated statement of income (loss) is disclosed below. The Corporation has determined that this change had no other impact on its consolidated financial statements.

**IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS***

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers, and requires the provision of more informative and relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 was applied retrospectively on November 1, 2018 with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income (loss) for the quarter and nine-month period ended on July 31, 2018. The main changes are explained below.

The practical expedient of paragraph C5(d) of IFRS 15 was applied. For the periods before the date of initial application, the Corporation does not need to disclose the amount of the transaction price allocated to the remaining performance obligations nor an explanation of when it expects to recognize that amount as revenue.

REVENUE FROM PASSENGER AIR TRANSPORTATION

Revenue from passenger air transportation is recognized when such transportation is provided. The adoption of IFRS 15 had no impact on the recognition of revenue from passenger air transportation.

REVENUE FROM THE LAND PORTION OF HOLIDAY PACKAGES

Revenue from the land portion of holiday packages, which includes hotel services, among others, and the related costs are recognized when the corresponding services are rendered over the course of the stay. Prior to the adoption of IFRS 15, revenue was recognized when passengers depart. This change in accounting policy affects the timing of the recognition of revenue and related expenses.

REVENUE FROM TRAVEL AGENCY COMMISSIONS

Commission revenue from travel agencies is recognized when passengers depart. Prior to the adoption of IFRS 15, revenue was recognized at the time of booking. This change in accounting policy affects the timing of revenue recognition.

REPORTING REVENUE GROSS OR NET

All airport taxes are reported net as a result of new criteria set out in IFRS 15. Prior to the adoption of IFRS 15, revenue from certain airport taxes was reported gross. The impact on the consolidated statement of income (loss) for the quarter and nine-month period ended July 31, 2018 consisted of decreases of $26,363 and $134,472, respectively, in revenue and the corresponding costs. For the year ended October 31, 2018, the impact on the consolidated statement of income consisted of a $156,430 decrease in revenue and the corresponding costs.

Prior to the adoption of IFRS 15, some revenues were reported net of commission costs. These revenus are now reported on a gross basis, with the corresponding commission costs reported under Selling and distribution costs. The impact on the consolidated statement of income (loss) for the quarter and nine-month period ended July 31, 2018 consisted of increases of $4,101 and $9,927, respectively, in revenue and the corresponding costs. For the year ended October 31, 2018, the impact on the consolidated statement of income consisted of a $12,955 increase in revenue and the corresponding costs. This reclassification had no impact on operating results.

STATEMENT OF INCOME (LOSS) PRESENTATION

Statement of income (loss) presentation was also modified to better reflect the nature of operation expenses. Commissions, credit card fees, distribution costs and marketing costs have been combined under Selling and distribution costs. Credit card fees and distribution costs were formerly reported under Costs of providing tourism services and marketing costs were reported under Other costs. This change in consolidated statement of income (loss) presentation had no impact on operating results.

RECOGNIZING THE COSTS OF OBTAINING A CONTRACT

Certain additional costs incurred to earn income from air transportation services, such as costs related to the worldwide distribution system and credit card fees, are capitalized at the time of booking and expensed when revenue is recognized. Prior to the adoption of IFRS 15, some costs were expensed at the time of booking. This change in accounting policy affects the timing of expense recognition.

**IMPACT ON PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS**

The impact of the restatement of the consolidated financial statements as well as the cumulative effect of the adoption of IFRS 9 and IFRS 15 on the consolidated statement of financial position and the consolidated statement of income (loss) is detailed in the following tables. The cumulative effect on the consolidated statement of cash flows was not material:

| | | | | | **As at October 31, 2017** |
|---|---|---|---|---|---|
| | **Before adjustments** | **Restatement** | **IFRS 9** | **IFRS 15** | **After adjustments** |
| **Consolidated statement of financial position** | **$** | **$** | **$** | **$** | **$** |
| Trade and other receivables | 121,618 | — | — | (30) | **121,588** |
| Prepaid expenses | 64,245 | — | — | 3,918 | **68,163** |
| Deferred tax assets | 16,286 | — | — | (404) | **15,882** |
| **Total assets** | **1,453,216** | **—** | **—** | **3,484** | **1,456,700** |
| Trade and other payables | 245,013 | — | — | (6,183) | **238,830** |
| Customer deposits and deferred revenues | 433,897 | — | — | 6,514 | **440,411** |
| Other liabilities | 96,813 | 22,900 | — | — | **119,713** |
| Deferred tax liabilities | 2,217 | — | — | 542 | **2,759** |
| Total liabilities | 875,346 | 22,900 | — | 873 | **899,119** |
| Retained earnings | 351,138 | (23,576) | 683 | 2,611 | **330,856** |
| Unrealized gain (loss) on cash flow hedges | 4,532 | — | (683) | — | **3,849** |
| Cumulative exchange differences | (11,061) | 676 | — | — | **(10,385)** |
| Total equity | 577,870 | (22,900) | — | 2,611 | **557,581** |
| **Total liabilities and equity** | **1,453,216** | **—** | **—** | **3,484** | **1,456,700** |

| | | | | | As at October 31, 2018 |
|---|---|---|---|---|---|
| | Before adjustments | Restatement | IFRS 9 | IFRS 15 | After adjustments |
| **Consolidated statement of financial position** | $ | $ | $ | $ | $ |
| Trade and other receivables | 140,009 | — | — | (30) | **139,979** |
| Prepaid expenses | 63,789 | — | — | 5,101 | **68,890** |
| Deferred tax assets | 13,095 | 1,755 | — | 104 | **14,954** |
| **Total assets** | **1,559,860** | **1,755** | **—** | **5,175** | **1,566,790** |
| Trade and other payables | 294,021 | 32,600 | — | (5,889) | **320,732** |
| Customer deposits and deferred revenues | 510,631 | — | — | 6,721 | **517,352** |
| Deferred tax liabilities | 2,019 | — | — | 1,233 | **3,252** |
| Total liabilities | 960,486 | 32,600 | — | 2,065 | **995,151** |
| Retained earnings | 361,098 | (31,203) | 7,761 | 3,110 | **340,766** |
| Unrealized gain (loss) on cash flow hedges | 9,732 | — | (7,761) | — | **1,971** |
| Cumulative exchange differences | (9,157) | 358 | — | — | **(8,799)** |
| Total equity | 599,374 | (30,845) | — | 3,110 | **571,639** |
| **Total liabilities and equity** | **1,559,860** | **1,755** | **—** | **5,175** | **1,566,790** |

| | | | | | Retained earnings |
|---|---|---|---|---|---|
| | Before adjustments | Restatement | IFRS 9 | IFRS 15 | After adjustments |
| (in thousands of Canadian dollars) | $ | $ | $ | $ | $ |
| **Balance as at October 31, 2017** | 351,138 | (23,576) | 683 | 2,611 | **330,856** |
| Net income (loss) for the year | 3,819 | (4,945) | 7,078 | 499 | **6,451** |
| Other comprehensive income (loss) | 1,624 | — | — | — | **1,624** |
| Comprehensive income (loss) for the year | 5,443 | (4,945) | 7,078 | 499 | **8,075** |
| Fair value changes in non-controlling interest liabilities | 4,517 | (2,682) | — | — | **1,835** |
| **Balance as at October 31, 2018** | 361,098 | (31,203) | 7,761 | 3,110 | **340,766** |

| | | | | | Quarter ended July 31, 2018 |
|---|---|---|---|---|---|
| | Before adjustments | IFRS 9 | IFRS 15 | Presentation | After adjustments |
| **Consolidated statement of income (loss)** | $ | $ | $ | $ | $ |
| Revenues | 696,551 | — | (31,982) | — | **664,569** |
| Costs of providing tourism services | 173,939 | — | (34,136) | (17,947) | **121,856** |
| Sales and distribution costs | — | — | 4,895 | 40,538 | **45,433** |
| Commission | 11,072 | — | — | (11,072) | **—** |
| Other | 35,119 | — | — | (11,519) | **23,600** |
| Total operating expenses | 704,545 | — | (29,241) | — | **675,304** |
| Operating income (loss) | (7,994) | — | (2,741) | — | **(10,735)** |
| Change in fair value of fuel-related derivatives and other derivatives | 1,512 | (1,372) | — | — | **140** |
| Deferred income taxes | (939) | 365 | (727) | — | **(1,301)** |
| Net income (loss) for the period | (3,685) | 1,007 | (2,014) | — | **(4,692)** |
| Net income (loss) attribuable to shareholders | (4,038) | 1,007 | (2,014) | — | **(5,045)** |
| Earnings (loss) per share | | | | | |
| Basic | (0.11) | 0.03 | (0.05) | — | **(0.13)** |
| Diluted | (0.11) | 0.03 | (0.05) | — | **(0.13)** |

| Consolidated statement of income (loss) | Before adjustments $ | IFRS 9 $ | IFRS 15 $ | Presentation $ | After adjustments $ |
|---|---|---|---|---|---|
| | | | | | Nine-month periods ended July 31 , 2018 |
| Revenues | 2,324,314 | — | (144,202) | — | **2,180,112** |
| Costs of providing tourism services | 974,883 | — | (151,686) | (63,274) | **759,923** |
| Sales and distribution costs | — | — | 2,391 | 169,679 | **172,070** |
| Commission | 78,079 | — | — | (78,079) | **—** |
| Other | 103,197 | — | — | (28,326) | **74,871** |
| Total operating expenses | 2,386,850 | — | (149,295) | — | **2,237,555** |
| Operating income (loss) | (62,536) | — | 5,093 | — | **(57,443)** |
| Change in fair value of fuel-related derivatives and other derivatives | (9,069) | 137 | — | — | **(8,932)** |
| Deferred income taxes | (7,773) | (36) | 1,351 | — | **(6,458)** |
| Net income (loss) for the period | (431) | (101) | 3,742 | — | **3,210** |
| Net income (loss) attribuable to shareholders | (3,943) | (101) | 3,742 | — | **(302)** |
| Earnings (loss) per share | | | | | |
| Basic | (0.11) | — | 0.10 | — | **(0.01)** |
| Diluted | (0.11) | — | 0.10 | — | **(0.01)** |

| Consolidated statement of income (loss) | Before adjustments $ | Restatement $ | IFRS 9 $ | IFRS 15 $ | Presentation $ | After adjustments $ |
|---|---|---|---|---|---|---|
| | | | | | | Year ended October 31, 2018 |
| Revenues | 2,992,582 | — | — | (143,627) | — | **2,848,955** |
| Costs of providing tourism services | 1,091,924 | — | — | (155,544) | (73,275) | **863,105** |
| Sales and distribution costs | — | — | — | 11,235 | 198,686 | **209,921** |
| Commission | 87,763 | — | — | — | (87,763) | **—** |
| Other | 135,225 | — | — | — | (37,648) | **97,577** |
| Special items | 2,262 | 6,700 | — | — | — | **8,962** |
| Total operating expenses | 3,037,157 | 6,700 | — | (144,309) | — | **2,899,548** |
| Operating income (loss) | (44,575) | (6,700) | — | 682 | — | **(50,593)** |
| Change in fair value of fuel-related derivatives and other derivatives | 1,284 | — | (9,644) | — | — | **(8,360)** |
| Deferred income taxes | 551 | (1,755) | 2,566 | 183 | — | **1,545** |
| Net income (loss) for the period | 7,361 | (4,945) | 7,078 | 499 | — | **9,993** |
| Net income (loss) attribuable to shareholders | 3,819 | (4,945) | 7,078 | 499 | — | **6,451** |
| Earnings (loss) per share | | | | | | |
| Basic | 0.10 | (0.13) | 0.19 | 0.01 | — | **0.17** |
| Diluted | 0.10 | (0.13) | 0.19 | 0.01 | — | **0.17** |

## Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

A standard issued but not yet effective is described below. The Corporation has not early adopted this standard.

### IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under the current IAS 17 standard, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged. Certain exemptions will apply to short-term leases and leases of low value assets.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize a right-of-use asset and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

For leased aircraft, the right-of-use assets will be broken down and eligible maintenance costs will be capitalized and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft is expected to decrease and the depreciation expense is expected to increase following the adoption of IFRS 16.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation intends to apply the retrospective method with restatement for each prior reporting period presented. The Corporation intends to apply the practical expedient relating to the accounting for short-term leases and to reassess its previous conclusions to determine whether its contracts contain leases at the date of initial application, as it does not expect to use the practical expedient described in IFRS 16 paragraph C3. The Corporation continues to assess the impact of the adoption of this new standard on its consolidated financial statements.

### IFRIC 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to consider in the assement of an uncertain tax treatment to determine whether it is probable that a taxation authority will accept the treatment. The application of IFRIC 23 will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation is currently assessing the impact of the adoption of this new IFRIC interpretation on its consolidated financial statements.

## Note 5 BUSINESS DISPOSALS

### JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price amounted to $48,896. During the quarter ended July 31, 2019, the Corporation recorded a $289 downward adjustment to the gain on business disposal related to the amount claimed by H.I.S. Co. Ltd. for uncollected trade receivables as at May 31, 2019. During the nine-month period ended July 31, 2018, the Corporation recognized a gain on business disposal of $31,264.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income (loss) from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month period ended July 31, 2018.

**OCEAN HOTELS**

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels. Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1,500 [$1,935] to US$149,000 [$185,565]. During the nine-month period ended July 31, 2018, as a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a $200 downward adjustment to the gain on business disposal.

## Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2019, cash and cash equivalents in trust or otherwise reserved included $187,339 [$276,038 as at October 31, 2018] 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 $61,916, $51,224 of which was recorded as non-current assets [$62,881 as at October 31, 2018, $51,184 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

## Note 7 INVESTMENT

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

| | $ |
|---|---|
| Balance as at October 31, 2018 | **16,084** |
| Capital contribution | **1,690** |
| Share of net loss | **(432)** |
| Translation adjustment | **(6)** |
| **Balance as at July 31, 2019** | **17,336** |

The investment was translated at the USD/CAD rate of 1.3142 as at July 31, 2019 [1.3130 as at October 31, 2018].

## Note 8 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases. The change in the provision for overhaul of leased aircraft for the quarter ended July 31 is detailed as follows:

| | $ |
|---|---|
| **Balance as at October 31, 2018** | **57,228** |
| Additional provisions | **17,445** |
| Utilization of provisions | **(18,428)** |
| **Balance as at April 30, 2019** | **56,245** |
| Additional provisions | **9,916** |
| Utilization of provisions | **(4,321)** |
| **Balance as at July 31, 2019** | **61,840** |
| Current provisions | **25,478** |
| Non-current provisions | **36,362** |
| **Balance as at July 31, 2019** | **61,840** |

## Note 9 LONG-TERM DEBT

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial ratios and conditions. As at July 31, 2019, all financial ratios and conditions were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2019, $56,058 had been drawn down under the facility [$56,151 as at October 31, 2018], $51,224 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

## Note 10 OTHER LIABILITIES

| | As at July 31, 2019<br>$ | As at October 31, 2018<br>Restated<br>*[note 3]*<br>$ |
|---|---|---|
| Employee benefits | **41,870** | 40,388 |
| Deferred lease incentives | **52,977** | 51,637 |
| Non-controlling interests | **42,300** | 48,700 |
| | **137,147** | 140,725 |
| Less: Non-controlling interests included in Trade and other payables | **(42,300)** | (48,700) |
| | **94,847** | 92,025 |

## Note 11 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"].

Following the entry into force, on May 8, 2019, of the plan of arrangement approved by the Corporation's shareholders and the Superior Court of Québec, the Class A Shares carry one vote per share at any meeting of shareholders subject to an automatic reduction of the voting rights attached thereto in the event that [i] any non-Canadian, individually or with persons of the same group, holds more than 25% of the votes cast, [ii] any non-Canadian authorized to provide an air service in any jurisdiction (in aggregate) holds more than 25% of the votes cast, or [iii] the votes that would be cast by holders of Class A Shares would be more than 49%. If any of the above-mentioned applicable limitations are exceeded, the votes that should be attributed to holders of Class A Shares will be attributed as follows:

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

**ISSUED AND OUTSTANDING SHARE CAPITAL**

The changes affecting Class A Shares and Class B Shares were as follows:

| | Number of shares | $ |
|---|---|---|
| **Balance as at October 31, 2017** | 37,063,626 | 215,444 |
| Issued from treasury | 144,124 | 1,205 |
| Exercise of options | 287,485 | 2,627 |
| **Balance as at July 31, 2018** | 37,495,235 | 219,276 |
| Issued from treasury | 44,661 | 350 |
| Exercise of options | 5,439 | 58 |
| **Balance as at October 31, 2018** | 37,545,335 | 219,684 |
| Issued from treasury | 169,862 | 940 |
| Exercise of options | 31,893 | 388 |
| **Balance as at July 31, 2019** | **37,747,090** | **221,012** |

As at July 31, 2019, the number of Class A Shares and Class B Shares stood at 4,552,685 and 33,194,405, respectively [2,931,020 and 34,614,315, respectively, as at October 31, 2018].

### STOCK OPTION PLAN

| | Number of options | Weighted average price ($) |
|---|---|---|
| Balance as at October 31, 2018 | 1,786,588 | 10.13 |
| Exercised | (31,893) | 8.41 |
| Cancelled | (4,125) | 15.76 |
| Expired | (2,000) | 10.52 |
| **Balance as at July 31, 2019** | **1,748,570** | **10.15** |
| **Options exercisable as at July 31, 2019** | **1,428,716** | **10.09** |

### EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | **2019** | 2018 Restated *[note 3]* | **2019** | 2018 Restated *[note 3]* |
| (in thousands of dollars, except per share data) | **$** | $ | **$** | $ |
| **NUMERATOR** | | | | |
| Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share | **(11,043)** | (5,045) | **(53,475)** | (302) |
| **DENOMINATOR** | | | | |
| Adjusted weighted average number of outstanding shares | **37,728** | 37,463 | **37,648** | 37,351 |
| **Effect of dilutive securities** | | | | |
| Stock options | **—** | — | **—** | — |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share | **37,728** | 37,463 | **37,648** | 37,351 |
| **Earnings (loss) per share** | | | | |
| Basic | **(0.29)** | (0.13) | **(1.42)** | (0.01) |
| Diluted | **(0.29)** | (0.13) | **(1.42)** | (0.01) |

Given the losses recorded for the quarter and nine-month period ended July 31, 2019, all 1,748,570 outstanding stock options [1,809,699 in 2018] were excluded from the calculation due to their anti-dilutive effect.

## Note 12 GUARANTEES

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

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

Notes 6, 8, 16, 23 and 24 to the restated consolidated financial statements for the year ended October 31, 2018 provide information about some of these agreements. The following constitutes additional disclosure.

#### OPERATING 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. These leases expire at various dates through 2034. 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 July 31, 2019, the total amount of these guarantees unsecured by deposits amounted to $472. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2019, no amounts had been accrued with respect to the above-mentioned agreements.

#### IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

In addition, the Corporation has a guarantee facility that is renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50,000. As at July 31, 2019, an amount of $25,185 had been drawn down under the facility.

## Note 13 SEGMENTED DISCLOSURE

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

## Note 14 SPECIAL ITEMS

Special items generally include the restructuring charges and other significant unusual items. For the quarter ended July 31, 2019, professional fees of $5,990 and compensation expenses of $7,741 were recorded in connection with the potential acquisition of the Corporation by Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions subsequent to the significant rise in the share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also reduces the vesting period.

## Note 15 SUBSEQUENT EVENTS

On August 23, 2019, a significant majority of the Corporation's shareholders voted in favour of the special resolution approving the previously announced plan of arrangement pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for a cash consideration of $18.00 per share.

On August 29, 2019, the Corporation announced that the Superior Court of Quebec issued a final order approving the plan of arrangement with Air Canada. The arrangement remains subject to certain closing conditions, including regulatory approvals described in Transat's management information circular dated July 19, 2019, as well as other customary closing conditions. In addition, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is now expected that the transaction will be completed by the second quarter of the 2020 calendar year.

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