2020 Annual Information Form




Transat A.T. Inc.
Annual Information Form
For the year ended October 31, 2020
December 11, 2020

TABLE OF CONTENTS

In this Annual Information Form ("**AIF**"), the terms "we", "our", "us", "Transat" and the "Corporation" refer to Transat A.T. Inc. as well as any of its subsidiaries, or to Transat A.T. Inc. alone, as the context may require. Unless otherwise indicated, all dollar amounts referred to in this AIF are expressed in Canadian dollars. Unless otherwise indicated, the information contained in this AIF is reported as at October 31, 2020, our financial year-end. The following is a list of Transat's registered and unregistered trademarks and designs that are referred to and used as such in this AIF: our star design, luggage tag, Air Transat and "Welcome" mosaic design featured on some of its aircraft, American Affair, Canadian Affair, Club Voyages, Marlin Travel/Voyages Marlin, Trafictours, Transat, Transat Holidays USA, Turissimo, Voyages en Liberté, Transat Travel/Voyages Transat and TravelPlus. Any other trademarks, designs or corporate, trade or domain names used in this AIF are the property of their owners.

1. CORPORATE STRUCTURE

1.1 NAME AND INCORPORATION

Transat A.T. Inc. (hereafter “Transat”) was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the “*Canada Business Corporations Act*”) by Certificate of Incorporation dated February 13, 1987. Since its incorporation, Transat has amended its Articles by way of Certificates of Amendment to make the following material changes:

(i) change its name to “Transat A.T. Inc.”;

(ii) establish the number of directors at a minimum of nine (9) and a maximum of fifteen (15) and allow the Board of Directors to appoint directors during a given year;

(iii) provide for the creation of an unlimited number of Preferred Shares issuable in series, leading to the creation of 2,400,000 Series 1 Preferred Shares, of 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares;

(iv) subdivide each common share on the basis of three common shares for each issued and outstanding common share;

(v) impose additional restrictions on the issuance and transfer of our voting shares in order for us to retain our status as a “Canadian” corporation under the *Canada Transportation Act*, S.C. 1996, c. 10 (the “*Canada Transportation Act* ”);

(vi) create an unlimited number of Class A Variable Voting Shares (the “Variable Voting Shares”) and an unlimited number of Class B Voting Shares (the “Voting Shares”); convert each issued and outstanding common share which is not owned and controlled by a Canadian under the *Canada Transportation Act* into one Variable Voting Share; convert each issued and outstanding common share owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Voting Share; cancel each issued and outstanding common share so converted; cancel the unissued common shares of Transat and substitute thereto, with the required adaptations, the Variable Voting Shares and the Voting Shares for the purpose of exercising all rights of subscription, purchase or conversion relating to the common shares so cancelled; and supersede prior restrictions on the issuance and transfer of our voting shares stated in (v) above; and

(vii) amend its Articles by filing articles of arrangement in order to adjust the current restrictions on the issuance and transfer of shares of public airline companies for Transat to retain the status of “Canadian” corporation, following royal assent received on May 23, 2018 of the *Transportation Modernization Act*, S.C. 2018, c. 10 (the “*Transportation Modernization Act*”), which amended the definition of “Canadian” provided in the *Canada Transportation Act* in order to raise the threshold of voting interests in an air carrier that may be owned and controlled by non-Canadians while retaining its status of “Canadian” corporation, while also establishing specific limits related to such interests.

Since November 16, 2015, the Variable Voting Shares and the Voting Shares trade on the TSX under a single ticker designated “TRZ”, bearing CUSIP number 89351T401, which shares are designated for purposes of trading on the TSX and reporting in brokerage accounts under the single designation “Voting and Variable Voting Shares” of Transat.

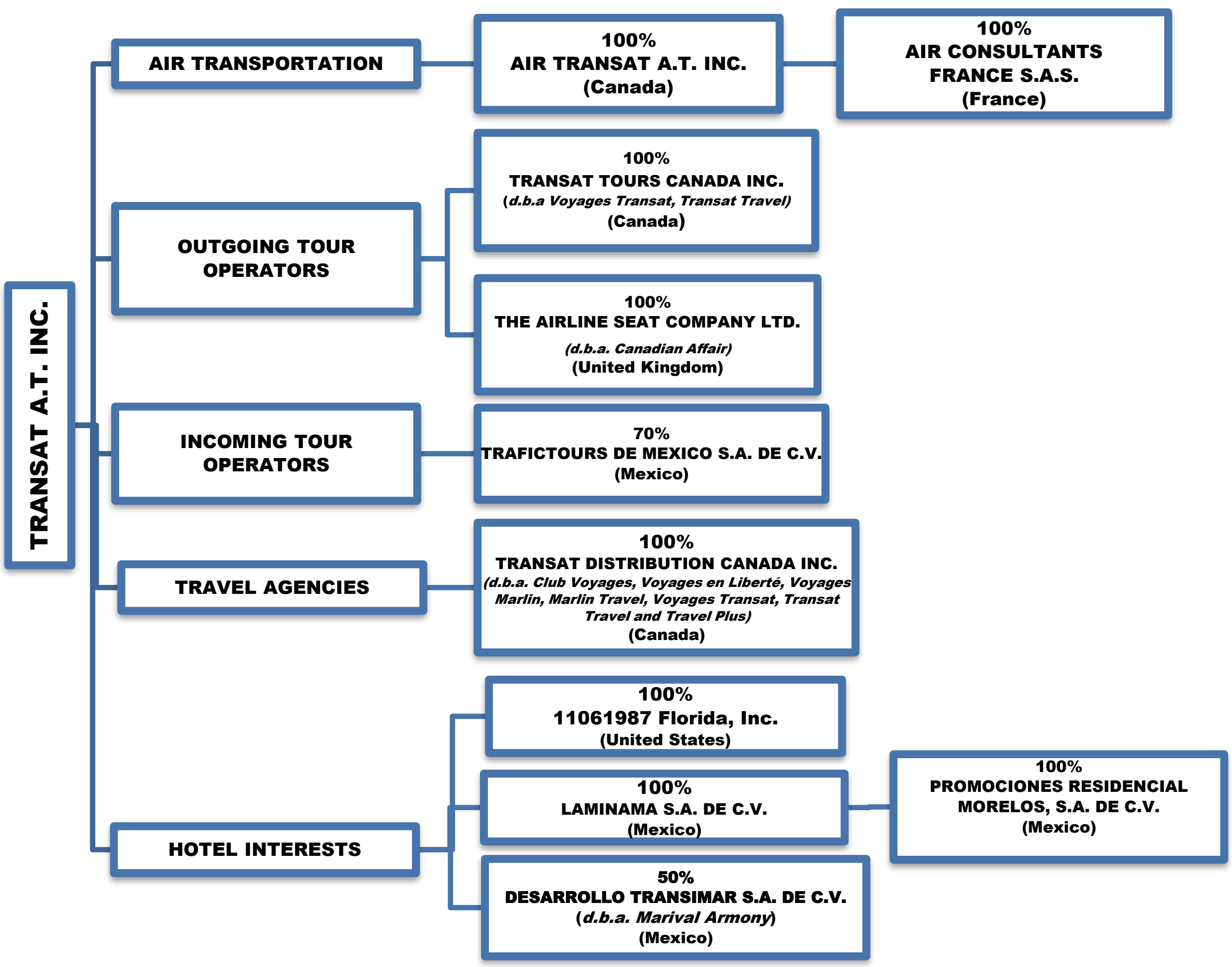
On August 23, 2019, Transat’s shareholders approved an Arrangement Agreement with Air Canada, under which Air Canada is to acquire all of Transat’s issued and outstanding shares. On October 9, 2020, a new arrangement agreement with revised conditions was signed and replaced the previous agreement (the “Revised Arrangement Agreement”). If this new arrangement agreement is approved by the shareholders on December 15, 2020, the regulatory approvals are obtained, the other conditions are satisfied and the transaction takes place, Transat’s business will be integrated into Air Canada’s strategic plan. Meanwhile, the Corporation has continued to implement its plan, but has slowed down investment in hotel development. The Corporation has continued its cost reduction and service enhancement efforts, as well as to maintain its ability to fully implement its plan should the transaction not close.

Copies of the Revised Arrangement Agreement dated October 9, 2020 and the Arrangement Circular dated November 12, 2020 are available on SEDAR at www .sedar.com.

Transat’s head office is located at Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Québec, Canada H2X 4C2.

1.2 INTER-CORPORATE RELATIONSHIPS

The following chart sets out our corporate structure. We have omitted certain subsidiaries, each of which represents not more than 10% of our consolidated assets and not more than 10% of our consolidated operating revenues, and all of which, in the aggregate, represent not more than 20% of our consolidated assets and not more than 20% of our consolidated operating revenues.



2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists of tour operators, traditional and online travel agencies, destination service providers, hotel operators, and air carriers. Each of these subsectors includes companies with different operating models.

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets through travel agencies or via the Web. Incoming tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground, maritime or flight transfers between airports and hotels or ports and hotels. Travel agencies, operating independently, in networks or online, are distributors serving as intermediaries between suppliers and consumers. Hotel operators sell accommodation, on an all-inclusive basis or not, either directly, through travel agencies or through tour operators. Air carriers sell seats through travel agencies or directly to tour operators that use them in building packages, or directly to consumers.

2.2 CORE BUSINESS, VISION AND STRATEGY

2.2.1 Core Business

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

2.2.2 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.

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, partners, or governance, will remain a key part of Transat's strategy.

On August 23, 2019, Transat's shareholders approved an Arrangement Agreement with Air Canada under which Air Canada is to acquire all issued and outstanding shares of Transat. On October 9, 2020, a new arrangement agreement with revised conditions was signed to replace the previous agreement. If this new Arrangement Agreement is approved by the shareholders on December 15, 2020, the regulatory approvals are obtained, the other conditions are satisfied and the transaction takes place, Transat's business will be integrated into Air Canada's strategic plan. Meanwhile, the Corporation has continued to implement its plan, but has slowed down investment in hotel development. The Corporation has continued its cost reduction and service enhancement efforts, as well as to maintain its ability to fully implement its plan should the transaction not close.

By dramatically disrupting airline and travel businesses, the COVID-19 global pandemic has forced Transat to focus on adapting to the situation in the short term by targeting cost reduction and cash preservation. At the same time, Transat has nonetheless strived to move forward with parts of its strategic plan where possible, and to best position itself for recovery when demand picks up.

Accordingly, for fiscal 2021, Transat has set the following objectives and performance drivers:

- Obtain the regulatory authorizations necessary to close the transaction with Air Canada, operate in full compliance with the conditions set by Air Canada, and if applicable, complete the transaction;
- Continue efforts to reduce costs, preserve cash and tailor the offering to the volatile situation triggered by the COVID-19 pandemic;
- Maintain intact the capacity to operate independently and develop a medium to long-term post-COVID-19 recovery plan;
- Secure the long-term financing required for that purpose;
- Continue to resize the company in terms of fleet, workforce, installations and resources in line with the plan in the medium and long term; and
- Redefine the financial structure of the hotel chain based on the new economic environment.

2.3 REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2020

The main objectives and achievements for fiscal 2020 were as follows:

- **Obtain the regulatory authorizations necessary to complete the transaction with Air Canada, while maintaining its capacity to operate independently .**

Since the approval of the initial Arrangement Agreement with Air Canada by the shareholders on August 23, 2019, Transat has made every effort, in cooperation with Air Canada, to obtain the regulatory approvals required to complete the transaction.

The COVID-19 pandemic and the deeply disruptive impacts it had on the market has made the assessment of the transaction by the authorities more complex, creating delays in their analysis process. Accordingly, Transat has used all the deferrals available in the 2019 Arrangement Agreement to take the time required to obtain the approvals before the outside date. Finally, the new Arrangement Agreement postponed the outside date from December 27, 2020 to February 15, 2021. Efforts are currently underway to obtain the approvals before this final date. Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the Arrangement Agreement). If Air Canada does not come to an agreement with the regulatory authorities and obtain the required approvals before the outside date of February 15, 2021, the arrangement agreement may be terminated in accordance with its terms.

At the same time, Transat has taken the necessary measures to maintain its capacity to operate as an independent company, particularly by continuing to improve its cost structure and profitability and by ensuring to retain the key employees required in such eventuality. In the specific context of the pandemic, Transat has made sure to preserve its cash position by taking a series of measures aimed at reducing or deferring its expenses, such as temporarily laying off a significant number of employees (up to 85% at one point in time), reducing management salaries, negotiating with aircraft lessors and building owners as well as with important suppliers, issuing travel credits for cancelled flights, and arranging for additional financial sources.

- **Improve financial performance .**

Up to mid-March, Transat continued its efforts to reduce costs and improve performance building on the measures initiated in previous years. These efforts were beginning to pay off, as the results recorded at the end of February put the Corporation on track to return to profitability for the winter season for the first time in many years.

As of mid-March, restrictions on international travel, government-imposed quarantine measures and, more generally, the fear of the pandemic made it very difficult to sell travel, to the point that the Corporation had to completely suspend operations from April 1 to July 22. Accordingly, efforts were focused on preserving cash using the measures discussed in the previous paragraphs.

- **Optimize flight programs in order to maximize revenues and profitability, including increased network density, fleet utilization and connectivity .**

While efforts in this respect continued at the beginning of the year according to the course set in previous years, since the outbreak of the pandemic, they have been focused on adapting the program in real time to the changing situation, based on travel restrictions, quarantine measures and observed demand .

- **Continue the transformation of revenue management practices and increase the revenue per unit.**

The efforts to transform revenue management practices continued at the beginning of the year, contributing to improved performance early in the year with the adjusted operating income until the beginning of March 2020 up $63.3 million compared with 2019, due to a significant improvement in the profitability of the sun destinations program, our main program during the winter season.

The situation since the beginning of the pandemic makes any comparison with prior results meaningless.

- **Continue cost control and cost reduction initiatives .**

The COVID-19 pandemic has forced Transat to take urgent and drastic cost reduction and cash preservation measures that far exceeded those that would have been implemented under normal circumstances. The effectiveness of these measures enabled the Corporation to very quickly reduce its cost base and improve its resilience to the crisis.

Some of these measures consisted in accelerating the implementation of previously planned actions. In particular, the pandemic allowed Transat to accelerate the transformation of its fleet by retiring its wide-body Airbus A310s, narrow-body Boeing 737s and certain Airbus A330s earlier than expected and retaining only Airbus A330s and Airbus A321neoLRs, deliveries of which continued during the period .

- **Continue to increase our share of direct distribution .**

The situation since the beginning of the pandemic makes any comparison with prior results meaningless .

- **Continue to improve the customer satisfaction and maintain a favourable brand perception.**

The first quarter results show that the improvement in customer satisfaction seen in previous years has continued.

Since introducing the new A321neoLRs, satisfaction rates of customers flying on these aircraft have been particularly high, an aspect that Transat intends to capitalize on in the future when this aircraft will play a more prominent role in its fleet.

Results measured following the resumption of operations on July 23 show an even higher level of satisfaction, including a significant increase in the Net Promoter Score. This shows, among other things, that the Traveller Care program implemented to reassure customers they can travel with Transat and have peace of mind in the specific context of the pandemic was well received.

Some negative perceptions may have been caused by the decision to issue travel credits for customers whose flights had to be cancelled due to the pandemic and government travel restrictions, but Transat remains confident in its brand's attractiveness.

- **Maintain the satisfaction and engagement of our teams and encourage retention.**

Despite the extraordinary circumstances, many efforts were made to maintain the commitment and retention of the teams that were very actively involved in managing the crisis, most of whom worked from home, as well as to preserve relationships with employees who were temporarily laid off.

Special attention was given to communication, notably through video-conferences including Q&A sessions with the senior executives for all staff. Training sessions on working from home and stress management have also been implemented.

The use of the CEWS to allow employees who wished to opt for a leave of absence with partial salary continuance in lieu of a layoff also helped to maintain commitment.

Finally, the retention plan put in place as part of the transaction has resulted in a voluntary departure rate among employees identified as key resources and covered by the plan that is significantly lower than in the population as a whole, providing Transat with the skills it needs to relaunch operations after the pandemic.

2.4 ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

CASH	CREDIT FACILITIES
Our balances of cash and cash equivalents (not held in trust or otherwise reserved) totalled $426.4 million as at October 31, 2020.	For operational purposes, we can also rely on, among other resources, a $50.0 million revolving term credit facility and a $250.0 million subordinated short-term credit facility maturing on March 31, 2021. Should the transaction with Air Canada not be completed, the Corporation will have to put in place overall financing totalling approximately $500.0 million in 2021 to ensure continuity of operations. Section 7 *Financial position, liquidity and capital resources* of the MD&A and note 2 to the consolidated financial statements contain more detail on this issue.

Our non-financial resources include:

BRAND	STRUCTURE	EMPLOYEES	SUPPLIER RELATIONSHIPS
The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.	Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency.	Our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. In addition, we believe that the Corporation has strong management.	We have exclusive access to certain hotels at sun destinations as well as over 30 years of privileged relationships with many hotels at these destinations and in Europe.

Subject to obtaining the additional financing as provided in Section 7 *Financial position, liquidity and capital resources sources* of the MD&A and in note 2 to the consolidated financial statements, Transat has the resources it needs to meet its 2021 objectives and continue building on its long-term strategies.

2.5 SIGNIFICANT FINANCING TRANSACTIONS

As at December 11, 2020, the Corporation had several types of funding, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

On October 9, 2020, the Corporation amended its $50 million revolving credit facility agreement for operating purposes. The amended agreement, which expires in 2022, may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at October 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until January 30, 2021 and $50 million was drawn down under this credit facility.

On October 9, 2020, the Corporation entered into a $250 million subordinated short-term credit agreement for operating purposes. Under the agreement, which expires on March 31, 2021, or becomes immediately due in the event of a change of control, drawdowns may be made until February 28, 2021 in the form of bankers' acceptances or bank loans, in Canadian dollars, subject to certain conditions, including certain cash and cash equivalent requirements before and after a drawdown under the credit facility. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate, plus a premium. As at October 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until January 30, 2021 and the credit facility was undrawn.

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 October 31, 2020, $60.3 million had been drawn down under the facility, of which $56.3 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.

Moreover, the Corporation also has a guarantee facility renewable in 2021. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $35.0 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 October 31, 2020, $22.8 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £3.3 million ($5.6 million), which has been fully drawn down.

As at October 31, 2020, the off balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $414.3 million compared with October 31, 2019. This decrease resulted primarily from the addition of four Airbus A321neoLRs to our fleet in 2020, the revision of rents to be paid and the payments made in connection with our seasonal fleet during the period, partially offset by the weakening of the dollar against the U.S. dollar.

3. THREE-YEAR HISTORY

You will find information concerning the business and other key events that have occurred in the three most recent financial years under the heading "Development of the Business" and "Description of our Business". For more information, we refer you to the section "Core Business, Vision and Strategy" above and to the sections "Business Acquisition" and "Disposal of a Subsidiary" of the Management's Discussion and Analysis of our 2020 Annual Report available for consultation on SEDAR (www.sedar.com).

4. DESCRIPTION OF OUR BUSINESS

The data contained in this section are estimates of our capacity and competitive positioning and are based on our knowledge of the relevant industry segments. Being a vertically integrated business, we have determined that Transat conducts its activities in a single industry segment, namely the holiday travel segment, and operates in one geographic area, now that our tour operators in France and Greece have been sold. We recorded $1,302.1 million in revenues for fiscal 2020, compared to $2,937.1 million for fiscal 2019.

4.1 TOUR OPERATORS

Transat acts as an outgoing tour operator through its subsidiary Transat Tours Canada Inc. and its brands Transat and Air Transat, as well as through its European subsidiaries, Air Consultants France S.A.S. and The Airline Seat Company Limited.

Trafictours de Mexico S.A. de C.V., Turissimo Caribe Excursiones Dominican Republic, C. por A. and Caribbean Transportation Inc. operate as incoming tour operators in Mexico, Barbados, the Dominican Republic and Jamaica. On November 30, 2017, Transat closed the sale of its Canadian incoming tour operator Jonview Canada. For more information on this transaction, see "Hotel Activities" below.

Each of these tour operators operates in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by our vertical integration strategy.

4.1.1 Products of Transat Tours Canada Inc.

Transat Tours Canada Inc. ("Transat Tours"), which is the core business of our Canadian operations, operates under two brand names, Transat and Air Transat. It integrates Air Transat's commercial activities and commercializes and sells its travel products to vacation destinations located in North America, Central America, South America and Europe. We offer two main types of products to meet customer needs, namely, travel packages departing from Canada and seats in all of the markets served by Air Transat. Moreover, Transat Tours also offers seats to and from various Canadian cities. All of these products are essentially available through travel agency networks and online.

Transat Tours markets sun destinations primarily through a package formula. It also offers four exclusive collections, namely the Solo, Family, Distinction and Luxury collections, each of which features a selection of hotels and advantages perfectly suited to every type of consumer. Moreover, Transat also offers Duo packages, including a brand new one in Puerto Rico, that combine two regions on one trip.

In winter 2019-2020, Transat Tours offered packages to Florida, Mexico, South America, Central America, the Caribbean, Louisana, Spain and Portugal. Transat offered a selection of close to 700 hotels, including more than 25 new locations and 30 or so exclusive locations as well as home rentals, hotel appartments and condominiums including numerous excursions and circuits to Cuba, to Costa Rica and to Panama.

Transat Tours also offered an extensive cruise program in the Caribbean with more that 65 itineraries, 23 ships and 8 destination ports. This unique turnkey vacation package formula, which included the cruise, Air Transat flight and transfer fees, made booking easier and more accessible.

Also in winter 2019-2020, Air Transat offered direct flights to more that 33 sun destinations, including a new direct flight from Montreal to New Orleans, and many European destinations from 13 Canadian cities.

However, on March 18, 2020, due to the negative effect of the COVID-19 pandemic on the tourism industry, Transat Tours was forced to announce the temporary suspension of its operations starting on April 1, 2020. This temporary suspension was extended until July 23, 2020, the official date on which its operations resumed.

For the 2020 summer season, Air Transat offered flights for 12 European destinations (Athens, Bordeaux, Glasgow, Lisbon, London, Lyon, Nantes, Manchester, Marseille, Paris, Porto, Rome and Toulouse), three Sun destinations (Cancun, Haiti and Punta Cana) as well as a domestic flight program (between Calgary, Montreal and Vancouver). Throughout the summer, flight frequencies to these destinations fluctuated depending on the demand.

During this period, Transat also offered vacation packages to Sun destinations as well as to Europe. As a result of the COVID-19 pandemic, Transat was also forced to suspend, until further notice, the sale of all cruise and circuit packages.

4.1.2 Products of The Airline Seat Company Limited

The Airline Seat Company Limited, which sells under the Canadian Affair brand, has been wholly owned by Transat since August 1, 2006. The UK-based entity also manages the activities of Air Transat in the UK and Ireland.

Canadian Affair is the UK's largest single destination tour operator to Canada and its flight-only business is focused on Air Transat's flight program. It offers tailor-made holidays in Canada, distributing directly to the consumer, and, more recently, through travel agencies in the UK. Canadian Affair is focusing its business on tour operating, selling holidays to Canada packaged with both Air Transat or third-party airline flights, through an online call centre at canadianaffair.com. Working closely with its suppliers and inbound/ground operators, its product offering continues to develop to bring more packaged tours into its product range allowing customers to carefully select their holiday to Canada. Over the last three years, Canadian Affair has been named Best Canadian Tour Operator at the British Travel Awards.

For the Air Transat brand, there is a dedicated sales team to drive B2B commerce sales and a marketing team to drive B2C e-commerce sales, ensuring messages are relevant, timely and on point for the local market, whilst at all times working closely with Transat to ensure brand consistency. The airline's websites airtransat.co.uk and airtransat.ie have been promoted with greater prominence in the UK and Ireland, as UK and Irish consumers are accustomed to checking airline websites, where they believe they will find the most competitive prices. Direct online sales in the UK account for about 70% of all UK air-only flight sales.

Electronic retail sales represented 75% of Transat's sales revenue in the UK (Air Transat 50% and Canadian Affair 25%), while sales made via travel agencies represented the remaining 25%. Transat has developed strong partnerships within the tourism industry (group tour operators, independent agents, online travel agencies (OTAs) and chains) in the UK and its strategic plan is to maintain a healthy balance between B2C e-commerce sales and B2B commerce sales.

4.1.3 Air Consultants France S.A.S.

Air Consultants France S.A.S. ("ACF") was created on March 4, 2016, to provide continuity of Air Transat's commercial representation in France following the October 2016 sale of the Transat France subsidiary to TUI AG. In that regard, ACF sees to the commercial representation of Air Transat for flights departing from France, but also departing from Belgium, the Netherlands and Switzerland on the French, Belgian, Swiss, Dutch and German markets.

ACF is primarily made up of three teams: the commercial team, customer service team and marketing, electronic commerce and communications team. The commercial team is responsible for developing sales through travel agencies, OTAs ("Online Travel Agents"), tour operators and group travel specialists. The customer service team provides support to travel agents and tour operators (tariff-setting, emissions) and also exclusively sells Air Transat plane tickets. For its part, the marketing, electronic commerce and communications team is responsible for implementing the marketing strategy determined by the Canadian head office, internal and external communications, electronic trade and managing Air Transat's websites in France, the Netherlands, Belgium, Germany and Switzerland. This team manages the commercial and digital marketing budgets allocated by the Corporation. Moreover, for markets outside of France, ACF has, with the support of Aviareps, a general sales agent that has assigned one member its personnel to work 60% of their hours for Air Transat. This individual, who reports to the president of ACF, oversees business sales development and is based in Amsterdam.

4.1.4 Products of Trafictours Canada Inc.

Transat owns 70% of the shares of Trafictours Canada Inc. ("Trafictours"), which is doing business as an incoming tour operator in Mexico, the Dominican Republic, Jamaica and Barbados. The Corporation and Gesmex Corporation are parties to a service agreement pursuant to which Gesmex Corporation provides management services to Trafictours and its subsidiaries. Thus, in conjunction with Gesmex Corporation, Transat is ensuring a better quality of service and provides more efficient operational and financial controls with respect to Trafictours. As a minority shareholder of Trafictours, Gesmex Corporation may require the Corporation to redeem the shares it holds, in the event that the said management agreement is not renewed after January 31, 2020, according to a predetermined formula. Please refer to note 9, under "Non-controlling interests", in our Management's Discussion and Analysis for the year ended October 31, 2020, which you can find on SEDAR (www.sedar.com).

4.1.5 Hotel Activities

Over the past few years, Transat has realigned its activities around three strategic sectors: aviation, distribution and the hotel industry. The creation of the hotel division and the purchase, at the end of 2018, of the first two lots in Puerto Morelos, Mexico, for the construction of an oceanfront hotel, are the result of our efforts to develop the hotel sector as one of the Corporation's strategic divisions. In 2019, in connection with the Arrangement with Air Canada, the Corporation has agreed to limit its commitments and expenses related to the implementation of its hotel strategy during the period leading up to the closing of the transaction. Consequently, the Corporation focused on the several elements related to the pre-construction stages, more specifically on obtaining the construction and environmental permits and on advancing the architectural plans, so that the project could be restarted. Meanwhile, we established a management subsidiary in the United States, started to assemble the management team, and defined the brand and type of product for our future hotel resort.

4.1.5.1 Marival Armony (formerly Rancho Banderas)

On April 3, 2017, Transat purchased from a third party a 50% interest in Hotel Rancho Banderas, located in Punta de Mita in Mexico. Through a wholly owned subsidiary, Transat is a co-shareholder, along with a subsidiary of Gesmex Corporation, in Desarrollo Transimar, S.A. de C.V. ("Desarrollo Transimar"). Gesmex Corporation is also a shareholder of Trafictours Canada Inc. Following an expansion completed in 2018, the hotel currently consists of 264 rooms. In the context of this transaction, Transat and Gesmex, and their respective subsidiaries, have entered into a shareholder agreement providing for a call option in the event of a change of control, as defined in the agreement. Under the agreement, the parties have granted each other the right to purchase or sell, as the case may be, their entire interest in Desarrollo Transimar. The parties have agreed that the exercise price of such right to purchase or sell the other party's interest in Desarrollo Transimar shall be equal to the fair market value of such interest.

4.2 TRAVEL AGENCIES AND DISTRIBUTION

In Canada, we distribute our products in part through our own network of wholly owned, franchised or affiliated retailers. We are the largest retail distributor of holiday travel products in Canada, with 325 outlets, of which 48 are wholly owned, 144 are franchised and 133 are affiliated and do business under the Club Voyages, Marlin Travel/Voyages Marlin, Voyages en Liberté, Transat Travel/Voyages Transat and TravelPlus banners or affiliation programs.

In June 2013, we launched a new travel agency concept under the Transat Travel banner. To date, 43 of our wholly-owned agencies carry out their activities under this name.

We have also developed and implemented an external agent program that extends the scope of our wholly owned agencies under the Voyages Transat/Transat Travel banner.

We operate our travel agency networks in Canada as one business unit by taking advantage of a common administrative system for all our corporate-owned agencies across the country, and by combining our purchasing power.

4.3 AIR TRANSPORTATION

4.3.1 Transat's Fleet Strategy

Transat constantly stays abreast of the latest trends that will allow it to serve its two leisure markets (namely sun destinations with departures from Canada and the transatlantic program with departures from Canada and Europe) by offering the best prices and best aircraft available. To that end, Air Transat, Transat's airline company, relies on a mixed fleet of wide- and narrow-body aircraft. In fiscal 2017 and 2018, Air Transat entered into a 12) year agreement with AerCap Holdings N.V. for the leasing of fifteen (15) Airbus A321neo LRs and two (2) Airbus A321neos scheduled to be delivered between 2019 and 2022, which agreement has since been amended to convert the last two aircraft into long range aircraft. The Airbus 321neo LR is the latest long-range version (LR) of Airbus A321neo (New Engine Option) in the single-aisle jetliner segment. Six (6) out of seventeen (17) Airbus A321neo LRs are presently part of Air Transat's fleet.

As at October 31, 2020, Air Transat's core fleet is composed of thirty-three (33) aircraft, including twenty (20) long-haul wide-body aircraft, and thirteen (13) narrow-body aircraft:

TYPE OF AIRCRAFT	NUMBER				COMMENTS
	WINTER 2019	SUMMER 2019	WINTER 2020	SUMMER 2020	
			LONG-HAUL		
A330	15	20	20	20	As part of its flexible fleet strategy, Air Transat leased 4 A330-200s to Thomas Cook Airlines Limited(1) and 1 A330-200 to Czech Airlines in the winter of 2019 under agreements that have since lapsed. For further information on Air Transat's A330 fleet see the table on page 21 of this AIF.
A310	6	6	3	0	All A310s have now been phased out of Air Transat's fleet.
A321 neoLR	2	2	3	6	The first two A321neo LRs were delivered in May and June 2019. The third A321neo LR was delivered in February 2020 and three others in June and July 2020. Out of the 10 aircraft yet to be delivered, three are currently expected in the first half of 2021, with the remaining aircraft scheduled to be delivered in 2022 and 2023.
TOTAL CORE FLEET	**23**	**28**	**26**	**26**	
			MEDIUM-HAUL		
A321 ceo	2	4	4	4	Addition of two aircraft in the winter of 2019, increasing the total number of this type of aircraft from 2 to 4.
As part of its plan to reduce its fleet in anticipation of a reduced demand for travel post-COVID-19, Air Transat has reached an agreement with its lessors for the early termination of the leases and return of four of its five B737-800 aircraft. These	5	5	5	3	

TYPE OF AIRCRAFT	NUMBER				COMMENTS
	WINTER 2019	SUMMER 2019	WINTER 2020	SUMMER 2020	
agreements also allow the airline to accelerate its transition towards an all-Airbus fleet. As of October 31, 2020, two aircraft had been returned. A third aircraft was returned in November 2020 and a fourth aircraft is in the process of being returned.					
TOTAL CORE FLEET	**7**	**9**	**9**	**7**	
Lease A320-321ceo	10	-	8	3	For the winter of 2019, the aircraft were leased from Thomas Cook Airlines Limited or Condor in accordance with the master agreement between Air Transat and Thomas Cook Group Airlines Limited (now null and void[1]). Two A321-211s were leased from Condor with pilots pursuant to the same agreement during the same period. For the winter of 2020, eight replacement aircraft were sourced from alternate lessors and operators following the demise of Thomas Cook. Five of these aircraft were leased only for the winter period while three of them were leased for a longer term of 17 to 18 months, which is why noted under Summer of 2020. With the termination of the master agreement with Thomas Cook and the onset of COVID_19, Transat is no longer seeking any seasonal aircraft going forward.
Lease B737-700/800	12	1	5	-	These aircraft were leased during the winter of 2019 pursuant to the long-term seasonal leasing agreements entered into with each of Transavia (5), ASL Airlines France (4 3) and Smartwings (4), 2 of which were operated by Smartwings on behalf of Air Transat pursuant to a wet lease. One of the aircraft leased from ASL Airlines France was exceptionally extended during the summer of 2019. During the winter of 2019, Air Transat supplemented the eight A321-211 aircraft leased to replace the ones that would have normally been leased from Thomas Cook with five B737-800 that were wet leased from Smartwings. Given the natural expiry of said seasonal agreements, Transat's transition towards an all-Airbus fleet and the onset of COVID-19, Transat does not expect to import any B737-800 going forward.
TOTAL – SEASONAL FLEET	**22**	**1**	**12**	**3**	
TOTAL - FLEET IN OPERATION	**52**	**38**	**47**	**36**	

(1) Thomas Cook Group plc and its companies were liquidated, such that the group's UK airline company ceased its operations on September 23,2019.

As of April 1, 2020, Air Transat has completed the phase out of all six (6) Airbus A310-300 aircraft in its possession. The replacement of the Airbus A310s by Airbus A321neo LRs is true to Transat's plan, announced in April 2013, to deploy a so-called “flexible fleet” that enables it to adjust the number of medium-haul and long-haul aircraft at its disposal according to seasonal tourism market needs. In short, Transat has a greater need for narrow-body aircraft in winter, when Canadian leisure travellers favour sun destinations, and greater need for wide-body jets in summer, when the transatlantic program is busiest. The addition of A321neo LR aircraft optimizes the flexible fleet while continuing to cover Transat’s network efficiently and economically. In addition to the A330s already deployed on our high-demand sun destinations, the A321neo LRs, combined with the A321-211s, will be able to fly to sun destinations such as Mexico, the Caribbean and Florida. However, the A321neo LRs, combined with the A330s, can also be deployed for transatlantic connections, which will allow us to maximize the use of this aircraft for the entire year throughout Transat’s destination network. Indeed, the A321neo LR can travel 4,000 nautical miles (7,400 km), the longest range of all single-aisle aircraft. The size of the A321neo LR, which can carry 199 passengers with an option to travel Club (12 seats) or Economy (187 seats), will give Transat greater flexibility in terms of the commercialization and frequency of flights, whereas the aircraft’s low fuel consumption will keep the cost per seat low while reducing the air carrier’s carbon footprint.

Air Transat will continue to deploy its long-haul aircraft mainly on the transatlantic program and high-demand sun destinations markets.

Prior to the onset of the COVID-19 pandemic, in addition to relying on Air Transat’s core fleet of aircraft, Transat had given itself the option of increasing its number of medium-haul aircraft in the wintertime. In the context of its strategy to deploy a flexible fleet, Transat had entered into stable but flexible agreements in 2014 with several European airlines companies (including Transavia France, the French air carrier specialized in the pleasure travel products of Air France/KLM Group, ASL Airlines France and the Czech company Smartwings (formerly Travel Service) for the seasonal leasing of Boeing 737s, in order to complete, during the winter, Air Transat’s five B737-800 aircraft that were then part of its core fleet. During the winter of 2019, which was the last season governed by these seasonal leasing agreements, Air Transat operated 17 B737s and 21 wide-body aircraft (Airbus A310s and A330s), three (3) of which were used as support aircraft. In comparison, Air Transat operated six (6) B737s, four (4) A321s, two (2) A321neo LRs and 26 wide-body aircraft in the summer of 2019. The agreement with Smartwings also provided for the leasing of an Air Transat’s A330-200 aircraft to Smartwings for the winter seasons of 2017, 2018 and 2019, since Air Transat needs less long-haul aircraft during that time of year.

During the winter of 2019, Air Transat operated ten (10) A321-211s leased from Thomas Cook Group Airlines (hereinafter “Thomas Cook”), eight of which had been leased without crew while the remaining two were operated with pilots by Condor, Thomas Cook’s German airline, on behalf of Air Transat. Conversely, during the same period, Thomas Cook operated four A330-200s leased from Air Transat without crew. All of these aircraft leases by both companies had occurred pursuant to a seven-year master agreement between Air Transat and Thomas Cook, which provided for the exchange of at least one (1) wide-body Airbus A330-200 and from four to fifteen Airbus A321s every winter starting in the winter of 2018. With the introduction of the A321neo LRs in 2019 and 2020, the master agreement between Thomas Cook and Air Transat was meant to support Air Transat’s transition towards a fleet entirely comprised of Airbus aircraft, by allowing for the replacement of the seasonal B737s with aircraft of the A320 family.

However, while Air Transat was preparing for its winter 2020 season, Thomas Cook Group plc and its affiliated companies were liquidated, resulting in the UK airline company of the group ceasing its operations on September 23, 2019. This turn of events forced Air Transat to terminate its master agreement with Thomas Cook, effective immediately, and begin searching for alternative aircraft to replace the ten (10) A321-211s that Transat was initially supposed to obtain from Thomas Cook to meet its seasonal needs. Air Transat was able to secure eight (8) aircraft, including six aircraft leased from Air Lease Corporation, a leasing company based in California, and two aircraft leased from Smartlynx, an airline company based in Latvia. In addition to these, five B737-800 aircraft, which will be operated by Smartwings on behalf of Air Transat pursuant to a a wet lease agreement, were added during the course of the winter of 2020. Most of these aircraft were operated until the end of the winter of 2020, except for three aircraft leased from Air Lease Corporation, which will remain in Air Transat’s fleet until the end of the 2021 winter season.

A key element of Transat's now fully implemented "flexible fleet" strategy is the dual qualification of its pilots. This initiative was deployed in 2014 with the introduction into its fleet of its first B737-800 aircraft, and became an integral part of its seasonal operations. As such, dual-qualified pilots can switch from operating either A310s (until the end of the winter of 2020) or A330s during the summer months, to operating A321s or B737s during the winter months, and then switch back to operating wide-body type jets the following summer. This operating method, which is unique to Air Transat, complies with regulatory requirements for training, while responding to commercial needs. It benefits Transat because it allows a significant reduction of the costs per seat/hour while creating permanent jobs and improving competitiveness. With the phase out of the A310, the introduction of the A321neo LRs and Transat's decision to gradually abandon the B737s to shift to A321s for its seasonal needs, Air Transat focuses on two types of aircraft only: A330s and A321s. Its pilots are therefore gradually being trained for aircraft in the A320 family. Ultimately, Air Transat will benefit from Airbus' cockpit commonality concept, allowing it to operate a mixed fleet ("mixed-fleet flying," or the possibility for one pilot to be qualified for different aircraft simultaneously). This will allow Air Transat to reduce its maintenance and training costs, among others, and to considerably simplify its operations.

As of October 31, 2020, it is expected that Air Transat's fleet for winter 2021, including its seasonal medium-haul aircraft, will be comprised of 31 aircraft, as described in the table below. However, the number of aircraft deployed in revenue service will be considerably lower in light of the current border closures, quarantine rules and anticipated reduced demand for travel due to COVID-19 and Transat will be adjusting its schedule from month to month based on its assessment of the prevailing situation :

TYPE OF AIRCRAFT	**NUMBER**		**COMMENTS**
	WINTER 2021	**SUMMER 2021**	
LONG-HAUL			
A330	15	15	In the winter and summer of 2021, Air Transat will have five less A330 aircraft in its fleet. As such, one A330-300 and one A330-200 will be returned to their respective lessors by virtue of the natural expiry of the leases. Moreover, as part of its plan to reduce its A330 fleet in anticipation of a reduced demand for travel post-COVID-19, Air Transat has an agreement with Aercap for the early termination of the leases and return of two A330-300 aircraft and is negotiating with the same lessor for the early termination of the leases and return of one A330-200. Given the continued border closures and quarantine rules due to COVID-19, Air Transat has entered into an agreement allowing for the long-term storage of one A330-200 aircraft and has power-by-the hour agreements in respect of eight A330-200s. Although such aircraft remain in Air Transat's fleet, these arrangements give the airline added flexibility to deploy aircraft during the winter and summer of 2021.
A310	0	0	All A310s were phased out from the airline's fleet as of April 1, 2020.
A321 neoLR	7	10	The 7th A321neo LR aircraft was delivered in November 2020. The 10 remaining aircraft are expected to be delivered by 2023, including three to be delivered by the spring of 2021.
TOTAL CORE FLEET	**22**	**25**	
MEDIUM-HAUL			
A321 ceo	4	4	

A321 neo	N/A	N/A	Air Transat converted the only two A321neo aircraft it had ordered into A321 neo LR aircraft.
B737-800	1	1	See our fleet table as at October on page 18 of this AIF.
TOTAL CORE FLEET	**5**	**5**	
Leased A321ceo	3	0	These aircraft are short-term leases* without crew, and they replace the aircraft that Air Transat is no longer able to obtain from Thomas Cook since the winding-up of the company in September 2019. *Aircraft are leased for a period of 17 to 18 months and will be returned to the lessor when the lease expires at the end of winter 2021.
Leased B737-800	N/A	N/A	In light of COVID-19 and in keeping with the transition towards an all-Airbus fleet, Transat no longer plans to import any B737-800s in the future.
TOTAL SEASONAL FLEET	**3**	**0**	
TOTAL CORE FLEET	**27**	**30**	

All these initiatives demonstrate our efforts to optimize capacity by scheduling flights more efficiently and increasing additional income sources. These efforts are accompanied by a diversification of the flights offered and an increase in flight frequency, both for the transatlantic program and for the sun destinations.

In the 2020 fiscal year, our airline Air Transat offered flights out of its principal bases in Montreal, Toronto and Vancouver, as well as some flights out of smaller Canadian cities. Air Transat holds licences issued by the Canadian Transportation Agency to operate regular flights between Canada and the following countries: the European Union (representing its 28 member states), Switzerland, the United States, Cuba, Jamaica, the Bahamas, Mexico, Panama, Costa Rica, Barbados, Nicaragua, Colombia, Antigua and Barbuda, St. Lucia, El Salvador, the Netherlands Antilles, the French West Indies, the Dominican Republic, Israel and Haiti.

During the 2020 winter season, we served 33 sun destinations in 12 countries. Transat has effectively added the city of New Olreans to its portfolio of sun destinations, which it continues to expand by adding new routes.

In the summer, we normally shift most of our capacity to the transatlantic program, while maintaining some flights to sun destinations. In the summer of 2019, Air Transat served 25 European destinations in 12 countries. In addition to its offering of direct flights, Air Transat enhanced its connecting flight program to make even more destinations accessible from various Canadian cities. Transat also keeps offering so-called open-jaw options, which allow customers to land in one European city and take off from another. Going forward, Air Transat will continue expanding its transatlantic program by enhancing its flight program, notably through increasing the frequency of direct flights, adding connecting flights and inaugurating new city pairs, all with a view to offering travellers even more choices and flexibility.

After the World Health Organization declared COVID-19 a pandemic on March 11, 2020, Transat wrapped up its winter 2020 program and repatriated its passengers as travel restrictions and border closures were being implemented worldwide. It also decided to temporarily suspend its flight operations from April 1 to July 22, 2020, inclusively, such that the Summer 2020 program was never deployed as planned pre-COVID-19. While Air Transat resumed its flight operations as of July 23, 2020 to a limited number of destinations, it had to further reduce flights due to the continued travel restrictions, which to this day include border closures and quarantine rules and, consequently, a significant decline in demand for travel. For the time being, Transat continues to monitor the situation and adjust its flight schedule, with a view to increasing capacity as soon as the situation allows.

Since the onset of COVID-19, Transat has worked and continues to work with its commercial partners and suppliers and especially with its aircraft lessors, in order to defer aircraft rent payments and adjust its fleet size to adapt to the crippled demand while the pandemic is ongoing and reduced demand for travel post-COVID-19. As at

October 31, 2020, Air Transat has negotiated agreements with several lessors for the early return of two A330-300 and one A330-200 aircraft and four B737-800 aircraft. This is in addition to one A330-300 and one A330-200 aircraft that will be returned during the winter of 2020 when the lease expires and one A330-200 that will remain in long-term storage until the expiry of its lease in late 2021. While the early return of B737-800 was facilitated by COVID-19, it is in keeping with Air Transat's transition to an all-Airbus fleet. Lastly, Transat has secured power-by-the-hour arrangements for eight A330-200 aircraft in its fleet with a possibility to increase flexibility as COVID-19 continues to negatively impact the aviation industry. Transat will continue to negotiate other similar arrangements with its aircraft lessors.

Despite the COVID-19-related challenges facing the Corporation, we are continuing our efforts to optimize capacity through more efficient flight scheduling and increased ancillary revenues. We served approximately 2,280,000 passengers on Air Transat in fiscal 2020 compared to 5,300,000 passengers in fiscal 2019. The reduced number of passengers in fiscal 2020 is attributable to the suspension of our flights from April 1, 2020 to July 23, 2020, inclusively as a result of the COVID-19 pandemic and subsequent resumption of operations reduced to a bare minimum due to the various border closures and quarantine rules in place.

4.3.2 Maintenance, Inspections, Safety and Other Measures

Air Transat remains committed to continuous improvement of processes involving all aspects of its airline operations, the result of which is to offer quality service while optimizing resources with safety as the top priority. Over the last years, we have implemented a series of measures based on principles of safety and prevention that we completely support. These measures include, among others, a Safety Management System, which is a comprehensive program involving training, reporting of safety-related information from all areas of the Corporation as well as extensive auditing and data analysis. Air Transat's President and General Manager was appointed Chief Safety Officer ("CSO") responsible for the Air Transat Safety Management System, while the Senior Director, Safety, Quality and Security is responsible for the administration and day-to-day supervision of the Safety Management System on behalf of the CSO.

Air Transat was the first airline in the world to renew its IOSA certification (IATA Operational Safety Audit) under the new Enhanced IOSA methodology. Air Transat first obtained its initial certification under IATA's IOSA program on February 20, 2008. In 2011, IATA added new elements to the certification and introduced the Enhanced IOSA program, which involves ongoing internal assessment processes, to provide enhanced value and continuity of the audit process. At the request of IATA, Air Transat participated in the development of the new program, which became mandatory for IATA member companies in 2015. The IOSA certification obtained under the Enhanced IOSA methodology, which Air Transat obtained in 2013 and successfully renewed in 2015, 2017 and 2019, is the greatest recognition to date of the quality of our internal processes and is reflective of our commitment to ensure the safety of our operations.

In terms of cabin configuration, Air Transat's A330-200 aircraft have 345 seats, with the exception of eight (8) aircraft that were added to the fleet between 2016 and 2018, which have a 332-seat configuration. Three of Air Transat's four A330-300s were densified to 375 seats, while the fourth aircraft has 346 seats. These jets are deployed on the high-frequency city pairs that Air Transat operates between Montreal and Paris and between Toronto and Gatwick, which resulted in improved profit margins for these city pairs. All high density A330-300 aircraft will be returned to their lessor during the winter of 2020. All A330 aircraft in Air Transat's fleet include 12 seats in Club class. As for the B737-800 aircraft that are part of Air Transat's core fleet, they have 189 seats. The A321-211 aircraft that were added to Air Transat's fleet during fiscal 2018 currently have 190 seats, all in Economy. The six A321neo LRs currently operated by Air Transat have 199 seats, including 12 seats in Club class. The configuration will be identical in aircraft of this type that will be added to the fleet in the future. In terms of customer experience, all A330s and A321neo LRs are equipped with a mood-lighting system throughout the cabin and an in-flight entertainment system with a seat-integrated display.

We perform regular maintenance work and inspections on all aircraft of our fleet in accordance with aircraft maintenance procedures that meet and, in some cases, exceed Transport Canada's requirements. We carry an inventory of spare parts for our Airbus A330s, A310s and A321s and Boeing 737s. The six remaining A310s that were phased out of our fleet on April 1, 2020 are being parted out and the related spare parts inventory will be sold to third parties. We also carry an inventory of spare parts for our A321neo LRs ever since the first aircraft of this type was added to the fleet, given that eleven such aircraft were to be added to our fleet by the end of 2022 to supplement the six that are already in our fleet.

Despite the COVID-19 pandemic, we continue to comply with Transport Canada's requirements regarding maintenance, particularly where such requirements apply to the short- and long-term storage of aircraft.

4.3.3 Fuel Supply

Fuel costs represent a major component of our airline's operating expenses. The increase and constant fluctuations in the cost of fuel are a major concern for Transat given our industry's small margin. Our policy in this regard provides for the conclusion of derivatives to cover a portion of our fuel requirements. As at October 31, 2020, derivative instruments for the purchase of fuel covered 100% of our estimated requirements for winter 2021, compared to 41% of our estimated requirements for the following year as at October 31, 2019 and 44% as at October 31, 2018.

4.4 OUR EMPLOYEES

As at October 31, 2020, Transat and its subsidiaries had approximately 1,785 active employees and the average number of employees for fiscal 2020 was approximately 3,175.

On March 15, 2020, Transat and its subsidiaries had to temporarily lay-off a significant number of its employees due to drastic drop in business as a result of the COVID-19 pandemic. While its operations in Canada were suspended from April 1, 2020 to July 23, 2020, approximately 85% of its workforce was temporarily laid-off when the decline in business occurred. Transat nevertheless availed itself of the Canadian Employer Wage Subsidy ("CEWS") to allow its employees to remain on the payroll and be placed on leave with reduced pay instead of being temporarily laid-off. The majority of the affected salaried employees accepted this option.

Once Transat's operations resumed, it recalled approximately 1,000 employees. The percentage of Canadian employees on temporary lay-off or on leave with pay under the CEWS was 66%, representing 3,200 people. Due to the Canadian border closure, Transat again had to reduce its staff by approximately 400 employees the mandatory quarantine period imposed on travellers returning to Canada and fears of a second wave of the pandemic. Considering the statutory notice period for unionized employees, a large part of this reduction took effect in November.

Since March, approximately 250 people in Canada have voluntarily left the company and have not been replaced.

Otherwise, all salaried employees who could work from home were invited to do so, whereas the Corporation has put in place protective measures for employees who must work from the office, such as sanitation and social distancing. These measures have been widely and clearly communicated to the employees to avoid any contamination at work. As part of its "Protection Voyageur" program which promotes client safety, Transat has also taken measures to ensure flight crew safety.

For its foreign subsidiaries, Transat has implemented similar measures relating to temporary lay-offs and partial unemployment, if available, or terminations if this was not possible.

For a detailed description of our share-based compensation plans and other long-term incentive plans, we refer you to our Management Proxy Circular relating to the annual meeting of shareholders that will be held on April 22, 2021 (or in the Management Proxy Circular dated March 12, 2020, if applicable), a copy of which is available on SEDAR (www.sedar.com). As our policy is to promote good relations with our employees, we have adopted a policy to prevent harassment in the workplace as well as a policy regarding the protection of personal information and the right to privacy.

Due to this unprecedented situation in 2020, where a vast majority of its employees were absent from work and recruitment was essentially at a standstill since March, the Corporation was forced to review its priorities with respect to employee engagement and development. The priority has been on employee communication, by keeping them informed of developments in the situation, such as through regular virtual meetings presented by management to all employees as well as by providing support for those working at home and promoting employee mental health.

During 2020, the Corporation was recognized among the best employers ranked by Forbes. It ranked 8th among the best employers in Canada published at the end of January 2020 and 57th among the best employers in the world published at the end of October 2020. This last ranking took into account the employers' response to the pandemic.

As at October 31, 2020, the Corporation had 4,850 employees in Canada, approximately 67% of which were unionized and subject to six collective agreements, which were all renewed on October 31, 2020. Some of our employees belong to employee associations with which we have negotiated certain working conditions. The following chart sets out the associations to which our employees belong and the status of their collective agreements as at the date of this AIF.

During fiscal 2020, the collective agreement with the airline pilots was extended for a one-year peroid.

Several collective agreements will expire over the course of next year. Therefore, there is a possibility that the negotiations regarding the renewal of this collective agreement lead to stoppages, work slowdowns or increases in the cost of labour, which may have an adverse effect on our business and results of operations.

EMPLOYEES	TRANSAT'S SUBSIDIARY	ASSOCIATION	STATUS OF COLLECTIVE AGREEMENT
Flight crew members (pilots)	Air Transat	Air Line Pilots Association (ALPA)	Collective agreement in effect from May 1, 2015, to April 30, 2021 (after a one-year extension)
Flight attendants	Air Transat	Canadian Union of Public Employees (CUPE)	Collective agreement in effect from November 1, 2015, to October 31, 2021
Flight dispatchers	Air Transat	Canadian Airline Dispatcher's Association (CALDA)	Collective agreement in effect from November 1, 2015 to October 31, 2022
Crew scheduling and passenger service	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW)	Collective agreement in effect from August 1, 2015, to July 31, 2021
Maintenance, stores and technical support	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW), Lodge 140	Collective agreement in effect from May 1, 2016, to April 30, 2022
Call centre	Air Transat	Teamsters, Local 1999	Collective agreement in effect from October 31, 2015, to April 27, 2021

The ability of the Corporation to successfully carry out its business plan depends on the experience of its key officers and employees, as well as on their knowledge of the tourism, travel and aviation industries. The loss of key employees could negatively affect our business and results of operations. Also, our recruitment program, our salary structure, our performance management programs, our succession plan and our training plan involve risks which may have adverse effects on our ability to attract and retain the qualified resources necessary to support the growth and success of the Corporation.

4.5 COMPETITION

By doing business as tour operators, travel agencies (traditional or online) and air carriers and, in the near future, possibly also in the hotel industry, we face competition on many fronts.

Competition is fierce in all areas of activity (Caribbean-Mexico and transatlantic) and results not only from traditional tour operators and air carriers specializing in leisure/holiday travel, but also from low-cost network airlines and carriers that have transformed their cost base and created new leisure/low-cost airline subsidiaries, from online travel agencies (OTAs) and from hotel operators who are selling directly to consumers. Other players, including sharing-economy sites and specialized mobile apps, are now present in the leisure travel industry. The two basic trends in tourism, strong growth of online direct sales and disintermediation of transactions, now place the customer at the centre of the purchasing process thereby allowing the customer to deal directly with suppliers (hotel operators, carriers, incoming tour operators), travel agents, OTAs and even social media. Competition is therefore present at all levels. In order to succeed, it is crucial to control costs and act like a producer in both the airline and hotel industries so as to maintain a presence in all of the different distribution channels.

4.5.1 Tour Operators

Tour operators specialized in outgoing services, purchase the various components of a trip and sell them to customers through various distribution channels, either as a travel package or separately. The large outgoing tour operators purchase blocks of seats or complete flights mainly from air carriers specializing in charter services and undertake to pay for all the seats so purchased whether they sell them or not, thereby obtaining a better price. Such tour operators also negotiate with hotels for the rental of blocks of rooms and make arrangements in order to offer travel packages at lower prices than if customers were to make their own reservations.

Certain tour operators round out the range of services offered to travel agencies with the FIT formula (Foreign Independent Tour), namely the sale of seats along with lodging and car rentals which clients can select individually. OTAs are particularly active in the FIT program segment, thus becoming both an additional distribution channel and competition for tour operators. The FIT program is growing at a rapid pace and the tour operators put greater emphasis on that market segment.

4.5.1.1 Canada

Canadian vacationers travel mainly to two regions, either sun destinations or Europe. Vacationers opting for sun destinations are primarily looking for the comfort of packages, whereas those travelling to transatlantic destinations are mostly looking for aircraft seats and, incidentally, car rental and hotel bed-night booking services. Canadian outgoing tour operators finalize agreements with suppliers six to eight months prior to the beginning of each season. The summer season runs from May 1 to October 31 and the products offered are prepared in the preceding fall. The winter season runs from November 1 to April 30 and the products offered are prepared in the preceding spring. As part of these preparations, tour operators undertake negotiations with air carriers, hotels, cruise ship operators, and car rental agencies. When such negotiations are completed, brochures and websites illustrating the various destinations and describing the various packages and services offered are either prepared and distributed to travel agencies before the beginning of each season (with sales presentations to travel agents in the main cities of the markets covered) or sold directly to consumers via direct online booking.

Operating its Transat and Air Transat brands, Transat Tours is a major Canadian tour operator, but competes with other tour operators for sun destinations. The Corporation and its three major competitors, Air Canada, WestJet and Sunwing have comparable market shares.

Geographical diversification involves departure points and destinations, the purpose being to offer products that best meet customers' expectations in each new market, preferably exclusively. We continue to devote major efforts to the expansion of our range of products, accounting for market trends, with the objective of offering a product line that differentiates us from the competition.

4.5.1.2 United Kingdom

The UK tourism services has been dominated for many years by competition based on price and the market is quite mature in its use of direct online booking. Customers will decide their holiday destination by focusing mainly on the price of their flight, regularly using flight comparison websites, regardless of the short-haul or medium-haul destination that interests them, since access to airline services from the United Kingdom is not a limiting factor. This is now also the case for long-haul destinations, which are served by an ever-growing number of carriers and price competitiveness has been increasing in the last few years.

Canadian Affair is a tour operator well established in the UK, and as the main tour operator to Canada, it also sells holidays, including flights, to Canada directly to consumers through its call centre and website canadianaffair.com, and, more recently, to the industry through its call centre and Web portal.

Our most important mainstream tour operator competitors all have a brochure and activities with a Canadian focus. They target the sale of packaged holidays and tours to Canada, and many have seat allocations on our flights.

4.5.2 Travel Agencies and Distribution

Travel agencies are an intermediary between tour operators and transportors and customers. Whether in person, online, by telephone or otherwise, travel agents are in contact with, advise and sell products to customers. Travel agencies sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services such as cruises, and they are generally paid a commission by these tour operators and other suppliers. Travel agencies operate independently, as part of large corporate groups, as franchisees or within associations or affiliations.

As a result of technological advances, online travel agencies now offer a large range of travel products by way of transactional websites. In both the Americas and Europe, online travel sales primarily consist of airline tickets and hotel accommodations, chosen separately, and only a limited proportion of sales are for packages that include flight and hotel accomodations.

According to industry sources, we estimate that there are approximately 5,000 travel agencies, both in Canada and in the UK. As is the case with tour operators, low profit margins cause travel agencies to seek higher volumes and larger market shares. Given the temporary nature of the COVID-19 pandemic, one of our priorities relating to integration is still focused on extending our distribution network in our three primary geographic markets: Canadian, transatlantic and sun destinations.

Retail chains represent one third of all travel agents in Canada. The major chains are Transat Distribution Canada operating under the Transat Travel/Voyages Transat, Club Voyages, Marlin Travel and TravelPlus banners or affiliated programs (which make up our network of travel agencies), Carlson Wagonlit Travel, CAA, Flight Centre, Maritime Travel, Uniglobe, Ensemble, Travel Savers, Vision Travel and Voyages en direct.

Retail chains, operating under a common banner, provide a range of services to their members, in the form of negotiated commission levels with major tour operators, as well as training, marketing and information services support. Consortiums of travel agents constitute the second third of Canadian travel agents. They offer centralized negotiated commissions with tour operators. Finally, the last third is made up of independent travel agents.

4.5.3 Air Carriers

Competition between air carriers is based largely on price, as well as on flight schedules (convenience), choice of city pairs (availability of direct flights) and service (comfort, classes, family friendliness). Regarding holiday travel, the ability of operators to bundle land portions (car rental, guided tours, accommodations) along with the flight can also influence their decisions and buying patterns. Prices depend in part on the laws of supply and demand, thus if the capacity offered in the marketplace by all operators exceeds the demand, it will exert downward pressure on prices. Prices also vary significantly in accordance with seasonal variations in market conditions.

The air transportation industry is composed of four major segments: (i) network or full-service carriers which primarily operate scheduled flights at major hubs and rely mostly on the business travel segment and which, in certain cases, undertake aggressive leisure/holiday travel market share growth strategies through the establishment of low-cost subsidiaries; (ii) low-cost carriers operating short to medium-haul segments on a high-frequency, no frills basis and serving the price-sensitive business and holiday markets and most recently long-haul segments; (iii) leisure carriers, such as our own airline Air Transat, serving almost exclusively the holiday travel market through a combination of scheduled and charter air services (in the case of Air Transat, they are primarily scheduled flights, except for certain specific destinations served by charter flights); and (iv) regional airlines operating short-haul flights and providing feed traffic to network carriers at major hubs.

Network carriers market and distribute their services to the public through in-house reservations departments, global distribution systems and the Internet. Low-cost carriers sell the vast majority of their seats on the Internet. Leisure carriers charter most of their capacity to tour operators and wholesalers who, in turn, consolidate flight services into packages and sell to the public primarily via the travel agency distribution network. The tour operators negotiate bulk hotel room rates and make other arrangements to render the price of a vacation package sold to the customer more attractive than if the same consumer had attempted to make his own reservations.

Network carriers expand their destination offerings through marketing tools such as code sharing and the creation of airline joint ventures. They can sometimes be part of several of the large global carrier alliances and joint ventures which have been formed over the last decade. Leisure and low-cost carriers principally offer direct point-to-point flights.

Network carriers, low-cost carriers and leisure carriers increasingly compete in the holiday and the so-called “visiting friends and relatives” travel markets. This is particularly true following certain policy changes enabling air carriers specializing in charter services to operate scheduled flights between certain destinations, as is the case with Air Transat, which is licensed to offer scheduled services between Canada and the countries listed in Section 4.3.1, as illustrated on the second and third pages of this AIF. Another trend that should be noted is the emergence of flexible or seasonal fleet strategies among leisure travel air carriers that leverage the counter-seasonal realities of the North American and European travel markets.

Transat’s competitors include namely WestJet, Swoop, Sunwing, Air France, KLM, IAG (British Airways, Iberia, Aer Lingus and LEVEL), Corsair, Brussels Airlines, TAP Portugal, Alitalia, Lufthansa, Air Canada, SATA International Azores, Air Italy, Condor, AeroMexico, COPA, Interjet, Caribbean Airlines, Delta, American Airlines and United Continental.

4.6 INTELLECTUAL PROPERTY

We believe that our intellectual property is very important to our success. The following is a non-exhaustive list of our principal registered and unregistered trademarks and designs that are used in association with travel-related services rendered by our business units: the star design, luggage tag, Air Transat and the mosaic design featured on some of its aircraft and travel agencies, Canadian Affair, Club Voyages, Trafictours, Transat, Transat Holidays USA, Turissimo, Liberty Travel/Voyages en Liberté, Marlin Travel/Voyages Marlin, Transat Travel/Voyages Transat and

TravelPlus, as well as other trademarks, trade names, designs and domain names associated to the aforementioned trademarks.

Some of these trademarks, such as Air Transat, Transat, Transat Holidays USA, Club Voyages, Transat Travel/Voyages Transat, TravelPlus and Marlin Travel/Voyages Marlin, share the star design. The mosaic design will still be featured on some of Air Transat's aircraft until we complete our transition to a full Airbus fleet. The creation of a unique, strong and visible corporate identity across our main business units facilitates the recognition of our various companies and divisions for both our customers and employees. It also maximizes customer awareness on both the B2C and B2B markets, while fully leveraging the contribution of all of our business units and creating value. Regular monitoring of the Corporation's trademarks allows it to formally oppose any trademark application that may cause confusion in the markets in which it operates.

We also take great care not to infringe on the intellectual property and trademarks belonging to others.

4.7 TRENDS

In 2019, international tourism celebrated its tenth consecutive year of growth. The World Tourism Organisation ("WTO") recorded 1.5 billon international tourist arrivals worldwide, an increase of 4% compared to last year. However, with the uncertainty surround Brexit, the bankruptcy of Thomas Cook, geopolitical and social tensions as well as the global economic slowdown, growth declined in 2019 compared to the exceptional rates of 2017 and 2018, with 2020 forecasts placing growth at a conservative 3% to 4%.

In 2019, Canada registered a record number of visits, with 22.1 million travelers, for a third consecutive year.

However, COVID-19 being declared a pandemic on March 11, 2020 had an unprecedent global impact on travel and tourism.

According to the International Civil Aviation Organization ("ICAO"), global passenger traffic declined by 87% in April 2020 compared to the same month the year before, forcing airline companies to ground a significant number of their airplanes and to even temporarily cease their operations. This drastic reduction was followed by a tentative resumption of operations stimulated primarily by internal markets. The International Air Transport Association ("IATA") projects that the airline industry should recover to pre-pandemic levels between 2024 and 2027.

Since the start of the pandemic, Canada is among the countries that imposed strict restrictions on international travel, its border has been closed to foreign tourists and it has imposed a mandatory quarantine period on all travelers entering the country, including Canadians. According to Destination Canada's July forecast, if borders remain closed until the end of 2020, we can expect a 61% drop in tourism revenues and a return to 2019 levels, at the earliest, by 2024.

As at October 31, 2020, Canada was the only G7 country that had not put in place a financial aid package for airline carriers, which have requested, for several months now, that they be treated in the same manner as their foreign international airline counterparts that have benefited from governmental financial aid of several tens of billions of dollars, giving them a competitive advantage in a global market. On November 8, 2020, the Canadian government announced that it would open discussions with airline carriers regarding financial assistance it could provide, indicating that such measures would require the reimbursement of vacation packages cancelled due to the pandemic, whereas the majority of Canadian airline carriers prefer credit vouchers in order to protect their liquidity.

Under the umbrella of the ICAO, IATA and public health authorities, several protocols and effective sanitary measures have been put in place by airports and airline carriers in order to avoid the spread of COVID-19 and to protect both travelers and employees. The risk of exposure to the virus inside the aircraft is very low given the sophisticated HEPA air filtration system and the security measures taken, such as wearing a mask, sanitizing the aircraft and limiting the movement of passengers aboard the aircraft. As an added means of protection to eliminate quarantine, the industry and its partners are working on implementing a systematic control for passengers prior to traveling. The services at destination and at hotels have also adapted their services by following strict sanitary measures recommended by public health authorities. Moreover, technology has been used to reduce the number of contacts throughout the passenger journey.

The resumption of operations depends on many factors, such as the overall economy as well as the financial health of the travelers themselves. The airline industry is focusing its efforts on regaining consumer confidence, which is a key factor. The arrival of several COVID-19 vaccines is encouraging and could also accelerate the restart of the industry. Pharmaceutical companies are working around the clock to develop such a vaccine and recent advances seem promising. At the moment, there are at least a dozen Phase 3 clinical trials worldwide; however, the World Health Organization (the "WHO") does not expect mass vaccinations before mid-2021.

Our niche market, leisure travel and especially trips to visit family and friends, should resume more rapidly than business travel. In fact, a large number of companies have drastically cut expenses, particularly travel-related expenses, in favour of virtual meetings, which is a viable alternative to business travel. Furthermore, several conventions and conferences have switched to a virtual format.

In the years preceding the pandemic, a certain number of trends have marked the leisure travel industry in Canada and throughout the world. First, tourism has undergone a disintermediation, with producers acquiring an increasingly greater capacity to offer their products directly to consumers without going through a travel agency or tour operator, thus giving the advantage to producers (hotel businesses, airlines). On the other hand, air capacity has risen sharply, both for the sun destination and transatlantic destinations, exacerbating competition over prices.

These trends have prompted Transat to reinforce its digital strategy in order to put it on an equal footing in the distribution market; improve its efficiency and its costs in order to offer competitively priced products; and to start investing in the hotel industry to enhance its currently favourable position in tourism chain operations. However, as a result of the Arrangement Agreement, our hotel development has been suspended.

4.8 THE REGULATORY ENVIRONMENT IN WHICH WE OPERATE

As a vertically integrated company, we are involved on all levels of operation specific to holiday travel. Hence, we conduct business in a highly regulated environment at all levels, from tour operators and travel agencies to air carriers. All our companies and divisions hold all licences, certificates and permits necessary for their operations and are in compliance, in all material respects, with the requirements of applicable legislation. You will find below a description of the laws and regulations to which we are subject.

4.8.1 Tour Operators and Travel Agencies

4.8.1.1 Canada

General information

In Québec, Ontario and British Columbia, where most of our operations are centred, most tour operators and travel agencies (collectively referred to in this subsection as "Travel Agents") are governed by specific legislation providing protection to the travel customer. The *Office de la protection du consommateur*, the *Travel Industry Council of Ontario* and *Consumer Protection BC* are the authorities designated in Québec, Ontario and British Columbia, respectively, to carry out the control and inspection mechanisms provided for in the legislation and to ensure compliance therewith. In all three provinces, Travel Agents must hold licences to carry on their business and must deposit into a trust account monies received from customers for travel services purchased. The law restricts the use of these funds. All three provinces have established compensation funds in favour of consumers to protect them against fraud and bankruptcies of Travel Agents and end suppliers, such as airlines or cruise lines.

Key aspects addressed by applicable legislation in all three provinces include compensation funds and advertised price for travel services.

Québec is the only province where the compensation fund (Compensation Fund for Customers of Travel Agents or the "CFCT") is made up of customer contributions. On November 15, 2017, the Québec government adopted the *Act mainly to modernize rules relating to consumer credit and to regulation debt settlement service contracts, high-cost credit contracts and loyalty programs*. The Act amends, among other statutes, the *Travel Agents Act*. The Québec government also made, on July 3, 2018, the *Regulation to amend the Regulation respecting travel agents*. Under this new legislation, since August 1, 2018, the CFCT now covers a greater number of situations. The financial protection of customers of travel agents was therefore improved and, in the event of a problem, it sought to expedite the compensation process.

In addition, this amendment provided that when the value of the CFCT was equal to or greater than $125 million as of March 31 of each year, customers of Travel Agents were credited the amount of their contribution to the CFCT, thus making the protection free. Collection of contributions will resume, according to the calculation prescribed in the regulation, if the surplus accumulated as of March 31 of each year decreases under the $75 million threshold. Since January 1, 2019, Travel Agents are no longer required to collect the contribution to the compensation fund from their customers. Customers of Travel Agents may therefore benefit from the fund free of charge. As of March 31, 2019, the value of the compensation fund was $141.7 million, meaning that Travel Agent customers are still not required to contribute to the fund.

Customers can claim directly from the CFCT if they do not receive the services for which they have paid in the event of a supplier default or because of a reason outside a customer's control. The total compensation per event may not exceed 60% of the surplus accumulated in the CFCT as of the previous March 31 or be less than $30 million.

In Ontario, as opposed to Québec, tour operators and Travel Agents are responsible for financing travellers' financial protection through the Ontario Travel Industry Compensation Fund. In December of 2017, the Ontario government adopted the *Strengthening Protection for Ontario Consumers Act, 2017*. With this legislation, the Ontario government amended, *inter alia*, the *Travel Industry Act, 2002*, for the purpose of, among other things, modernizing it, strengthening consumer protection and lightening the regulatory burden imposed on travel agencies.

No changes were made to the compensation fund, which continues to be administered and managed in accordance with the applicable regulation, namely the *Ontario Regulation 26/05* (the "Regulation").

Since April 1, 2017, the rate of contribution to the Ontario compensation fund is $0.25 for every thousand dollars of travel services sold. As in Québec, taxpayers, in this case Travel Agents, may draw directly on the compensation fund with a view to be reimbursed for disbursements made to customers in the event of default of an end supplier. The maximum amount that may be reimbursed out of the compensation fund to a customer or Travel Agent for failure to provide travel services is $5,000 for each person whose travel services were paid for by the customer. The maximum amount that may be reimbursed for a failure to provide travel services with respect to all claims arising out of an event or a major event is capped at $5.0 million.

Furthermore, in 2017, the Ministry of Government and Consumer Services (the "Ministry") consulted stakeholders about the development of the Regulation and the proposed regulatory changes. As such, it is still possible that the rules governing the CFCT could be amended.

In British Columbia, as in Ontario, the compensation fund is made up of Travel Agent and travel wholesaler contributions. The maximum amount that may be paid to a claimant in respect of a claim is $5,000 for each person covered by the claim, subject to a $2.0 million cap for all claims relating to a single event. It remains to be seen how this cap will work out with the contribution holiday, under the legislation applicable to licensees. This contribution holiday applies when the book value of the Travel Assurance Fund is at least $2.0 million, and the licensee has paid the required contributions for successive semi-annual periods totalling three years.

Situation since March 11, 2020 (COVID-19)

The unprecedented global crisis due to the COVID-19 pandemic, as declared by the World Health Organisation (the "**WHO**") on March 11, 2020, has hit the the airline industry hard. Since this date, like many other governments worldwide, the Canadian Federal government as well as provincial and local municipal governments, have taken strict exceptional measures in face of this health crisis. This crisis puts extreme pressure on all sectors of the economy without sparing tour operators or travel agents.

As it relates to Québec, as of October 19, 2020, no legislative or regulatory mesures targeting tour operators and travel agents or the CFCT had been taken, including reestablishing or increasing consumer contributions. However, we can expect that that the CFCT will eventually reestablish or increase contributions even though, as at March 31, 2020, the value of the CFCT is still unavailable. In addition, consumers who filed a claim with the CFCT for cancelled vacation packages in connection with the COVID-19 pandemic, have yet to be reimbursed. It appears that the Québec government is hoping to find a comprehensive solution before reimbursing any claims from the CFCT.

In Ontario, special measures were adopted for tour operators and travel agents. At the end of March 2020, the legislator quickly amended *Ontario Regulation 26/05* under the *Travel Industry Act 2002*, in order to alleviate the burden for registered travel agents and tour operators as well as to improve the protection for certain travellers affected by the COVID-19 pandemic. The financial reporting process for certain registrants based on their annual sales figures was simplified, but not eliminated. Working capital thresholds were eliminated and replaced by an obligation to maintain a positive working capital instead. The credit voucher solution was endorsed and a framework was established. More specifically, when clients do not receive the travel services that they have paid for, travel agencies or tour operators registered in Ontario must provide a reimbursement, acceptable equivalent alternative travel services, OR a credit voucher. Despite this change in legislation, if the vendor's failure to provide such services is due to the COVID-19 pandemic as of March 30, 2020, then, until April 1, 2021, travel agencies and tour operators that sold these services, may choose to only issue credit vouchers, provided that the credit voucher (i) is at least of equal value to the services not provided; (ii) is valid for a minimum of one year from the date it is issued to the customer; and (iii) may be used to purchase other travel services after the expiry of the one-year period. Ontario also expanded the coverage of the compensation fund for claims involving travel vouchers that are not honoured by travel agencies or tour operators registered in Ontario for COVID-19-related reasons. The Travel Industry Council of Ontario ("**TICO**") announced in one of its "Registrar Bulletins," a temporary exemption as it relates to the fees. As a result of this exemption travel agents and wholesalers need not pay their annual registration renewal fees or Travel Industry Compensation Fund payments ("Form-1") owed to TICO between April 1, 2020 to March 31, 2021. Fees already paid will therefore be reimbursed.

At this time, the reimbursement protocole in British Columbia remains uncertain, given that the suspension of contributions otherwise required to be paid to permit holders under the law has not yet been lifted.

4.8.1.1.1 Advertised Price for Travel Services

When it comes to advertising, Québec legislation promotes full disclosure to enable the customer to make informed decisions, namely to ensure that pricing information is not misleading and that the total price is provided at the actual time of purchase to avoid so-called "sticker-shock". However, Travel Agents may exclude from the total cost of the services advertised the Québec sales tax, Canada's goods and services tax and the dollar amount payable as a contribution to the compensation fund. The *Travel Agent Act* and its Regulation provide that a Travel Agent who wishes to unilaterally change the price of the travel services provided in a contract entered into with a client must insert a clause to that effect in the contract. The clause shall state that (i) the price may only be increased following the imposition of a fuel surcharge by the carrier or an increase in the exchange rate, insofar as the exchange rate applicable 45 days prior to the date on which the services are to be provided (the date of departure in most cases) has increased by more than 5% since the date on which the contract was entered into (the date of purchase in most cases); (ii) no price increase may occur within 30 days prior to the date on which the services are to be provided (once again, the date of departure in most cases); and (iii) if such price increase is equal to or greater than 7% of the price of the travel services, excluding the Québec sales tax or Canada's goods and services tax, the customer may choose between a full and immediate refund or the provision of similar services.

Since January 1, 2017, Ontario's legislation requires, just as the Québec legislation, that any advertising indicating a trip's price must also include all fees and taxes. The *Travel Industry Act, 2002* requires any representation relating to the price of travel services to show in a clear, comprehensible and prominent manner the total amount consumers will be required to pay for the travel services, including all fees, levies, service charges, surcharges, taxes and other costs. All-inclusive prices reduce confusion and ensure that there are no surprises for consumers who purchase travel services in the province.

While Ontario's legislation also allows for price increases, it only allows them if the contract between the Travel Agent and the customer permits them, if the customer has not paid the price of the travel services in full, and if the cumulative price increase is less than 7% of the total price of the travel services, excluding any increase resulting from an increase in retail sales tax or federal goods and services tax. Otherwise, the Travel Agent must offer the customer the choice between a full and immediate refund of the amount paid and comparable alternate travel services acceptable to the customer. Advertising rules in British Columbia applicable to Travel Agents are similar to Ontario but they are dealt with in general consumer protection laws.

The *Air Transportation Regulations* (Canada) require that the price of air services represented in any advertisement be the total price, inclusive of all taxes, fees and surcharges. The advertisement must also include a description of the air services offered and the customer must have access to the breakdown of the components of the price paid (taxes, fees and charges paid to a third party) and the fees for any optional services available. It should be noted that these provisions do not apply to air cargo services, sale of air services to businesses or the sale of package travel services where air services are sold with other features such as accommodations, tours, cruises or car rentals.

4.8.1.1.2 Laws Applicable to Franchising Activities

Ontario, Manitoba, Alberta, Prince Edward Island, New Brunswick and British Columbia have adopted laws governing the formalities for entering into franchise contracts. In the course of its activities, Transat enters into franchise contracts with franchisees doing business in these provinces under the Marlin Travel, Travel Plus and Goliger's brands.

As at the date of this AIF, our companies and divisions doing business as Travel Agents hold all licences necessary for their operations and are in compliance, in all material respects, with the requirements of applicable laws and regulations, including those related to franchises.

4.8.1.2 United Kingdom

The UK travel industry has three main regulatory bodies: ATOL, ABTA and IATA (defined hereinafter). ATOL is a government-backed protection scheme for flights and air holidays and is managed by the Civil Aviation Authority (CAA). Most firms who sell air travel in the UK such as Canadian Affair are required by law to hold a licence called an ATOL. ATOL protects consumers from losing money or being stranded abroad if and when a tour operator goes out of business. All licensed firms are required to take part in a financial guarantee scheme managed by the CAA which protects customers should a firm fail. Following this measure, Canadian Affair issued a letter of credit of £2.1 million to the CAA. The holders of an ATOL licence must deliver their certificate to every customer booking a trip covered by their ATOL licence. ATOL protection is included in the price of a holiday booked with an ATOL holder. Since 2016, Air Transat UK departing passengers, like those of other scheduled airlines, are no longer ATOL protected. However, Canadian Affair customers who book a qualifying flight plus holiday arrangement will continue to be ATOL protected.

ABTA, the Association of British Travel Agents, is a trade association which represents UK travel agents and tour operators. It is ABTA's role to ensure that customers benefit from consistently high standards of trading practice in the travel industry. ABTA members operate under a Code of Conduct and provide consumer advice on all aspects of holidays from financial security to complaint handling. Customer financial protection is provided for the sale of vacation packages excluding airfare (not covered by the ATOL protection) through a financial guarantee scheme managed by ABTA. Based on these measures, Canadian Affair issued a letter of credit of £0.7 million to ABTA.

4.8.2 Air Carriers

4.8.2.1 International Regulatory Framework

Numerous commercial aspects of international air transport are regulated by international conventions, principally the *Convention on International Civil Aviation* signed in Chicago on December 7, 1944 (the "*Chicago Convention*"), by the domestic legislation of countries in which air transport is conducted, and by a network of bilateral and multilateral air transport agreements and treaties.

The *Chicago Convention* provides the basis for regulation of international air carrier operations. Scheduled air services are governed by the bilateral air transport agreements in effect between the countries of origin, destination and, in certain cases, transit of the flights in question. Certain principles pertaining to the operation of international charter flights were established between each of the signatory states (including Canada), namely that the intended transportation comply with, and be duly approved pursuant to, the national regulations of the countries between which it is being conducted.

The *Chicago Convention* also established the International Civil Aviation Organization (the "ICAO"), a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of the ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. One of the treaties with considerable consequence for Transat is the landmark air transport agreement concluded between Canada and the European Union ("EU") in November 2008. It formally entered into force on December 16, 2009. The agreement sets the rules for air transport services between Canada and the 27 member states of the EU and will liberalize market access in this respect on a progressive, phased-in basis. During the first phase, Canadian airlines are able to operate from any point in Canada to any point in the 27 member-state EU zone without restrictions, with EU licensed air carriers enjoying reciprocal rights from any point in the EU (regardless of nationality) to any point in Canada. Subsequent liberalization phases will be contingent on the relaxation of Canadian airline ownership and control rules by foreign interest and will involve the easing of access to third-country markets.

On November 5, 2003, the *Montreal Convention of 1999 on Compensation for Accident Victims* (the "*Montreal Convention*") came into effect. This multilateral agreement updates the rules on passengers, baggage and cargo liability applicable to international air transport and originally established by the *Warsaw Convention* in 1929 and amended over the years (together the "*Warsaw System*"). The *Montreal Convention* provides for the review of liability limits, thus ensuring that the amounts remain relevant with the passage of time. The first such review was duly undertaken by the ICAO during the course of 2009. In addition to establishing new principles of liability, the *Montreal Convention* modernizes many of the ticketing and air waybill requirements. The *Montreal Convention* has been ratified by Canada and applies to all flights between Canada and other ratifying states. For flights from Canada to non-ratifying or non-signatory states, the *Warsaw System* continues to govern.

As an airline operating flights from airports within the EU, Air Transat is subject to the provisions of EU Regulation 261/2004. This directive establishes a legal framework for the compensation and care of passengers by airlines in the event of overbooking/denied boarding, flight cancellations and long delays. While the Regulation stipulates payable compensation in the event of the first two cases, it only expressly provides for a duty of care by the airline in the context of a long flight delay (meals, snacks, hotel accommodations, as applicable). In November 2009, the European Court of Justice issued a ruling that extended financial compensation obligations to long delays as well. This jurisprudential trend has been maintained and EU national enforcement bodies henceforth consider passengers on flights delayed by more than three hours as being eligible for compensation per the rates set out for overbooking/cancellation except in certain narrowly defined cases of extraordinary circumstances. The EU has recently proposed amendments to revise Regulation 261 that would address these developments. However, the process is currently stalled at the EU Council level.

4.8.2.2 Canadian Legislation

In Canada, the *Aeronautics Act*, R.S.C. 1985, c. A-2, the *Canada Transportation Act* and the *Transportation Modernization Act*, S.C. 2018, c. 10 are the three principal legislative instruments that regulate the operation of a commercial airline in Canada. Such operation is subject to the issuance of the required licences and operating certificate attesting that the air carrier complies with Canadian standards, as well as to the maintenance of the required liability insurance. In the case of charter flights, permits are required for each proposed flight or series of flights. Licences and charter permits are issued by the Canadian Transportation Agency, and the operating certificate is issued by Transport Canada. This certificate attests that the air carrier is properly organized and equipped to conduct its business in compliance with the *Canadian Aviation Regulations*, SOR/1996-433. Such a certificate was issued to Air Transat on November 13, 1987 and was subsequently modified to reflect our changing operating conditions.

The large majority of Air Transat's flights are operated under scheduled air service licences (domestic, cross-border and international). In fact, Air Transat is licensed by the Agency to offer scheduled airline services in Canada and to the United States, Cuba, the EU (representing its current 28 member states), Mexico, Jamaica, the Bahamas, Barbados, Turkey, Panama, Costa Rica, Nicaragua, El Salvador, Colombia, Antigua and Barbuda, St. Lucia, Netherlands Antilles, the Dominican Republic and Haiti. These operations are subject to the rules established under the bilateral air transport agreements entered into by Canada and these respective countries and supranational authorities.

On May 23, 2018, the Parliament of Canada adopted the *Transportation Modernization Act*. The main elements of this legislation that have directly affected the Corporation are the following: (i) the establishment of a framework for an airline passenger rights regime that would impose legal obligations on airlines with respect to tarmac delay management, denied boarding, flight delay/flight cancellation compensation and duty of care, as well as liability standards for the carriage of baggage not currently covered by existing international conventions, the whole as provided in the *Air Passenger Protection Regulations* which came into force on July 15, 2019; (ii) an increase of the maximum number of voting shares of a Canadian-licenced airline that can be beneficially owned by non-Canadians from 25% to 49%, subject to the stated restrictions; (iii) the establishment by the federal minister of transport of an approval and exemption from competition law process for airline joint ventures. On January 30, 2015, Bill C-51, *An Act to enact the Security of Canada Information Sharing Act and the Secure Air Travel Act, to amend the Criminal Code, the Canadian Security Intelligence Service Act and the Immigration and Refugee Protection Act and to make related and consequential amendments to other Acts* (the "*Antiterrorist Act*") was presented for first reading in the House of Commons. The *Antiterrorist Act* seeks to provide a new legislative framework for identifying and responding to persons suspected of threatening transportation security or of travelling by air for the purpose of committing a terrorism offence. The *Antiterrorist Act* would authorize the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. The Minister of Transport would also have the power to seize an aircraft for the purpose of inspecting it and take measures concerning the movement of the aircraft. The management cannot predict whether or when the *Antiterrorist Act* might be adopted.

Air Transat, like Transat Tours, is subject to the Canadian and foreign personal information protection legislation concerning the collection, use, disclosure and protection of passenger and employee data. In Canada, the federal legislation regarding the protection of personal information in the private sector, the *Personal Information Protection and Electronic Documents Act* (Canada) ("**PIPEDA**"), governs the collection, use and disclosure of personal information in the course of commercial activities of a federally regulated undertaking. Moreover, the PIPEDA governs the processing of personal information of employees working for federally regulated employers. Subject to certain exceptions, the PIPEDA also applies to the collection and disclosure of personal information from province to province or between Canada and another country, and within provinces in the absence of substantially similar legislation governing the protection of personal information applicable to the private sector. The PIPEDA requires the tacit or express informed consent of the persons whose personal information is collected and used. The personal information may then be used only for the purposes for which it was initially collected or for other purposes provided or permitted by the PIPEDA. Air Transat's privacy policies respect or exceed the requirements of the Act.

As at the date of this AIF, Air Transat holds all necessary licences, certificates and permits and is in compliance, in all material respects, with the requirements of applicable Canadian legislation. Furthermore, all of our aircraft meet the ICAO chapter 3 noise requirements implemented by Transport Canada.

On July 1, 2014, *An Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act* came into force. Also called the "*Canadian Anti-Spam Act*" or "CASA", the Act particularly regulates the conditions under which commercial electronic messages may be sent. All of the Corporation's Canadian subsidiaries implemented mechanisms ensuring their compliance with the requirements of the CASA before July 1, 2014.

4.8.2.3 Foreign Legislation

In respect of each jurisdiction other than Canada in which Air Transat operates, we must comply with applicable laws and, when necessary, obtain the required licences, permits and authorizations. We are of the opinion that Air Transat holds all licences, permits and authorizations necessary for its operations and is in compliance, in all material respects, with the requirements of applicable foreign legislation.

4.8.2.4 IATA

IATA, the International Air Transport Association, is the prime vehicle for inter-airline co-operation in promoting safe, reliable, secure and economical air services - for the benefit of the world's consumers. IATA membership is open to both scheduled and non-scheduled airlines. Only airlines operating air services are eligible for IATA membership. However, travel agencies can be registered as IATA approved agents. Air Transat is a member of IATA.

4.8.3 Environment

We have put the necessary processes in place, and we are in compliance in all material respects with the provisions of applicable environmental laws and regulations that apply to our buildings and to our operations. This is true for all regulatory levels, from borough and municipal by-laws to provincial, federal and international regulations. The Risk Management and Corporate Governance Committee of the Board of Directors annually carries out a risk assessment and reviews corporate policies and procedures with respect to the environment. Air Transat has a legal review process whereby any new environmental legislation regarding Air Transat is identified and compliance is incorporated into our processes and procedures. The environmental legal review is done quarterly and is part of our environmental management system. Air Transat received the ISO14001:2015 certification for its head office in 2019. We are the first airline company in North America to receive certification for this standard, that several European and international airline companies, as well as large airports in Canada such as YUL, YYZ and YVR, have already received.

Since January 2012, all air carriers serving the EU, including Air Transat, are subject to EU regulations concerning the application to aviation of the EU's Emissions Trading Scheme ("ETS"). However, as a result of formal objections by numerous countries around the world concerning the extraterritorial application and resulting alleged state sovereignty violations of the ETS, the EU suspended application of its ETS to EU-third country air services in November 2012 pending the outcome of deliberations at the ICAO during its General Meeting in the fall of 2013 on the question of a multilateral plan for reducing the effects of aviation GHGs on climate change. A resolution to this end was adopted by the ICAO General Assembly. The EU subsequently amended its ETS Regulation to limit its scope only to intra-European flights. This measure is referred to as the "suspended provision". A second suspension regulation aimed at expanding the reduced scope was agreed upon in 2014 in order to allow more time for the ICAO. At its 2016 Triennal Meeting, the ICAO adopted the broad lines of a global offsetting system known as CORSIA (“Carbon Offsetting and Reduction Scheme for International Aviation”). The exemption for flights to and from Europe was extended until 2024, when regulators in Europe will have a better understanding of how CORSIA will work and how efficient it will be. Until then, Air Transat is still subject to the EU’s ETS, but only for intra-EEA (“European Economic Association”) flights. Until recently, the cost of these flights was not important to Air Transat because they represent a very small percentage, less than 0.1%, of our overall routes and because we receive enough free credits to cover our emissions. In 2019 our intra-EU emissions were below the baseline so we had a small surplus to sell. In addition, the UK released free allowances from 2018 which they were holding pending BREXIT negotiations and not issued in that year. We were therefore able to sell 6,439 allowances for a total of approximately $170,000. In the future, the amount of free allowances that we will receive will decrease due to the application of a 2.2% annual linear reduction factor. BREXIT will mean that the UK will probably not participate in the EU ETS and we will have to move our Aircraft Operating Holder Account to France and change our authorized authority from the UK Department for Environment to France’s Direction de l’aviation civile (“DGAC”).

At ICAO’s subsequent 39th Triennial General Meeting that took place in the fall of 2016, a new global market-based mechanism was agreed to that would create a voluntary carbon-offsetting system for international aviation emissions as of 2021. This system, referred to as CORSIA, will become mandatory for all countries, except for the world’s least developed states, by 2027. Canada is one of the numerous countries that will take part in the voluntary phase. Consequently, beginning in 2021, carbon emissions generated by an Air Transat aircraft operated from Canada to another non-exempted country that has agreed to take part in the voluntary transition phase will need to be offset through one or more authorized programs, based on the progressive increase of carbon emissions on the route in comparison with the baseline. Air Transat is legally required to submit an emissions MRV (“Monitoring, Reporting, and Verification”) plan to the Canadian government in order to comply with CORSIA. Air Transat submitted a MRV plan in the beginning of 2019, and the plan was accepted by Transport Canada, the authorized authority for the government of Canada. Air Transat, as well as all airlines, is required to monitor its emissions since January 1, 2019 and to submit a yearly verified emission report. The emissions benchmarking period was initially supposed to be 2019 and 2020, but due to the COVID-19 pandemic the benchmarking year will be 2019. Air Transat will have to purchase carbon offsets to cover emissions growth on routes covered by participating states based on the 2019 baseline. Payments are made over three-year cycles. For example, in 2024, we will be required to purchase carbon credits covering the emissions increase on the CORSIA routes for the years 2021-2024. Important costs will thus be incurred every three years. The determination of cost of the emissions will depend on participating countries, growth on qualified city pairs, and the type of eligible carbon offsets. Since many of the details of the system are yet to be decided, it is difficult to make an accurate cost prediction at this time.

In Canada, in order to deliver on our commitments under the Paris Accord, the government plans to set a minimum price for carbon in the Pan-Canadian Framework on Clean Growth and Climate Change. This price starts at $20 per ton in 2019 and will rise at $50 per ton in 2022. It should be noted that only domestic aviation is included under the Paris Agreement. Certain provinces such as British Columbia have already started to tax fuel on intraprovincial flights. Since Air Transat has very few intraprovincial flights, this measure will not have a significant economic impact on us.

The Canadian government may include aviation in the Clean Fuel Standard, which would require airlines to use a certain percentage of less carbon intensive fuels such as sustainable aviation jet fuel. A growing number of countries, such as Norway, Sweden, the EU, the Netherlands and the UK have, or are planning, SAF blending mandates over the upcoming years. This will pose a significant challenge as these types of fuels are in very short supply for aviation and cost considerably more than ordinary jet fuel. Air Transat is actively seeking to ensure a sustainable fuel supply for aviation and has joined a consortium, which includes Aéroports de Montréal, with a view to develop a jet fuel derived from industrial processes gas waste capture. This project was one of the four finalists of the “Sky’s the Limit” Challenge of the NRCC (National Research Council Canada), which aims at establishing a viable and sustainable industrial basis for aircraft fuel in Canada. The consortium won a $2 million prize to finance the development of the technology. Transat has signed an offtake agreement with the consortium, which gives us first priority on SAF purchases from the refinery when it comes online in 2025-2026. Although SAF offtake agreements are common in

Europe and the United States, Air Transat was the first Canadian airline to do so, giving us a strategic advantage on securing a scarce resource and positioning Transat as a leader in aviation decarbonization. Moreover, two A321LR delivery flights from Hamburg were delivered with a 10% SAF blend. The remaining carbon emissions were offset by using credits from an afforestation project in southern Quebec (SQAP). This means that the two delivery flights were carbon neutral, a first in Canadian aviation history.

The increasing concern about climate change has put aviation emissions in the spotlight leading to movements to reduce the environmental impact of aviation such as flygskam (flight shaming). This has increased the risk of government regulation. For example, France has implemented an eco-tax and the EU is considering taxing kerosene. Other deterrent measures under consideration are limiting or banning short haul flights in Europe, eliminating or reducing business class, and banning frequent flyer programs. In addition, countries such as France, the Netherlands and Austria have tied COVID aid to environmental targets. Some jurisdictions, such as the EU, have announced bans on single-use plastics including in aviation. These increased regulations will increase airline costs and may decrease passenger demand.

In 2018 and 2019 two more retired A310s were disassembled and recycled. In total four A310s have been recycled with the remainder of the retired fleet being scheduled for 2021. Nearly 90% of the aircraft are re-used or recycled which saves hundreds of tonnes of material from being put into landfills. Air Transat is the only Canadian airline to recycle aircraft domestically according to AFRA (Airline Fleet Recycling Association) standards.

Transat's Board of Directors formally adopted a sustainable tourism policy in 2008 and Air Transat developed and implemented an environmental policy in 2010. This policy provides a framework and sets out the principles guiding our action in this area.

4.8.4 Corporate Social Responsibility

We endeavour to maintain healthy and mutually beneficial relationships with all communities, so that they benefit to the maximum from the favourable effects of our activities and of tourism in general, and we endeavour to minimize the adverse effects. In this regard, we have in place a comprehensive corporate responsibility program with a report available at resp.transat.com, which provides an account of the organization's commitment to taking responsible actions and describes the main accomplishments.

After ten years of sustainability efforts, Transat became the first North American tour operator to be awarded Travelife Partner certification status in 2016. In 2018, we were awarded the Travelife Certified status, thus becoming the first major tour operator in the world to receive such certification for all of its activities. Compliance with our undertakings has been audited for more than 200 requirements. In the context of these efforts, Transat has also filed its plan for the next two years, which focuses in particular on mobilizing and training our employees on sustainable development issues and their social commitment (volunteering days, Leave for Change, etc.), encouraging and recognizing the efforts of our partners, continuing our philanthropic activities in Canada and at our various destinations, and encouraging our clients to travel responsibly. As a result of the pandemic, the certification was extended to 2021.

The efforts we made in favour of a sound management of our residual material have also proven successful. In September 2019, Transat received, for its Montreal head office, the Performance + certification from Recyc-Québec's recognition program *Ici on recycle*.

Transat's Code of Ethics was revised in 2010 and 2015, and now includes commitments related to our vision of corporate responsibility. This document, approved by the Board of Directors, constitutes both an expression of our corporate culture and an instrument for managing change. Every employee is required to read it and commit to complying with it.

We are continuing our corporate responsibility initiatives, however, the pace of some projects has slowed and some investments have been delayed due to the availability of our human and financial resources.

Our corporate responsibility program and all sub-programs are managed by the Corporate Responsibility Committee (CRC), which is primarily made up of senior executives from all sectors of the Corporation.

4.9 RISK FACTORS

We are subject to a number of risks and other factors that could affect demand for our product offering, some of which are related or inherent to the travel industry in general. Please see the "Risks and Uncertainties" section of our Management's Discussion and Analysis for the year ended October 31, 2020, available for consultation on SEDAR (sedar.com).

4.9.1 COVID-19-related Risks

This section provides an overview of the specific risks to which Transat and its subsidiaries have been and/or will be exposed as a result of the COVID-19 pandemic. Since government authorities imposed various restrictions on cross-border travel, the Corporation's airline operations were suspended from April 1 to July 22, 2020 and its tour operator's activities have been reduced to a minimum. This resulted in a significant reduction in cash flow from operations despite the mitigation measures taken by the Corporation. This situation is likely to continue until a normal recovery in consumer travel demand. While the likelihood of the availability of a vaccine in the near future makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The crisis surrounding the COVID-19 pandemic is rapidly evolving and is affecting the entire global tourism industry as well as the air transportation sector. The extent of the potential impact of COVID-19 on the Corporation and its operations will depend on the evolution of the pandemic, which is still highly uncertain and cannot be accurately predicted, including the spread of the virus, the duration of the outbreak, its impact on the discretionary spending of our customers, government travel and border restrictions, and the effectiveness of measures taken by the governments of various countries to manage the pandemic. The outlook for travel demand to destinations served by the Corporation for early 2021 remains very difficult to determine given the restrictions imposed by governments and concerns about cross-border travel related to the COVID-19 virus. The Corporation is monitoring the situation very closely and continues to take appropriate measures as the COVID-19 pandemic evolves.

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

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

- disruptions in operations related to the inability of the Corporation's employees, its subcontractors or other business partners to work in a normal manner as a result of COVID-19 restrictions, including quarantines;

- refund of customer deposits pursuant to legislative and regulatory enforcement actions or litigation, including class action lawsuits, seeking refunds for cancelled airline tickets and trips subject to travel credit offers and any resulting material adverse impact on the Corporation's cash position. Recently, Canadian federal authorities have indicated their willingness to financially support the Canadian airline industry subject to the refunding of travel credits. The Corporation would thus be exposed to the risk of having to make refunds or of not having access to financial support;

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

- negative impact on global credit and capital markets that could limit the Corporation's ability to refinance or renew its obligations and other agreements that are maturing at pre-pandemic or otherwise reasonable terms and conditions;

- the Corporation's inability to meet the financial ratios required under its credit facilities and commitments made to its credit card processors or obtain an extension of the suspension of their application, resulting in more onerous credit terms or repayment obligations that could adversely affect its cash flows;

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

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

- significant volatility in fuel prices and exchange rates and the resulting negative impact on the value of the Corporation's derivative contracts used to manage fuel price and foreign exchange risk;

- given the large number of early terminations completed to date, and the decision to pay only legal indemnities, the Corporation is more exposed to a risk of legal action by these employees;

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

- inability to reach an agreement with the regulatory authorities in terms of solutions or remedies to the concerns raised regarding competition as part of the regulatory approval process for the arrangement with Air Canada given the current widespread context where a large number of travel industry players have announced capacity reductions and requested financial assistance measures, which could adversely affect the ability to obtain the regulatory approvals necessary for the arrangement.

Among other things, following the suspension of all its flights from April 1, 2020 and despite a very small scale resumption of certain flights as of July 23, 2020, the Corporation, like many other air transportation and travel players affected by government travel and border restrictions resulting from COVID-19, decided to offer travel credits to affected consumers, included in Customer deposits and deferred revenue. These measures were rejected by many consumers, who would have preferred to receive refunds. In some jurisdictions, such as Europe and the United States, governments have adopted measures to force airlines to refund airline tickets and travel for affected consumers who request so. As a result, the Corporation reimbursed consumers who booked on a web platform in certain European countries, and only for the flight segment departing from Europe, representing a minimal portion of the Corporation's customer deposits. The majority of the Corporation's customer deposits were made by Canadian consumers in connection with flight and travel reservations for the upcoming fall and winter seasons. If the Corporation is unable to offer the flights or trips covered by these reservations, it could face refund requests for a significant portion of its customer deposits, which would have a material adverse effect on its liquidity position. Canadian government authorities have not adopted similar measures, but if they do, substantially all of the Corporation's customer deposits could be subject to such claims, which would have an equivalent impact on the

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

In addition, in the normal course of business, the Corporation is facing a number of short term maturities related to service contracts with credit card processors, as well as its $50.0 million guarantee facility. These agreements will have to be renewed or replaced under market conditions prevailing at the time of their expiry, which could result in more onerous borrowing and operating terms and conditions for the Corporation or an inability to renew or replace such instruments. Since March, the Corporation has been negotiating with its aircraft lessors as well as with the owners of the premises it occupies to defer a certain number of monthly rent payments. In addition, the Corporation is negotiating with its suppliers to obtain cost reductions and changes to its payment terms, and has implemented measures to reduce expenses and investments. The Corporation has obtained a temporary suspension of the application of certain financial ratios from lenders under its $50.0 million revolving term credit facility. The Corporation has also been subject to tighter credit conditions by some credit card processors. The Corporation cannot guarantee that it will be able to favourably negotiate concessions and deferrals with its aircraft lessors, owners of premises, suppliers, lenders and other partners or, if applicable, that it will be able to extend the maintenance of such measures.

If the suspension of operations is extended, the lack of operating revenues resulting therefrom could also jeopardize the Corporation's ability to meet its financial ratios under its credit facilities and agreements with its credit card processors or obtain an extension of the suspension of their application, leading to more onerous and restrictive credit terms or repayment obligations if it cannot come to an agreement on adjustments to existing agreements. Such repayment obligations could have a material adverse effect on the Corporation's financial position. Furthermore, the exercise of the option by its holder after October 31, 2020, the non controlling interest in Trafictours Canada could also affect the Corporation's cash.

The COVID-19 pandemic started adversely impacting the Corporation as early as March 2020, resulting in a significant reduction in cash flows from operations. The Corporation also had to continue to absorb fixed costs such as those related to employee salaries and benefits, leasing and maintenance of its fleet of aircraft, engines and other equipment, leasing of office and airport space and financing costs. Although the Corporation has implemented certain measures to mitigate these impacts, as described in greater detail in this AIF, the situation will affect its liquidity position until it is able to resume operations at a sufficient level. The Corporation may have to take supplementary measures, including borrowing in addition to its existing facilities. The Corporation may have difficulty in accessing sources of financing or reasonable terms and conditions of financing due to, among other things, the signficiant reduction in its operations, the outlook for the airline and travel industry, market conditions, the Corporation's current debt level and the availability of assets to secure borrowings. Similarly to the vast majority of air carriers and other travel industry players in the normal course of their operations following the impacts of COVID-19, the Corporation continues to review various financing options to increase its cash position in order to deal with possible disruption resulting from COVID-19, including obtaining financing from private and government financial institutions and the Large Employer Emergency Financing Facility (LEEFF). The Corporation cannot guarantee it will have access to such sources of financing or acceptable financing terms, or that such supplementary measures will enable it to mitigate the risks arising from the COVID-19 pandemic, including those mentioned above.

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

4.9.2 Risks related to the Transaction with Air Canada

On June 27, 2019, Transat concluded a definitive arrangement agreement that provides for Air Canada's acquisition of all issued and outstanding shares of Transat, which was amended first on August 11, 2019 by the conclusion of an amending agreement, and second on October 9, 2020, by a downward revision to the purchase price. This transaction involves many risks which have been presented in the Arrangement Circular of November 12, 2020 (the "Circular"), which is available at www.sedar.com.

The main risks are as follows:

Conditions Precedent and Required Approvals

There can be no certainty, nor can Transat provide any assurance, that all conditions precedent to the arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver. Failure to complete the arrangement could have a material adverse effect on the trading price of the voting shares.

The completion of the arrangement is subject to a number of conditions precedent, some of which are outside Transat's control, including receipt of the final court order authorizing the arrangement and receipt of the key regulatory approvals. Other conditions precedent which are outside of Transat's control include, without limitation, the receipt of the required shareholder approval, holders of no more than 10% of the issued and outstanding voting shares having exercised dissent rights and the receipt of the other regulatory approvals.

Concerning the key regulatory approvals, the Competition Bureau released on March 27, 2020 its advisory report to the Minister further to the Minister's determination that the proposed arrangement raises issues with respect to the public interest. The European Commission released on September 28, 2020 a statement of objections to the arrangement.

The Corporation is working with Air Canada to address the concerns raised by the Canadian and European agencies with a view of obtaining their approval of the arrangement, including with respect to remedies that may be proposed by Air Canada to address such concerns. Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the Arrangement Agreement). If Air Canada does not come to an agreement with the regulatory authorities and obtain the key regulatory approvals before the outside date, the arrangement agreement may be terminated in accordance with its terms with the payment by Air Canada of the reverse termination fee (provided the other conditions required for such payment are otherwise met, including that all other conditions precedent to closing have been complied with).

The process to obtain the key regulatory approvals is complicated by the COVID-19 pandemic and the impact it is having on the international commercial aviation market. The market conditions of the global industry have been completely transformed. Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of the key regulatory approvals, especially regarding the appropriate package of remedies aimed at obtaining those approvals.

The revised arrangement agreement also contains a new closing condition that Transat's level of net indebtedness, consisting of certain liabilities less certain assets as agreed with Air Canada, not exceed a certain specified threshold. Many factors could impact the level of net indebtedness during the period leading up to the effective time, and there can be no certainty that Transat will comply with the requisite threshold as of the effective time.

There are no assurances that the transaction will be completed on the terms and conditions described in the circular or at all. If the transaction proposed under the arrangement is not completed for any reason, there is a risk that Transat's lenders, lessors, credit card processors, clients and other trade partners become more preoccupied by Transat's financial position, prospects and ability to execute its strategic plan as a going concern, which could result in more onerous credit terms, repayment obligations, an inability to refinance maturing indebtedness or find new sources of financing, restricted access to goods and services, and/or reduced business, all of which could significantly and adversely affect Transat's cash flows and ability to continue as a going concern.

In addition, failure to complete the transaction proposed under the arrangement for any reason could materially negatively impact the market price of the Corporation's securities. If the transaction proposed under the arrangement is not completed for any reason, there can be no assurance that management will be successful in its efforts to identify and implement other strategic alternatives that would be in the best interests of the Corporation and its stakeholders within the context of existing economic, market, regulatory and competitive conditions in the industries in which the Corporation operates, on favourable terms and timing or at all, and, if implemented, that such actions would have the intended results. We also have incurred significant transaction and related costs in connection with the transaction proposed under the arrangement, and additional significant or unanticipated costs may be incurred.

Restrictive covenants of the Corporation until the effective time and uncertainty that may adversely affect the Corporation's business

Since having entered into the 2019 arrangement agreement, the Corporation has been subject to certain restrictive covenants which have been maintained or enhanced under the revised arrangement agreement, including investments relating to its hotel strategy. These restrictions have prevented and may continue to prevent the Corporation from pursuing other business opportunities. Moreover, the uncertainty regarding the satisfaction of all required conditions, including the key regulatory approvals, may bring clients and suppliers to delay or defer decisions concerning their business with the Corporation, which may adversely affect the business and operations of the Corporation, regardless of whether the arrangement is ultimately completed. Similarly, this uncertainty may adversely affect the Corporation's ability to attract or retain key personnel. Given the length of time lapsed since the 2019 arrangement agreement was entered into and the length of time anticipated before the key regulatory approvals are obtained, and the risks that such approvals may not be obtained, a termination of the arrangement agreement could materially and adversely affect the business of the Corporation and its ability to carry out its strategic plan.

Moreover, although the Corporation has been able to put in place the subordinated short term credit facility and amendments to its revolving term credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated on or before the outside date. In particular, the subordinated short term credit facility matures on the earlier of March 31, 2021 and the closing of the arrangement. Furthermore, the suspension of the application of financial ratios under the Corporation's revolving term credit facility and the subordinated short term credit facility expires on January 30, 2021, after which time, absent any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. Pursuant to the terms of the arrangement agreement, the Corporation's ability to put in place new sources of financing is restricted and requires Air Canada's consent. As a result, if the requisite shareholder and regulatory approvals are not obtained and the arrangement is not consummated on or prior to the outside date, the Corporation will need to address the challenges posed by its cash position and the maturing lending facilities. If the Corporation is not able to renew maturing facilities at acceptable conditions or find financing alternatives, its financial position and business prospects could be materially and adversely affected .

Termination in certain circumstances, including if the arrangement resolution is not approved by the shareholders, and termination fee

Each of Transat and Air Canada has the right, in certain circumstances, including if the arrangement resolution is not approved by shareholders, in addition to termination rights relating to the failure to satisfy the conditions of closing, to terminate the arrangement agreement. Accordingly, there can be no certainty, nor can Transat provide any assurance, that the arrangement agreement will not be terminated by either of Transat or Air Canada prior to the completion of the arrangement. Transat's business, financial condition or results of operations could also be subject to various material adverse consequences, including that Transat may remain liable for significant costs relating to the arrangement including, among others, financial advisory, legal, accounting and printing expenses. Under the arrangement agreement, Transat is required to pay to Air Canada the termination fee in the event that the arrangement agreement is terminated following the occurrence of a termination fee event and Air Canada is required to pay to Transat the reverse termination fee in the event that the arrangement agreement is terminated following the occurrence of a reverse termination fee event.

Moreover, although the Corporation has been able to put in place the subordinated short term credit facility and amendments to its revolving term credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated on or before the outside date. In particular, the subordinated short term credit facility matures on the earlier of March 31, 2021 and the closing of the arrangement. Furthermore, the suspension of the application of financial ratios under the Corporation's revolving term credit facility and the subordinated short term credit facility expires on January 30, 2021, after which time, absent any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. Pursuant to the terms of the arrangement agreement, the Corporation's ability to put in place new sources of financing is restricted and requires Air Canada's consent. As a result, if the requisite shareholder and regulatory approvals are not obtained and the arrangement is not consummated on or prior to the outside date, the Corporation will need to address the challenges posed by its cash position and the maturing lending facilities. If the Corporation is not able to renew maturing facilities at acceptable conditions or find financing alternatives, its financial position and business prospects could be materially and adversely affected, and there may be a significant risk as to the viability of the Corporation and its ability to continue operating as a going concern, which could force Transat to proceed with a reorganization of operations that could reduce substantially all of the value of its equity.

Furthermore, if the arrangement is not approved by shareholders and otherwise not consummated, there is a risk that Transat's lenders, lessors, credit card processors, clients and other trade partners become more preoccupied by Transat's financial position, prospects and ability to execute its strategic plan as a going concern, which could result in more onerous credit terms, repayment obligations, an inability to refinance maturing indebtedness or find new sources of financing, restricted access to goods and services, and/or reduced business, all of which could significantly and adversely affect Transat's cash flows and ability to continue as a going concern.

Uncertainty surrounding the arrangement

As the arrangement is dependent upon satisfaction of a number of conditions precedent, its completion is uncertain. In response to this uncertainty, Transat's clients may delay or defer decisions concerning Transat. Any delay or deferral of those decisions by clients could adversely affect the business and operations of Transat, regardless of whether the arrangement is ultimately completed. Similarly, uncertainty may adversely affect Transat's ability to attract or retain key personnel. In the event the arrangement agreement is terminated, the Corporation's relationships with customers, suppliers, creditors, lessors, employees and other stakeholders may be adversely affected. Changes in such relationships could adversely affect the business and operations of the Corporation.

4.9.3 Risks related to Human Resources

Labour costs constitute one of Transat's largest operating cost items. There can be no assurance that Transat will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial position.

The Corporation's ability to achieve its business plan is a function of the experience of its key executives and employees, and their expertise in the tourism, travel and air carrier industries. The loss of key employees could adversely affect our business and operating results. Further, our recruitment program, salary structure, performance management programs, succession plan, retention plan, as well as our training plan carry risks that could have adverse effects on our ability to attract and retain the skilled resources needed to sustain the Corporation's growth and success. Retention risk is all the more likely amid the COVID-19 pandemic, which is putting strong pressure on all of the Corporation's employees, given the outlook of a very slow recovery in the tourism industry.

As at October 31, 2020, the Corporation had 5,100 employees, nearly 75% of whom were inactive as at that date. Canadian employees, both active and inactive, benefit from employee assistance programs subsidized by the Canadian government. The Corporation's Air Transat subsidiary is the only subsidiary with unionized employees, who are governed by six collective agreements, three of which will expire in 2021 and two in 2022. The Air Line Pilots Association agreement, which expired on May 1, 2020, has been extended for a one year term until April 30, 2021. Furthermore, it is possible that negotiations to renew these collective agreements could give rise to work stoppages or slowdowns or higher labour costs in the coming years that could unfavourably impact our operations and operating income.

4.9.4 Risks related to Hotel Development

Transat had started investing in the hotel industry in 2018 to take advantage of this activity's currently favourable position in its tourism chain. However, as a result of the arrangement agreement with Air Canada, the investments required for such hotel development were suspended. If the said transaction does not occur, the delayed resumption of hotel development could reduce the positive impacts expected initially and, consequently, the results of operations of the Corporation could be adversely affected. The decision to pursue hotel development will also depend on the Corporation's cash position and its financing capacity in the current environment affected by the COVID-19 pandemic. Also, in the event that the Corporation decides to develop its hotel business, we may be exposed to risks which may include, among others: construction delays and cost overruns which may increase the cost of the project; difficulties in obtaining zoning, occupancy and other required governmental permits and authorizations; strikes or other local labour issues; development fees incurred for projects that are not completed; significant investments with no immediate corresponding revenues; natural risks such as earthquakes, hurricanes, floods or fires which may negatively impact a resort; the ability to raise capital, including construction financing; and government restrictions with respect to the nature and size of a hotel project.

As a result of the foregoing, the Corporation cannot guarantee that any hotel development project would be completed on time or within the budget limits. In addition, there is a risk that the rate of return on investments will be inferior to the returns expected when the project is undertaken. Consequently, the results of operations from such hotel development could be negatively affected, which could in turn have a material adverse effect on the Corporation's business, financial position, liquidity, results of operations and prospects.

5. DIVIDENDS

Transat has not declared or paid dividends to holders of the Variable Voting Shares and of the Voting Shares for any of the three most recently completed financial years in order to keep cash on hand to develop the hotel business and contend with business challenges arising from the prevailing economy. No decision has been taken with respect to future dividends, and no assurance can be given that any dividends will be paid in the future.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

We refer you to our Management's Discussion and Analysis for the year ended October 31, 2020, available for consultation on SEDAR (www.sedar.com).

7. OUR SHARE CAPITAL STRUCTURE

7.1 CONSTRAINTS ON SHARE OWNERSHIP

CLASS A VARIABLE VOTING SHARES

Since the plan of arrangement approved by the shareholders of the Corporation and the Québec Superior Court became effective on May 8, 2019, Class A Variable Voting Shares entitle their holders to one vote per share at any meeting of the shareholders, subject to an automatic decrease of the votes attached to such shares in the event that (i) any single non-Canadian, either individually or in affiliation with any other person, holds more than 25% of the votes cast, (ii) any single non-Canadian authorized to provide air service in any jurisdiction (in the aggregate) holds more than 25% of the votes cast, or (iii) the votes that would be cast by the holders of Class A Shares exceed 49%. If any of the above-mentioned applicable limitations is exceeded, the votes that should be attributed to holders of Class A Variable Voting Shares will be attributed as follows:

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

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

CLASS B VOTING SHARES

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

7.2 INFORMATION AND REPORTING

Transat or its transfer agent will provide the shareholders, in accordance with the applicable securities legislation, with Transat's financial statements (including the annual and quarterly financial statements) and other reports required by the applicable laws, including the prescribed forms required by the shareholders to file their tax returns in accordance with the *Income Tax Act* and the equivalent provincial legislation.

Before each shareholder meeting, Transat's Board of Directors will provide the shareholders (with the Notice of Meeting) with a form of proxy and all the information that must be provided to them, under the applicable legislation and the TSX rules.

Transat's directors and officers are required to file insider reports and comply with the insider trading provisions of the Canadian securities legislation regarding trading by these persons in Transat's securities.

7.3 SHAREHOLDER RIGHTS PLAN OF TRANSAT

Transat's Shareholder Subscription Rights Plan dates back to February 3, 1999 and was ratified by the shareholders on March 24, 1999. This plan was renewed by the Board of Directors and ratified by the shareholders every 3 years. The last renewal and ratification occurred in 2017 (the "2017 Rights Plan"). The 2017 Rights Plan came into force after the annual and special meeting of the shareholders held on March 16, 2017, and will expire at the close of business the day after the annual meeting of shareholders to be held in 2020, unless earlier terminated in accordance with its terms.

The 2017 Rights Plan is designed to provide Transat's shareholders and the Board of Directors additional time to assess an unsolicited takeover bid for the Corporation and, where appropriate, to give the Board of Directors additional time to pursue alternatives for maximizing shareholder value. It also encourages fair treatment of all shareholders by providing them with an equal opportunity to participate in a takeover bid. The 2017 Rights Plan creates one right in respect of each Variable Voting Share and each Voting Share of Transat outstanding as at March 16, 2017, or subsequently issued. Presently, until the separation time, which typically occurs at the time of an unsolicited takeover bid whereby an Acquiring Person (as defined in the rights plan) acquires or attempts to acquire 20% or more of Transat's outstanding Variable Voting Shares and Voting Shares, calculated on a combined basis, the rights are not separable from the shares, are not exercisable and no separate rights certificates are issued.

Under the 2017 Rights Plan, each right, other than those held by an Acquiring Person and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20% or more of the outstanding Variable Voting Shares and Voting Shares of Transat calculated on a combined basis (otherwise than through the "Permitted Bid" requirements of the rights plan) to purchase from Transat $200 worth of Variable Voting Shares or Voting Shares for $100 (i.e. at a 50% discount). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Variable Voting Shares.

The 2017 Rights Plan reflects the new rules governing takeover bids entered into in 2016, extending the minimum duration of a bid to at least 105 days. Consequently, for a bid to be eligible and considered authorized, the takeover bid must be presented in a takeover bid circular to all holders of common shares in order to be valid for at least 105 days and must contemplate more than 50% of the outstanding shares, as provided for in the 2017 Rights Plan.

What is more, the 2017 Rights Plan still gives effect to a 2014 decision issued by Canadian Securities Administrators that effectively treats Transat's Variable Voting Shares and Voting Shares as a single class for the purposes of applicable takeover bid requirements and early warning reporting requirements under Canadian securities laws. Consequently, the 2017 Rights Plan is triggered in the event of an offer to acquire 20% or more of both the Variable Voting Shares and the Voting Shares, on a combined basis, and not when the offer contemplates the acquisition of

20% or more of either class separately. A copy of the 2014 decision issued by the Canadian Securities Administrators is available under Transat's profile on SEDAR (www.sedar.com).

7.4 GENERAL DESCRIPTION OF OUR SHARE CAPITAL

As at the date of this AIF, Transat's share capital is composed of an unlimited number of Voting Shares and Variable Voting Shares. As at October 31, 2020, there were 3,785,312 issued and outstanding Variable Voting Shares and 33,961,778 issued and outstanding Voting Shares. Below is a summary describing the rights, privileges, restrictions and conditions attached to Transat's Variable Voting Shares, Voting Shares and Preferred Shares.

7.4.1 Class A Variable Voting Shares

7.4.1.1 Voting Rights

The holders of Class A Variable Voting Shares (hereinafter, the "Variable Voting Shares") shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of the Corporation, except where the holders of a specified class are entitled to vote separately as a class as provided in the *Canada Business Corporations Act* (hereinafter, the "CBCA").

The holders of Variable Voting Shares shall be entitled to one vote per Variable Voting Share held, unless any of the thresholds set forth in Sections 7.4.1.1.1, 7.4.1.1.2 and 7.4.1.1.3, as the case may be, are otherwise surpassed at any time, in which case the votes attached to a Variable Voting Share will decrease as described in this Section 7.4.1.1 below.

7.4.1.1.1 Single Non-Canadian Holder

If at any time:

(i) a single non-Canadian holder, either individually or in affiliation with any other person, holds a number of Variable Voting Shares outstanding that, as a percentage of the total number of all voting shares outstanding, exceeds 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation), or

(ii) the total number of votes that would be cast by or on behalf of a single non-Canadian holder, either individually or in affiliation with any other person, at any meeting, would exceed 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at such meeting;

then the votes attached to each Variable Voting Share held by such single non-Canadian holder and by any person in affiliation with such single non-Canadian holder will decrease proportionately and automatically without further act or formality only to such extent that, as a result (a) the Variable Voting Shares held by such single non-Canadian holder and by any person in affiliation with such single non-Canadian holder do not carry in the aggregate more than 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (b) the total number of votes cast by or on behalf of such single non-Canadian holder and by any person in affiliation with such single non-Canadian holder at any meeting do not exceed in the aggregate 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at such meeting.

7.4.1.1.2 Non-Canadian Holders Authorized to Provide Air Service

If at any time:

(i) one or more non-Canadian holders authorized to provide air service, collectively hold, either individually or in affiliation with any other person, a number of Variable Voting Shares outstanding that, as a percentage of the total number of all voting shares outstanding, after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1 (if any, as may be required thereunder), exceeds 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation); or

(ii) the total number of votes that would be cast by or on behalf of non-Canadian holders authorized to provide air service and persons in affiliation with any non-Canadian holders authorized to provide air service at any meeting would, after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1 (if any, as may be required thereunder), exceed 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at such meeting,

then the votes attached to each Variable Voting Share held by all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service will decrease proportionately and automatically without further act or formality only to such extent that, as a result (a) the Variable Voting Shares held by all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service do not carry in the aggregate more than 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (b) the total number of votes cast by or on behalf of all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service at any meeting do not exceed in the aggregate 25% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at such meeting.

7.4.1.1.3 General Voting

If at any time:

(i) the number of Variable Voting Shares outstanding as a percentage of the total number of all voting shares outstanding after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1. and after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service in accordance with Section 7.4.1.1.2 (in each case, if any, as may be required under such Sections), exceeds 49% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation); or

(ii) the total number of votes that would be cast by or on behalf of holders of Variable Voting Shares at any meeting would, after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by any single non-Canadian holder and by any person in affiliation with such single non-Canadian holder in accordance with Section 7.4.1.1.1 and after the application of the automatic proportionate decrease to the votes attached to all of the Variable Voting Shares held by non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service in accordance with Section 7.4.1.1.2 (in each case, if any, as may be required under such Sections), exceeds 49% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at such meeting.

then, the votes attached to each Variable Voting Share will decrease proportionately and automatically without further act or formality only to such extent that, as a result (a) the Variable Voting Shares do not carry more than 49% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (b) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% (or any different percentage that may be prescribed by a law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total number of votes cast at such meeting.

7.4.1.2 Dividends

Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation ranking prior to the Variable Voting Shares, the holders of Variable Voting Shares shall be entitled to receive any dividend declared by the directors of the Corporation at the times and for the amounts that the Board of Directors may, from time to time, determine. The voting shares shall rank equally as to dividends, and all dividends declared in any fiscal year of the Corporation shall be declared in equal or equivalent amounts per share on all voting shares then outstanding, without preference or distinction.

7.4.1.3 Subdivision or Consolidation

No subdivision or consolidation of Variable Voting Shares or Voting Shares shall occur unless the Variable Voting Shares or the Voting Shares, as the case may be, are at the same time subdivided or consolidated in the same manner, so as to maintain and preserve the respective rights of the holders of the shares of each class.

7.4.1.4 Liquidation, Dissolution or Winding-up

Subject to the rights, privileges, restrictions and conditions attaching to other classes of shares ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding-up of the Corporation, the holders of voting shares shall be entitled to receive the remaining property of the Corporation and shall be entitled to share equally, share for share, in all distributions of such assets.

7.4.1.5 Conversion

7.4.1.5.1 Automatic

Each issued and outstanding Variable Voting Share shall be convertible into one Voting Share, automatically and without any further act on the part of the Corporation or the holder, if:

(i) such Variable Voting Share is or becomes owned and controlled by a Canadian; or

(ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

7.4.1.5.2 Upon an Offer

In the event that an offer is made to purchase Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, to be made to all or substantially all the holders of Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to Section 7.4.1.1., notwithstanding their conversion. The transfer agent shall deposit the resulting Voting Shares on behalf of the holder.

To exercise such conversion right, the holder or such holder's attorney duly authorized in writing shall:

(i) give written notice to the transfer agent of the exercise of such right and of the number of Variable Voting Shares in respect of which the right is being exercised;

(ii) deliver to the transfer agent the share certificate or certificates representing the Variable Voting Shares in respect of which the right is being exercised; and

(iii) pay any applicable stamp tax or similar duty on or in respect of such conversion.

No share certificates representing Voting Shares resulting from the conversion of Variable Voting Shares shall be delivered to the holders on whose behalf such deposit is being made.

If Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the holder or are not taken up by the offeror; or the offer is abandoned or withdrawn by the offeror or the offer otherwise expires without such Voting Shares being taken up and paid for, the Voting Shares resulting from the conversion will be reconverted into Variable Voting Shares and a share certificate representing the Variable Voting Shares will be sent to the holder by the transfer agent. Voting Shares resulting from the conversion and taken up and paid for by the offeror shall be deemed reconverted into Variable Voting Shares at the time the offeror is required under the applicable securities legislation to take up and pay for such shares if the offeror is not a Canadian.

In the event that the offeror takes up and pays for the Voting Shares resulting from conversion, the transfer agent shall deliver to the holders thereof the consideration paid for such shares by the offeror.

There will be no right to convert the Variable Voting Shares into Voting Shares in the following cases:

(i) the offer to purchase Voting Shares is not required under applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed to be made to all or substantially all of the holders of Voting Shares in a province of Canada to which the requirement applies, that is, the offer is an "exempt take-over bid" within the meaning of the foregoing securities legislation;

(ii) an offer to purchase Variable Voting Shares is made concurrently with an offer to purchase the Voting Shares and the two offers are identical in respect of price per share, percentage of outstanding shares for which the offer is made, and in all material respects, including in respect of the conditions attaching thereto. The offer to purchase the Variable Voting Shares must be unconditional, subject to the exception that the offer for the Variable Voting Shares may contain a condition to the effect that the offeror is not required to take up and pay for Variable Voting Shares deposited pursuant to the offer if no shares are purchased pursuant to the contemporaneous offer for the Voting Shares; or

(iii) holders of more than sixty-six and two-thirds percent (66⅔%) of the then outstanding Voting Shares (excluding shares owned immediately prior to the offer by the offeror and any joint actor) certify to the transfer agent and to the secretary of the Corporation that they will not deposit any shares in response to the offer for the Voting Shares.

7.4.1.6 Constraints on Ownership

The Variable Voting Shares may only be owned or controlled by persons who are not Canadians.

7.4.2 Class B Voting Shares

7.4.2.1 Voting Rights

The holders of Class B Voting Shares (hereinafter, the "Voting Shares") shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of the Corporation, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA. Each Voting Share shall confer the right to one vote per share at all meetings of the shareholders of the Corporation.

7.4.2.2 Dividends and Distributions

Subject to the rights, privileges, restrictions and conditions attached to any class of shares of the Corporation ranking prior to the Voting Shares, holders of Voting Shares shall be entitled to receive the dividends declared by the directors of the Corporation at the times and for the amounts that the Board of Directors may, from time to time, determine. The voting shares shall rank equally as to dividends, and all dividends declared in any fiscal year of the Corporation shall be declared in equal or equivalent amounts per share on all voting shares then outstanding, without preference or distinction.

7.4.2.3 Subdivision or Consolidation

No subdivision or consolidation of Voting Shares or Variable Voting Shares shall occur unless the Voting Shares or the Variable Voting Shares, as the case may be, are at the same time subdivided or consolidated in the same manner, so as to maintain and preserve the respective rights of the holders of shares of each class.

7.4.2.4 Liquidation, Dissolution or Winding-up

Subject to the rights, privileges, restrictions and conditions attaching to other classes of shares ranking prior to the Voting Shares, upon liquidation, dissolution or winding-up of the Corporation, the holders of voting shares shall be entitled to receive the remaining property of the Corporation and shall be entitled to share equally, share for share, in all distributions of such assets.

7.4.2.5 Conversion

7.4.2.5.1 Automatic

Subject to the foreign ownership restrictions of the CTA, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of the Corporation or the holder, if such Voting Share is or becomes owned or controlled, by a person who is not a Canadian.

7.4.2.5.2 Upon an Offer

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, to be made to all or substantially all the holders of Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to Section 7.4.2.1, notwithstanding their conversion. The transfer agent shall deposit the resulting Variable Voting Shares on behalf of the holder.

To exercise such conversion right, the holder or such holder's attorney duly authorized in writing shall:

(i) give written notice to the transfer agent of the exercise of such right and of the number of Voting Shares in respect of which the right is being exercised;

(ii) deliver to the transfer agent the share certificate or certificates representing the Voting Shares in respect of which the right is being exercised; and

(iii) pay any applicable stamp tax or similar duty on or in respect of such conversion.

No share certificates representing Variable Voting Shares resulting from the conversion of the Voting Shares will be delivered to the holders on whose behalf such deposit is being made.

If Variable Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the holder or are not taken up by the offeror; or the offer is abandoned or withdrawn by the offeror or the offer otherwise expires without such Variable Voting Shares being taken up and paid for, the Variable Voting Shares resulting from the conversion will be reconverted into Voting Shares and a share certificate representing the Voting Shares will be sent to the holder by the transfer agent. Variable Voting Shares resulting from the conversion and taken up and paid for by the offeror shall be deemed reconverted into Voting Shares at the time the offeror is required under the applicable securities legislation to take up and pay for such shares if the offeror is Canadian.

In the event that the offeror takes up and pays for the Variable Voting Shares resulting from conversion, the transfer agent shall deliver to the holders thereof the consideration paid for such shares by the offeror.

There will be no right to convert the Voting Shares into Variable Voting Shares in the following cases:

(i) the offer to purchase Variable Voting Shares is not required under applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed to be made to all or substantially all of the holders of Variable Voting Shares, that is, the offer is an “exempt take-over bid” within the meaning of the foregoing securities legislation;

(ii) an offer to purchase Voting Shares is made concurrently with an offer to purchase Variable Voting Shares and the two offers are identical in respect of price per share, percentage of outstanding shares for which the offer is made, and in all material respects, including in respect of the conditions attaching thereto. The offer to purchase the Voting Shares must be unconditional, subject to the exception that the offer for the Voting Shares may contain a condition to the effect that the offeror is not required to take up and pay for Voting Shares deposited pursuant to the offer if no shares are purchased pursuant to the contemporaneous offer for the Variable Voting Shares; or

(iii) holders of more than sixty-six and two-thirds percent (66⅔%) of the then outstanding Variable Voting Shares (excluding shares owned immediately prior to the offer by the offeror and any joint actor) certify to the transfer agent and to the secretary of the Corporation that they will not deposit any shares in response to the offer for the Variable Voting Shares.

7.4.2.6 Constraints on Ownership

The Voting Shares may only be owned and controlled by persons who are Canadians.

7.4.3 Preferred Shares

The Preferred Shares, if issued, will rank prior to the Variable Voting Shares and the Voting Shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution or liquidation of the Corporation or the distribution of its capital, no amount shall be paid and no asset shall be distributed to the holders of shares of any other class of the Corporation until the holders of the Preferred Shares receive an amount equal to the value of the consideration received by the Corporation upon the issuance of such shares and, in the case of Preferred Shares of a series entitled to cumulative dividends, of all dividends then accrued and unpaid, and, for Preferred Shares of a series entitled to non-cumulative dividends, of all dividends declared thereon and unpaid, if any, plus any other amount, if any, determined by the directors in respect of each series prior to the issue of any Preferred Shares of such series. The holders of the Preferred Shares of a particular series shall be entitled to the payment of this entire amount from the assets of the Corporation in preference and prior to the holders of any other class of shares of the capital of the Corporation.

8. MARKET FOR SECURITIES

On November 16, 2015, the Transat Variable Voting Shares and Voting Shares were listed on the TSX under a single symbol, “TRZ”. Previously, the shares were listed respectively under two symbols, “TRZ.A” and “TRZ.B”.

The following table sets out the reported high and low and closing prices and trading volume of the Variable Voting Shares and Voting Shares listed and traded under the symbol “TRZ” for each month of the fiscal year ended October 31, 2020.

TRANSAT A.T. INC. “TRZ”			
Month	**High**	**Low**	**Volume**
October 2020	$ 5.03	$ 3.56	11,141,987
September 2020	$ 5.27	$ 3.80	3,880,189
August 2020	$ 5.46	$ 5.05	2,400,249

TRANSAT A.T. INC. “TRZ”			
July 2020	$ 5.85	$ 5.00	3,494,195
June 2020	$ 7.22	$ 5.61	10,576,008
May 2020	$ 10.06	$ 6.55	5,278,665
April 2020	$ 10.90	$ 6.65	3,892,098
March 2020	$ 15.21	$ 4.68	8,305,180
February 2020	$ 16.32	$ 13.94	1,830,197
January 2020	$ 16.35	$ 15.94	1,372,520
December 2019	$ 16.26	$ 15.91	1,261,313
November 2019	$ 16.40	$ 15.16	2,026,929

On October 31, 2020, the closing price on the TSX of the Variable Voting Shares and the Voting Shares was $4.65 per share.

9. OUR DIRECTORS AND OFFICERS

9.1 OUR DIRECTORS

The following table states, as at the date of this AIF, the name, province and country of residence, year of election as director and present principal occupation of each director of Transat, as well as the number of voting shares of Transat owned by each director or over which he or she exercises control or direction. Each of our directors shall hold office until Transat’s next annual meeting or until his or her replacement is elected.

Name of Director, Province and Country of Residence	Principal Occupation	Director since	Expected Retirement[(1)]	Voting Shares Owned or Controlled or Directed[(2)]	Deferred Share Units (DSUs)[(1)]
Jean-Marc Eustache *Québec, Canada*	Chairman of the Board, President and Chief Executive Officer	February 1987	2023	427,202	10,331
Raymond Bachand *Québec, Canada*	Lead Director and Strategic Advisor, Norton Rose Fulbright	March 2014	2022	0	45,148
Louis-Marie Beaulieu *Québec, Canada*	Chairman of the Board and Chief Executive Officer of Groupe Desgagnés Inc.	March 2013	2029	20,000	29,601
Lucie Chabot *Québec, Canada*	Corporate Director	October 2015	2034	6,290	18,158
Lina De Cesare *Québec, Canada*	Corporate Director	May 1989	2026	35,576	19,476
W. Brian Edwards *Québec, Canada*	Corporate Director	June 2010	2024	18,790	48,287

Name of Director, Province and Country of Residence	Principal Occupation	Director since	Expected Retirement[1]	Voting Shares Owned or Controlled or Directed[2]	Deferred Share Units (DSUs)[1]
Susan Kudzman *Québec, Canada*	Corporate Director	March 2014	2037	0	45,240
Jean-Yves Leblanc *Québec, Canada*	Corporate Director	December 2008	2021	13,000	29,493
Ian Rae *Québec, Canada*	Founder and Chief Executive Officer of CloudOps Inc.	October 2018	2047	0	3,949
Jacques Simoneau *Québec, Canada*	Corporate Director	November 2000	2032	18,280	21,658
Louise St-Pierre *Québec, Canada*	Corporate Director	October 2017	2030	0	7,523
Philippe Sureau *Québec, Canada*	Corporate Director	February 1987	2024	323,209	25,548

(1) According to the Policy on Diversity of the Board and Senior Management and the mechanisms for board renewal approved by the Board of Directors on September 9, 2015, a director usually becomes ineligible when he or she reaches retirement age, which is set at seventy-five (75) years old. Notwithstanding the foregoing, the Board maintains its full discretion in the application of the criteria regarding the retirement age, which will take into account, among other things, the years of service of the members of the Board and the expertise required from the Board at that time.

(2) The number of shares or differed share units indicated is given as at October 31, 2020 and is based on the declarations of our directors. Under the guidelines adopted by Transat, each director who is not an employee must hold a number of shares or deferred share units of Transat equivalent to at least five times the annual retainer to which he or she is entitled after having served five years as a director. Please refer to our Arrangement Circular for additional detail (or our most recent Management Proxy Circular).

Each of the directors of Transat has had the principal occupation indicated opposite his or her name during the past five years, except as indicated below:

- Mr. Raymond Bachand retired from political life on September 13, 2013. Since January 20, 2014, he acts as strategic advisor for the law firm Norton Rose Fulbright;

- Ms. Lucie Chabot was Vice-President and Chief Financial Officer of SAIL Outdoors Inc. from 2014 to 2018. Since 2017, she is the chair of the board of directors of CDMV and, since May 2019, she is also a member of the board of directors and the audit committee of Albecour Inc. and a member of the board of directors, the audit committee and the governance committee of Tourisme Montréal. Since April 2020 she is also a member of the board of directors and the audit committee of Richelieu Hardware Ltd.;

- Mrs. Lina De Cesare was Advisor to the President of Transat from November 2009 to October 2014, and, from November 2014 to October 2015, she was acting as a consultant to the Corporation. Up until November 2009, she was President, Tour Operators of Transat and President of several subsidiaries of the Corporation, namely Cameleon Hotel Management Corporation, Cameleon Marival (Canada) Inc., Trafictours Canada Inc. and Transat Holidays USA, Inc.;

- Ms. Susan Kudzman is an actuary and was Executive Vice-President, Chief Risk Officer and Corporate Affairs at the Laurentian Bank of Canada until 2018. Prior to that, she held the position of Chief Risk Officer at the Caisse de dépôt et placement du Québec. Ms. Kudzman is currently chair of the board of directors of Yellow Pages and has been a member of the board since November 2014. Since September 2018, she is a member of the board of directors of Medavie and a member of its Audit and Risk Committee and Human Resources Committee. Since July 2020, she also a member of the board of directors of Financeit, a private company majority-owned by Goldman Sachs, and since August 2020 sits on the board of directors of Nomad Royalty Company Ltd, a gold and silver royalty company.

- Mr. Ian Rae is the founder and CEO of CloudOps Inc., a corporation providing cloud computing services, solutions and products since 2005. Mr. Rae is also the founder of cloud.ca, a Canadian cloud infrastructure platform. Prior to CloudOps, Mr. Rae was chief engineer at Coradiant, and, prior thereto, he was CIO at Candarel Management. Mr. Rae has been a member of the board of directors of Genome Canada since 2016. He is also involved in the startup community as an advisor and angel investor;

- Mr. Jacques Simoneau was President and CEO and a director of Gestion Univalor, LP from 2012 to 2019. He was previously Executive Vice-President of Investment at Business Development Bank of Canada (BDC), President and CEO of Hydro-Québec Capital Inc. and Senior Vice-President, Industries et services au Fonds de Solidarité FTQ. He currently serves on the boards of directors of Exploration Azimut Inc. since 2012, Génome Canada since 2016 and Edilex Inc. since 2017. He was also a member of the boards of directors of Génome Québec from 2013 to 2016 and QuébecInnove in 2017-2018.

- Ms. Louise St-Pierre was President and Chief Executive Officer of Cogeco Connexion from 2013 to 2016. She also held several positions as vice-president within Cogeco Connexion, including Senior Vice-President, Residential Services from 2009 to 2013, Vice-President, Customer Services and Operations from 2007 to 2009, and Vice-President, Chief of Information Technology from 1999 to 2007. She is chairing the Board of Directors of Domaine Forget in Charlevoix since 2017 but has been a director thereof since 2012. She also sits on the Board of Directors of Arterra Wines Canada (OTPP); and

- Mr. Philippe Sureau was Advisor to the President of Transat from November 2009 to October 2014. Since 2018, he is the chair of the board of Tourisme Montréal.

For a detailed description of all of the other boards of directors on which the Corporation's directors have served, please see our Management Proxy Circular for the Annual Meeting of the Shareholders that will be held on March 12, 2020 (or in our most recent Management Proxy Circular, where applicable) available on SEDAR (www.sedar.com).

Transat's Board of Directors has created four committees, to which it has delegated specific mandates and necessary powers to assist it in effectively fulfilling its duties. The table below indicates the committees of the Board of Directors, with their respective membership as at October 31, 2020:

	EXECUTIVE COMMITTEE	AUDIT COMMITTEE	HUMAN RESOURCES AND COMPENSATION COMMITTEE	RISK MANAGEMENT AND CORPORATE GOVERNANCE COMMITTEE
Chair	**Jean-Marc Eustache**	**Jean-Yves Leblanc**	**W. Brian Edwards**	**Jacques Simoneau**
Members	▪ Raymond Bachand ▪ W. Brian Edwards ▪ Jean-Yves Leblanc ▪ Jacques Simoneau	▪ Raymond Bachand ▪ Louis-Marie Beaulieu ▪ Lucie Chabot ▪ Jacques Simoneau	▪ Louis-Marie Beaulieu ▪ Susan Kudzman ▪ Jean-Yves Leblanc ▪ Louise St-Pierre	▪ Lucie Chabot ▪ Lina De Cesare ▪ W. Brian Edwards ▪ Susan Kudzman

Since December 12, 2018, Mr. Raymond Bachand is the Lead Director of Transat. For more information, we refer you to Section 15 of this AIF.

On December 17, 2018, the Board of Directors of the Corporation formed a special committee to ensure that an independent and rigorous process to review the Arrangement proposal was put in place. This committee's membership, which is composed entirely of independent directors, is shown in the table below as at October 31, 2020:

SPECIAL COMMITTEE
Jean-Yves Leblanc, Chair
▪ Raymond Bachand ▪ W. Brian Edwards ▪ Jacques Simoneau ▪ Philippe Sureau

For more details on the committee and its functions and for a summary of the committee's activities, please refer to the section "The Arrangement" in the Arrangement Circular filed with the securities regulatory authorities in Canada and available on SEDAR (www.sedar.com).

9.2 Our Executive Officers

Current Members

The following table sets forth the names, province and country of residence of Transat's executive officers, their first year of service and current position held with Transat, as well as the number of voting shares of Transat owned or over which he or she exercises control or direction.

As at October 31, 2020, the executive officers and directors of the Corporation as a group hold a total of 1,355,559 Voting Shares, which represent 3.55% of the total number of issued and outstanding Voting Shares and Variable Voting Shares as at that date.

Name, Province and Country of Residence	First Year of Service with Transat	Position Held with Transat and Certain Subsidiaries	Voting Shares Owned or Controlled or Directed(1)
Jean-Marc Eustache *Québec, Canada*	1987	Chairman of the Board, President and Chief Executive Officer of Transat A.T. Inc.	427,202
Joseph Adamo *Québec, Canada*	2011	President and General Manager of Transat Distribution Canada Inc. and Vice-President, Chief Distribution Officer of Transat Tours Canada Inc.	43,910
Bernard Bussières *Québec, Canada*	2001	Vice-President, General Counsel and Corporate Secretary of Transat A.T. Inc.	80,096
Daniel Godbout *Québec, Canada*	1999	Senior Vice-President and Advisor to the President, Transat A.T. Inc.	61,217
Annick Guérard *Québec, Canada*	2002	Chief Operating Officer, Transat A.T. Inc. and President and General Manager of Transat Tours Canada Inc.	66,523
Christophe Hennebelle *Québec, Canada*	2009	Vice-President, Human Resources and Public Affairs of Transat A.T. Inc.	33,125

Name, Province and Country of Residence	First Year of Service with Transat	Position Held with Transat and Certain Subsidiaries	Voting Shares Owned or Controlled or Directed[1]
Bruno Leclaire *Québec, Canada*	2014	Chief Information Officer of Transat Tours Canada Inc.	22,628
Jean-François Lemay *Québec, Canada*	2011	President and General Manager of Air Transat A.T. Inc.	61,444
Denis Pétrin *Québec, Canada*	1990	Vice-President, Finance and Administration and Chief Financial Officer of Transat A.T. Inc.	91,879
Jordi Solé *Florida, United States*	2018	President, Hotel Division	10,776

(1) The number of shares indicated is given as at October 31, 2020 and is based on the declarations of our executive officers. It should be noted that the number of shares mentioned does not include, if applicable, sharespurchased during the year by the executive officers under the Transat Share Purchase Plan for the Benefit of All Employees or Executives or awarded at the beginning of the year under the Transat Permanent Stock Ownership Incentive Plan for Top Managers. In addition, it does not include Voting Shares that are subject to vesting conditions as is more fully described under section and table "Ownership of Securities" in the Arrangement Circular.

With the exception of Messrs. Jean-Marc Eustache, Bernard Bussières, Daniel Godbout and Denis Pétrin, who over the past five years have had the principal occupation indicated opposite their name, the other executive officers of Transat held the following positions:

- Mr. Joseph Adamo was the Vice-President, Marketing and E-Commerce of Transat Tours Canada from November 2011 to October 2014 and was also the General Manager of Transat Distribution Canada since June 2013. Since October 20, 2016, he is the President and General Manager of Transat Distribution Canada. Since May 1, 2017, he is the President of Transat Distribution Canada and the Vice-President and Chief Distribution Officer of Transat Tours Canada;

- Mrs. Annick Guérard was the Vice-President, South Products from November 2011 to December 2012 of Transat Tours Canada and, thereafter, she was the General Manager of Transat Tours Canada from December 2012 to October 2016. In 2016, she was appointed President and General Manager of Transat Tours Canada. On November 1, 2017, she was appointed Chief Operating Officer of Transat A.T. Inc.;

- Mr. Christophe Hennebelle held the position of Director, Human Resources of Look Voyages, from March to October 2009, the position of Director, Human Resources of Transat France, from November 2009 to July 2014, and the position of Vice-President, Human Resources and Talent Management of Transat, from August 2014 to June 2016. Since June 23, 2016, he is the Vice-President, Human Resources and Public Affairs of Transat;

- Mr. Jean-François Lemay held the position of General Manager of Air Transat from April 2013 to October 2016 and also held the position of Vice-President, Human Resources and Talent Management of Transat from October 2011 to August 2014. From October 2003 to October 2011, he was a Partner at Dunton Rainville practising in administrative and employment law. Since October 20, 2016, he is the President-General Manager of Air Transat; and

- Mr. Jordi Solé was previously Senior Vice-President, Operations of Blue Diamond Resorts from March 2015 to February 2018. Before that, he was National Executive Director, Mexico for the Iberostar Group from April 2009 to March 2015. Since February 20, 2018, he is the President of Transat's Hotel Division.

As at October 31, 2020, the aforementioned directors and officers collectively owned or controlled, directly or indirectly, 1,302,032 Voting Shares, representing approximately 3.45% of the outstanding Voting Shares, and 24,254 Variable Voting Shares, representing approximately 0.0194% of the outstanding Variable Voting Shares.

9.3 CEASE TRADE ORDERS OR BANKRUPTCIES

To Transat's knowledge, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, as at the date of the AIF, or was, within 10 years before the date of the AIF, a director or executive officer of any company that:

(i) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while that person was acting in that capacity and was in effect for a period of more than 30 consecutive days;

(ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after that person ceased to act in that capacity, was in effect for a period of more than 30 consecutive days and resulted from an event that occurred while that person was acting in that capacity; or

(iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets while that person was acting in that capacity or within a year of that person ceasing to act in that capacity.

9.4 PENALTIES OR SANCTIONS

To the best of the knowledge of the Corporation, no director or executive officer of Transat has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

9.5 PERSONAL BANKRUPTCIES

To the best of Transat's knowledge, no director or executive officer has declared bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

10. LEGAL PROCEEDINGS

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies, and their settlement should not have a significant negative impact on the Corporation's financial position. The Corporation has directors' and officers' liability insurance as well as professional liability insurance, and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

Since the COVID-19 pandemic, the Corporation has been subject to certain number of applications for authorization to institute a class action requesting the reimbursement of client deposits for airfare or vacation packages that had to be cancelled. The Corporation intends to vigorously defend itself. Recently, however, Canadian federal authorities have indicated their willingness to financially support the Canadian airline industry subject to the refunding of travel credits. The Corporation is awaiting further details in this regard from the Canadian federal authorities.

For more details on this subject we refer you to our MD&A.

10.1 OTHER

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15.1 million to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount is recognized as income taxes receivable as at October 31, 2020 and 2019.

11. TRANSFER AGENT AND REGISTRAR

As at the date of this AIF, the transfer agent and registrar for Transat's shares is AST Trust Company (Canada), 2001 Robert-Bourassa Blvd., Suite 1600, Montreal, Québec H3A 2A6. Their registrar offices are located in Toronto, Montreal, Calgary and Vancouver.

12. INTERESTS OF EXPERTS

Ernst & Young LLP is the independent auditor who prepared the auditors' report to shareholders with respect to the Corporation's consolidated financial statements for the years ended October 31, 2020, and October 31,2019 included in the Corporation's 2020 Annual Report. Ernst & Young LLP has confirmed to the Corporation that it is independent within the meaning of the Rules of Professional Conduct of the *Ordre des comptables professionnels agréés du Québec*.

13. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Certain directors and officers of Transat have interests with regard to the Arrangement that may be in addition to, or separate from, those of shareholders generally. These interests relate to, among other things and if applicable, change of control benefits, rights of indemnification and insurance, as well as employee retention plans. For more details on the interests of certain persons in the arrangement, please refer to the section entitled "Interests of Certain Persons in the Arrangement" in the Arrangement Circular.

14. MATERIAL CONTRACTS

As at the date of this AIF, we have entered into seventeen (17) airplane leases that are considered to be material, ten (10) of which were entered into during fiscal 2017, and to which seven (7) more were added during fiscal 2018. These airplane leases are the result of an agreement entered into between Air Transat and AerCap, pursuant to which Air Transat will lease a total of seventeen (17) Airbus A321neo LR aircraft. For a detailed description of the Airbus A321neo LRs and the role that they play in the Corporation's fleet strategy, see the section entitled "Air Transportation" in this AIF.

On June 27, 2019, Transat entered into a definitive Arrangement Agreement with Air Canada providing for the acquisition by Air Canada of all of Transat's issued and outstanding shares, which was amended August 11, 2019 by entering into an amendment agreement. Under the binding Arrangement Agreement, which was unanimously approved by Transat's Board of Directors and approved by a clear majority of Transat's security holders, Air Canada would acquire all of Transat's outstanding shares. Additional information concerning the terms of the Arrangement Agreement of 2019 and the background of the transaction was provided in the Arrangement Circular of July 19, 2019.

On October 9, 2020, Transat entered into a revised Arrangement Agreement with Air Canada, which cancels and replaces the arrangement agreement of 2019. Consummating the arrangement agreement of 2019 was no longer a viable option given all the challenges faced by the Corporation due to the COVID-19 pandemic. The revised arrangement agreement was unanimously approved by Transat's Board of Directors and will be submitted for approval by the Corporation's shareholders at a special shareholder meeting to be held on December 15, 2020. Additional information concerning the terms of the Revised Arrangement Agreement and its background was provided in the Arrangement Circular of November 12, 2020.

The transaction remains subject to approval by the regulatory authorities and other closing conditions provided in the Revised Arrangement Agreement.

Copies of the Arrangement Agreement of 2019, the Arrangement Circular relating to an arrangement between Transat and Air Canada dated July 19, 2019, the Revised Arrangement Agreement, and the Arrangement Circular relating to the revised arrangement with Air Canada dated November 12, 2020 are available on SEDAR (www.sedar.com).

15. FORWARD-LOOKING INFORMATION

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

Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements.

As at October 31, 2020, there exists material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. Section 7 of the MD&A, Financial position, liquidity and capital resources and note 2 to the consolidated financial statements contain more detail on this issue.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. In response to the first wave of the pandemic, the Corporation temporarily suspended its airline operations from April 1 to July 22, 2020. Subsequently, the Corporation implemented reduced summer and winter programs and is continuously making adjustments based on the level of demand and decisions made by health and state authorities. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.

While the likelihood of the availability of a vaccine in the near future makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

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

This AIF also contains certain forward-looking statements about the Corporation concerning a transaction involving the acquisition of all the shares of the Corporation by Air Canada (the "transaction with Air Canada" or the "arrangement"). 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 transaction with Air Canada is subject to certain closing conditions that are customary in this type of transaction, including regulatory approvals, particularly authorities in Canada and the European Union. Notably, a public interest assessment of the arrangement regarding national transportation is being undertaken by the Canadian authorities. The Commissioner of Competition released on March 27, 2020, his advisory report to the Minister of Transport further to the Minister's determination that the proposed arrangement raises issues with respect to the public interest regarding national transportation. On May 1, 2020, Transport Canada in turn provided its assessment report to the Minister of Transport. To proceed, the transaction with Air Canada will have to receive approval from the Governor in Council, on the Minister of Transport's recommendation. The Governor in Council does not have a deadline for issuing a decision and there can be no assurance that the transaction with Air Canada will be approved before the outside date. On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada with regard to European Union antitrust regulations. The move to Phase II is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval when it is concerned that a transaction may effectively reduce competition. On September 28, 2020, the European Commission released a statement of objections to the arrangement. The provisional deadline by which the Commission must render its decision is now February 9, 2021. The competition authorities' assessment process is currently complicated by the COVID-19 pandemic and the impact it is having on the international commercial aviation market.

Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (including the Corporation). This context could impact the obtaining of approvals from regulatory authorities, especially regarding the appropriate package of remedies aimed at obtaining those approvals. Air Canada retains discretion to determine the extent of the remedies it is prepared to offer (beyond those that it is required to offer under the Arrangment Agreement). If Air Canada is unable to come to an agreement with the regulatory authorities and obtain the required approvals before the outside date of February 15, 2021, the arrangement agreement may be terminated in accordance with its terms.

Under the revised Arrangement Agreement, the deadline for obtaining the regulatory approvals is set at February 15, 2021 (the "outside date"). If the required approvals are obtained and the conditions are met, it is now expected that the arrangement will be completed before that date.

Moreover, although the Corporation has been able to put in place a new subordinated short-term credit facility and make amendments to its senior revolving term credit facility, such arrangements are for a limited duration and will need to be replaced if the arrangement is not consummated on or before the new outside date of February 15, 2021. In particular, the new short-term loan facility matures on the earlier of March 31, 2021 and the closing of the Arrangement. Furthermore, the temporary suspension of the application of certain financial ratios under the Corporation's revolving term credit facility and the new short-term loan facility expires on January 30, 2021, after which time, absent any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. Pursuant to the terms of the Arrangement Agreement, the Corporation's ability to put in place new sources of financing is restricted and requires Air Canada's consent. As a result, if the requisite shareholder and regulatory approvals are not obtained and the arrangement is not consummated on or prior to the outside date, the Corporation will need to address the challenges posed by its cash position and the maturing lending facilities. If the Corporation is not able to renew maturing facilities at acceptable conditions or find financing alternatives, its financial position and business prospects could be materially and adversely affected. Furthermore, if the Arrangement is not approved by the shareholders and otherwise not consummated, there is a risk that Transat's lenders, lessors, credit card processors, clients and other trade partners become more preoccupied by Transat's financial position, prospects and ability to execute its strategic plan as a going concern, which could result in more onerous credit terms, repayment obligations, an inability to refinance maturing indebtedness or find new sources of financing, restricted access to goods and services, and/or reduced business, all of which could significantly and adversely affect Transat's cash flows and ability to continue as a going concern.

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 AIF 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 assumption that until the Corporation is able to resume operations at a sufficient level, the situation will affect its operating results and cash position.

- The assumption that Air Canada will acquire all of the shares of the Corporation.

- The assumption that if the required regulatory approvals are obtained and conditions are met, it is expected that the transaction with Air Canada will close prior to February 15, 2021.

- The assumption that, subject to obtaining the additional financing as provided in Section 7 *Financial position, liquidity and capital resources* of the MD&A and in note 2 to the consolidated financial statements, the Corporation has the resources it needs to meet its 2021 objectives and to continue building on its long-term strategies.

- The assumption that, subject to obtaining the additional financing as provided in Section 7 *Financial position, liquidity and capital resources* of the MD&A and in note 2 to the consolidated financial statements, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.

- The assumption that travel credits will be used by customers and not reimbursed in cash.

- The assumption that the Corporation will be able to favourably negotiate concessions and deferrals with its aircraft lessors, owners of premises, suppliers, credit card processors and the extension of the temporary suspension of the application of certain financial ratios granted by the lenders of its revolving term credit facility and its subordinated short-term credit facility.

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

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 AIF 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.

Additional information about the risks and uncertainties facing the Corporation's business is provided in its disclosure materials, including this AIF and its most recent Management's Discussion and Analysis, filed with the securities regulatory authorities in Canada, available on SEDAR (www.sedar.com).

16. APPOINTMENT OF SINGLE LEAD DIRECTOR AND AUDIT COMMITTEE DISCLOSURE

16.1 APPOINTMENT OF SINGLE LEAD DIRECTOR

In 2012, Transat's Board of Directors adopted a policy amending its Board governance structure to provide for the appointment of a single Lead Director instead of three (3) Lead Directors. Since this amendment came into force, the members of the Board of Directors now elect only one Lead Director each year from among the independent directors after the annual and special meeting of shareholders.

The Lead Director is responsible, among other things, to set the agenda of the Board meetings in conjunction with the Chairman and President and Chief Executive Officer. This Lead Director, if and when appropriate, has the power to call, set the agenda for and chair meetings of the independent directors and chair in-camera sessions of the Board without management so as to give the directors an opportunity to fully and frankly discuss certain issues and provide feedback and direction to management. Mr. Raymond Bachand replaced Mr. Jean-Yves Leblanc as Lead Director in September 2018.

16.2 CHARTER OF THE AUDIT COMMITTEE

The latest version of Transat's Charter of the Audit Committee was approved at the meeting of such committee held on September 8, 2015. The Board of Directors adopted and ratified the Charter of the Audit Committee on September 9, 2015. A copy of the Charter of the Audit Committee is attached as Schedule A to this AIF.

16.3 COMPOSITION OF OUR AUDIT COMMITTEE

Our Audit Committee is currently composed of unrelated, independent and financially literate directors, namely Messrs. Jean-Yves Leblanc (Chairman), Raymond Bachand, Louis-Marie Beaulieu, and Jacques Simoneau, and Ms. Lucie Chabot.

16.4 FINANCIAL LITERACY

Jean-Yves Leblanc. Mr. Leblanc holds a Bachelor of Mechanical Engineering degree from Université Laval, a Master of Industrial Engineering from the University of Toronto and a Master of Business Administration (MBA) from the University of Western Ontario. He was President and Chief Operating Officer of Bombardier Transportation from 1986 to 2001 and served as Chairman of its Board from 2001 to 2004. From 1982 to 1985, he worked as an executive officer for Marine Industries where he served as Vice-President, Hydro-Electric Division, and Executive Vice-President and Chief Operating Officer of the company respectively. Prior to that, from 1973 to 1981, he was Vice-President, then President, of Sométal Atlantic Ltée. Mr. Leblanc serves as a director of various corporations including Pomerleau Inc., Premier Tech Ltd. and Emballage St-Jean Ltée. He is Chairman of the Audit Committee of Premier Tech Ltd. and the Audit Committee of Emballage St-Jean Ltée. This experience allowed Mr. Leblanc to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

Raymond Bachand. Mr. Bachand received his law degree from the Université de Montréal in 1969 and became a member of the Québec Bar the following year. He obtained a Masters of Business Administration (MBA) degree from Harvard University in 1972, followed by a Doctorate of Business Administration (DBA) degree in 1981. He taught at the École des hautes études commerciales de Montréal between 1972 and 1977, held the position of Chief of Staff to the Québec Minister of Labour and Manpower between 1977 and 1979, and served as Special Secretary in the Office of the Premier of Québec between 1979 and 1981. In the business world, he was Vice-President of Métro-Richelieu between 1981 and 1989 and Culinar between 1990 and 1993. He joined the Fonds de solidarité des travailleurs du Québec (FTQ) in 1994 as First Vice-President and Chief Investment Officer, and was appointed President and Chief Executive Officer from 1997 to 2001. He was also President and Chief Executive Officer of Secor Conseil from 2002 to 2005.

He was a director of SSQ - Life from 1995 to 2002, a director of Gaz Métropolitain from 1987 to 1990, a director of the Fonds de solidarité FTQ from 1983 to 2001, and a member of the executive committee (1987-2001), chair of the audit committee (1988-1994) as well as a member of the Board of Directors and member of the Audit Committee of the Canadian Public Accountability Board from 2003 to 2005.

Mr. Bachand was elected to the Québec National Assembly for Outremont on December 12, 2005. He was Minister of Economic Development, Innovation and Export Trade from February 2006 to June 2009, Minister of Tourism from April 2007 to December 2008, Minister responsible for the Montreal region from April 2007 to September 2012, Minister of Finance from April 2009 to September 2012 and Minister of Revenue from August 2010 to September 2013. He retired from political life on September 13, 2013.

Mr. Bachand joined the firm Norton Rose Fulbright on January 20, 2014, as a strategic advisor. He has also been President of the Institut du Québec, a partnership between the Conference Board of Canada and HEC Montréal, since February 2014, and a member of the Board of Directors as well as the Risk Management Committee and the Conduct Review and Corporate Governance Committee of National Bank of Canada since October 29, 2014. He was also Chairman of the Board of Tourisme Montréal from June 2014 to June 2018.

Louis-Marie Beaulieu. Mr. Louis-Marie Beaulieu is Chairman of the Board and CEO as well as majority shareholder of Groupe Desgagnés Inc., a private company specialized in marine transportation of general cargo and passengers. A graduate in Business Administration, with an option in accounting, of the Université du Québec à Rimouski (UQAR) and a Fellow of the Ordre des comptables professionnels agréés du Québec since 2001, Mr. Beaulieu also holds a diploma from McMaster University's corporate governance program, granting him the designation of Chartered Director. Before acquiring Desgagnés in 1987, he held the position of Director of Finance and Administration in the company from 1981 to 1987, after having worked as an auditor at Mallette, Benoit, Boulanger, Rondeau in Québec City.

Over the course of his career, Mr. Beaulieu has served on many boards of directors and audit committees, including those of the St-Lawrence Economic Development Council (SODES), the Société de l'assurance automobile du Québec (SAAQ) from 1989 to 1996, the Canadian Shipowners Association from 1990 to 2016, the Société Immobilière du Québec from 1997 to 2003, the Canadian Commercial Corporation (CCC) from 2001 to 2004 and the Conseil du patronat du Québec from May 2011 to April 2017, where he also acted as chairman of the board from April 2014 to April 2017. He also served as Chairman of a number of audit committees, including those of SAAQ, CCC and Standard Compensation Act Liability Association Ltd. (SCALA). In addition, Mr. Beaulieu was a member of various organizations, such as the Commission des études of UQAR and the National Marine and Industrial Council, president of the National Marine and Industrial Coalition and of the Great Lakes / St-Lawrence Marine and Industrial Coalition, co-president of the Marine Industry Forum with the Québec Minister of Transport and co-president of the Canadian Marine Advisory Council with the Deputy Minister of Transport Canada.

He is currently a member of several boards of directors, including the board of the Chamber of Marine Commerce since 1997, where he also chairs the Finance Committee since March 2017. Also, since his acquisition of Groupe Desgagnés, he serves as Chairman of the board of directors of the company's subsidiaries. He is also a member of various organizations and associations, including the Canadian Marine Advisory Council, the Cercle des présidents, the QG-100 Network and the Business Council of Canada.

He is the recipient of several awards, including the Joseph-Hode Keyser award from the Association québécoise des transports et des routes in 2001 and the Alumni Award from the Université du Québec à Rimouski (UQAR) in 2011, and he was inducted into the Cercle des Grands Bâtisseurs Maritimes by the Groupe Maritime Québec in 2010 and into the Académie des Grands Québécois in 2014.

Lucie Chabot. Ms. Lucie Chabot is chair of the board of directors, audit committee and information technology committee as well as a member of the human resources committee of CDMV Inc., a Canada-wide distributor of products and services dedicated to veterinarians, since 2017. Since November 2019, she is also a member of the board of directors and the audit committee of Richelieu Hardware Ltd., a world-class importer, manufacturer and distributor of speciality hardware and complementary products. Moreover, since May 2019, she is a member of the board of directors and the audit committee of Albecour Inc., a aluminum company and an Investissement Québec subsidiary. And since May 2019, she is also a member of the board of directors, audit committee and governance committee of Tourisme Montréal, an organization responsible for promoting tourism in the city of Montreal. Ms. Chabot was Vice-President and Chief Financial Officer of SAIL Outdoors Inc., a major Canadian retailer of sporting goods and outdoor equipment, from 2014 to 2018, and as such was responsible for the firm's accounting and financial services, human resources and information technology. She previously served as President of Distribution Vinearius Inc., a wine accessories distributor she founded. She also worked at Intertrade Systems Inc. from 2004 to 2007 as General Manager, Operations and Managed Services, after having served as the company's Vice-President, Finance and Human Resources. For more than a decade, she was a co-shareholder of Strator Consulting Group Inc., a consulting firm in the retail, distribution and services field, whose main client was Caisse de dépôt et placement du Québec. In this capacity, she was involved in several accounts, such as Motovan, The Hockey Company, Chapters and Rona, which gave her a better understanding of the objectives of financial institutions, their risk analysis, the returns sought and how to structure major transactions. From 1986 to 1994, she worked as Director and Vice-President, Finance, of Sports Experts Inc., the Canadian leader in sporting goods and sportswear retailing. She began her career at Clarkson Gordon (EY) as an auditor in 1981 and joined the Provigo Group in 1984. Ms. Chabot is a graduate of Université Laval and a member of the Ordre des comptables agréés du Québec. She was named to the National Honour Roll of the Canadian Institute of Chartered Accountants, ranking 11th in Canada in 1982.

These experiences allowed Ms. Chabot to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

Jacques Simoneau. Mr. Simoneau has a Bachelor of Science degree and a Master of Applied Science degree from Université Laval and a Ph.D. from Queen's University, and is a member of the Québec Order of Engineers and Professional Engineers of Ontario. He has completed the Directors Education Program at McGill University and is certified ICD.D by the Institute of Corporate Directors. He also participated in several intensive executive training courses in finance, accounting, marketing and leadership. From 1982 to 1989, he taught at Royal Military College and then joined Alcan (now known as Rio Tinto Alcan) where he held research and management positions. In 1994, he was appointed as Director, Business Development at Advanced Scientific Computing (now part of ANSYS). In 1995, Mr. Simoneau focused his career in investments. In 1995, he was appointed as President and Chief Executive Officer and a Director of *Société Innovatech du sud du Québec*, a venture-capital fund. In 1999, he joined the Fonds de solidarité FTQ as Group Vice-President for Technology Investment, and was then promoted to Senior Vice President, Industry and Services in 2000. In 2004, he became President and CEO and a director of Hydro-Québec CapiTech, the corporate venture capital subsidiary of Hydro-Québec. In 2006, Mr. Simoneau joined the Business Development Bank of Canada (BDC) as Executive Vice-President, Investment, where he was responsible for the venture capital and subordinate financing portfolios until 2010. He also served on BDC's Executive Committee, Asset and Liability Committee and Pension Fund Investment Committee. Mr. Simoneau then served as President & Chief Executive Officer and director of Gestion Univalor, L.P. until 2019. He is a director of Azimut Exploration Inc. (TSXV:AZM), Genome Canada and Edilex Inc. He also serves as chair or member of the audit, governance, investment or compensation committees of these organizations.

During his career, Mr. Simoneau was actively involved in analyzing, evaluating, structuring and negotiating investments for private and publicly traded corporations. In doing so, he examined and evaluated financial statements, business and strategic plans, and questioned management thereon. He served on the Board of Directors of six public companies and 18 private or public companies and a dozen boards for not-for-profit and professional organizations. This experience allowed Mr. Simoneau to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

16.5 COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

In response to National Instrument 52-110 – *Audit Committees,* and as part of our efforts to maintain a high standard of good corporate governance, we developed a whistleblower policy and reporting procedures that allow Transat employees to report, in a confidential manner, any concerns they may have regarding questionable accounting practices, internal accounting controls or auditing matters. Complaints may be addressed separately to the attention of the Vice-President, General Counsel and Corporate Secretary of Transat or to the Vice-President, Internal Audit and Risk Management. At each Audit Committee meeting, members receive a report indicating whether any complaints have been filed regarding accounting or auditing matters. Moreover, as part of Transat's Code of Ethics, we have introduced, in recent years, a whistleblower process by providing an email address, "Ethic@transat.com", through which only three persons receive notification of this reporting: the Vice-President, Human Resources, the Vice-President, General Counsel and Corporate Secretary and the Vice-President, Internal Audit and Risk Management. All reports are reviewed and handled by the responsible person or persons. The Code of Ethics must be reviewed annually by all employees, who are required to sign a certificate to that effect.

16.6 POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

Transat's Audit Committee has a Policy Respecting the Pre-Approval of Audit and Non-Audit Services. Transat's Risk Management and Corporate Governance Committee also approved this policy on November 16, 2004, and its Board of Directors adopted and ratified the said policy on the same date. This policy prohibits the Corporation from engaging the external auditors to provide certain non-audit services to the Corporation and its subsidiaries, including bookkeeping, or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing services, investment banking services, management or human resources functions, legal services and expert services unrelated to the audit. The policy allows the Corporation to engage the external auditors to provide non-audit services, other than the prohibited services, only if the services have specifically been pre-approved by the Audit Committee.

16.7 External Auditor Service Fees

Ernst and Young LLP have been Transat's auditors since its incorporation. They have confirmed their independence with Transat's Audit Committee.

For the fiscal years ended October 31, 2020 and October 31, 2019, Ernst & Young LLP billed the following fees for audit, audit-related, tax and all other services provided to the Corporation:

	2020	2019
Audit Fees(1)	$1,101.000	$883,000
Audit-Related Fees(2)	$226,000	$99,000
Tax Fees(3)	$227,000	$82,000
All Other Fees(4)	—	—
TOTAL	$1,554,000	$1,064,000

(1) Audit fees include fees for professional services rendered by the external auditors for the audit of the Corporation's financial statements or other services that are normally provided by the external auditors in connection with statutory or regulatory filings or engagements. These fees also include fees for services rendered in connection with the interpretation of accounting and financial reporting standards.

(2) Audit-related fees include fees for assurance and related services that are performed by the Corporation's external auditors. These services include accounting consultations in connection with acquisitions, special audits and due diligence.

(3) Tax fees include fees for assistance with tax planning (restructuring and discontinued operations), tax opinions as well as the preparation and review of income and other tax returns.

(4) This category of fees would normally include professional services rendered by the Corporation's external auditors, which are not reported under the captions "audit fees," "audit-related fees" and "tax fees". No such services were rendered to the Corporation for the fiscal years ended October 31, 2019 and October 31, 2020.

17. ADDITIONAL INFORMATION

Additional financial information may be found in our comparative financial statements and Management's Discussion and Analysis for the year ended October 31, 2020, both of which are contained in the 2019 Annual Report. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Transat securities and securities authorized for issuance under equity compensation plans, will be contained in our Management Proxy Circular for the Annual Meeting of the Shareholders that was held on March 12**,** 2020.

Copies of these documents and additional information relating to Transat may be found on SEDAR (www.sedar.com) and may also be obtained upon request from the Corporate Secretary of the Corporation at the following address: Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Québec, Canada H2X 4C2.

SCHEDULE A
CHARTER OF THE AUDIT COMMITTEE
of Transat A.T. inc.

Constitution

The Board of Directors established an audit committee (the "Audit Committee") composed solely of independent directors, that is, who have no direct or indirect material relationship with the Corporation[1] and whose members and Chair are appointed by the Board of Directors. The Audit Committee is composed of no fewer than three (3) members.

The Audit Committee helps the Board of Directors discharge the oversight responsibilities it owes to shareholders, employees, and all interested parties. Such oversight responsibilities pertain to the financial statements of the Corporation, internal control systems, identification of risks (in collaboration with the Risk Management and Corporate Governance Committee), the statutory audit of the annual financial statements and compliance with the laws, regulations and codes as established by management and the Board.

Role of the stakeholders

Management is responsible for ensuring the integrity of the financial information and the efficiency of the Corporation's internal controls. The external auditors are responsible for auditing and certifying the fair presentation of the Corporation's financial statements and, in carrying out this mission, for evaluating the internal control procedures to determine the nature, scope and chronology of the audit procedures used. The Audit Committee is responsible for supervising the participants in the preparation procedure of the financial information and reporting thereon to the Board of Directors of the Corporation.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation are invited to and heard at the meetings of the Audit Committee. From time to time, the President and Chief Executive Officer or the Vice-President, Finance and Administration and Chief Financial Officer or any other officer of the Corporation shall appear before the Audit Committee when required to do so. Moreover, the Audit Committee meets on a quarterly and annual basis with the Corporation's external and internal auditors, at the committee's option (but no less than once a year), without the presence of management. Each meeting of the Audit Committee provides for an in-camera session to be held, as needed, without the presence of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer or of any other officer.

1 A material relationship means a relationship that could, in the opinion of the Board of Directors, be reasonably expected to interfere with the exercise of independent judgment of a member of the committee. The following individuals are considered to have a material relationship with the Corporation: (a) an individual who is, or has been, an employee or executive officer of the Corporation in the past three (3) years, or whose immediate family member is, or has been, an executive officer of the Corporation in the past three (3) years; (b) an individual who is, or has been, or whose immediate family member is, or has been, a member of an affiliated entity or a partner of, or employed by, a current or former internal or external auditor of the Corporation, unless a period of three (3) years has elapsed since the end of such individual's relationship with the internal or external auditor, or of the auditing relationship; (c) an individual who is, or has been, or whose immediate family member is or has been, an executive officer of an entity if any of the current executive officers of the Corporation serves on the compensation committee of such entity, unless a period of three (3) years has elapsed since the end of the service or employment; (d) an individual who has a relationship with the Corporation pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensation fee from the Corporation or any subsidiary of the Corporation, other than remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors; (e) an individual who receives, or whose immediate family member who is employed as an executive officer of the Corporation receives, more than seventy-five thousand dollars ($75,000.00) per year in direct compensation from the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors, unless a period of three (3) years has elapsed since he or she ceased to receive more than seventy-five thousand dollars ($75,000.00) a year in such compensation; (f) an individual who is a member of an affiliated entity of the Corporation or of any of its subsidiaries. The foregoing is a summary of the rule. For more details, see subsection 1.4 of Regulation 52-110 respecting Audit Committees.

The Audit Committee shall ensure, with the assistance of management and the external auditors, that the financial statements fairly present the Corporation's financial position in accordance with International Financial Reporting Standards ("IFRS") (including their evaluation of the quality of the accounting principles and policies adopted, the consistency of the accounting estimates and the clarity of the financial information disclosed). Furthermore, the Audit Committee shall enquire of the external auditors about the results of the annual audit and any other matters, which must be disclosed to it pursuant to Canadian generally accepted auditing standards ("GAAS").

The auditors are appointed each year by the shareholders at the annual meeting based on the recommendation of the Board of Directors, following the Audit Committee's opinion. Only shareholders may remove the auditors from office.

When the auditors resign or are about to be removed or replaced, they should deliver to the Corporation, with a copy to the Audit Committee, a written declaration indicating the grounds for their resignation or their objection to the removal or replacement[2].

The directors shall promptly fill any vacancy in the position of external auditor.

Powers

The Audit Committee has all the powers and duties conferred on it by the laws governing the Corporation. Within the performance of its duties, the Audit Committee has the right to examine the books, registers, and accounts of the Corporation and its subsidiaries and to discuss them, as well as any other matter regarding the financial situation of the Corporation and its subsidiaries, with the officers and auditors of the Corporation and its subsidiaries.

The Audit Committee has the power to communicate directly with the internal auditors and the external auditors.

Financial Literacy

All members of the Audit Committee are financially literate[3].

Mandate

The duties of the Audit Committee are as follows:

I. Recommend to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or certification services;

II. Recommend to the Board of Directors the compensation of the external auditors;

III. Review, with the Corporation's external auditors, the approach and the scope of their audit plan and report to the Board of Directors on any material reservations the Audit Committee may have, or which the external auditors may have expressed regarding their work;

IV. Resolve disagreements between management and the external auditors regarding financial information;

V. Review and recommend acceptance to the Board of Directors of the audited annual financial statements, as well as all other financial statements and reports that may require review by the Audit Committee under

2 Under the rules stated in National Instrument 51-102 -- *Continuous Disclosure Obligations*.

3 An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.

the applicable laws or in respect of which the Board of Directors requests a review and any financial information pertaining thereto; including the press release, message to shareholders and management's discussion and analysis for annual report purposes, prior to publication;

VI. Obtain the annual certificate signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings;

VII. Review and recommend acceptance to the Board of Directors of the unaudited quarterly financial statements and any related financial information, including the press release, message to shareholders and management's discussion and analysis for quarterly report purposes;

VIII. Obtain the certification of the interim (quarterly) documents signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings;

IX. Receive and examine the reports of the external auditors following their year-end audit and their interim review, as the case may be, and ensure follow-up on the letter they subsequently address to management containing the latter's comments. Also ensure, with the assistance of management and the external auditors, that these financial statements fairly present the financial position of the Corporation according to IFRS. Furthermore, the Audit Committee evaluates the work of the external auditors as to quality, and not just acceptability, of the accounting principles and policies adopted by the Corporation, the consistency of the accounting estimates and the clarity of the financial information disclosed in the financial statements. The Audit Committee ensures that the procedures performed by the external auditors for the audit and the interim review, as the case may be, as well as the nature of the items communicated to the Audit Committee, are in accordance with GAAS;

X. Supervise the internal auditor and monitor the scope of the plan and review the work of the internal audit functions. The internal auditor has the responsibility, among others, to assess the internal controls put in place by management to:

- determine whether they are effective and efficient; and
- identify and disclose any weaknesses noted to the Audit Committee and the parties concerned;

XI. Oversee follow-up of the policy respecting the external communication of financial information and ensure that the quality, scope and communication process are in keeping with the said policy;

XII. Draft and ensure follow-up of a policy on complaint procedures for accounting and auditing matters for the Corporation and its subsidiaries and ensure compliance therewith;

XIII. Establish procedures for the confidential submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

XIV. Evaluate annually the competence and independence and quality of the work of the external auditors in the performance of their duties and recommend to the Board of Directors, if it is deemed appropriate, to call a shareholders' meeting in order to consider the removal of the external auditors;

XV. Obtain annual confirmation of the independence of the Corporation's external auditors, including the filing of any written confirmation required by the standards and by-laws;

XVI. Receive and review the quarterly report of the Vice-President, Finance and Chief Financial Officer and study, if applicable, the contingent liabilities of the Corporation and its subsidiaries, the acquisition and disposition of assets, the risk factors that could influence the financial results or financial structure of the Corporation, the redemption of shares and derivatives, and review the level of provisions recorded in the Corporation's accounts and assess their reasonableness;

XVII. Identify and evaluate, in collaboration with the Risk Management and Corporate Governance Committee, the principal financial risk factors pertaining to the Corporation's business and approve the strategies and measures proposed to manage such risks, including, in particular, those related to the derivatives relating to fuel, foreign currency and interest and any other factor considered relevant. Furthermore, the Audit Committee shall be kept informed by management, either on request or periodically, regarding the management of the Corporation's other material risks;

XVIII. Review the status of capital expenditures;

XIX. Review the status of current and potential litigation and insurance coverage;

XX. Retain independent counsel and external advisors or consultants, whose compensation it sets, to assist it in its duties, when necessary;

XXI. Examine, with management and the external auditor, the new financial or regulatory requirements that could affect the Corporation's financial reporting;

XXII. Ensure that management of the Corporation maintains effective internal control and risk management systems, see to the efficient operation of the internal control system and periodically receive from management and, as the case may be, from the internal auditor, confirmation as to:

- the efficiency of operations;
- the reliability of the financial information disclosed;
- compliance with laws and regulations;

XXIII. Review the loans, financings, granting of security, guarantees and other material financial commitments and ensure that the Corporation and its subsidiaries are in compliance with their obligations;

XXIV. Maintain structures and procedures in place to meet separately with the President and Chief Executive Officer, the Vice-President, Finance and Administration and Chief Financial Officer, and the internal auditor and the external auditors;

XXV. Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;

XXVI. Approve the audit services, which may be provided by the external auditors within the framework of their independence and the restrictions imposed on non-audit services. "Audit services" means the professional services rendered by the external auditors for the audit and review of the issuer's financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements.

The external auditors may perform all other non-audit services, including taxation services, provided that the services offered are pre-approved by the Audit Committee[4].

[4] For this purpose, the Audit Committee has adopted a Policy Respecting the Pre-Approval of Audit Services and Non-Audit Services.

Moreover, the Audit Committee shall oversee the audit engagement, as needed, and approve, where applicable, any change in the conditions and fees resulting from a change in the scope of the audit, the corporate structure, or any other element.

The non-audit services that are prohibited include, on the date hereof:

- bookkeeping or other services related to the accounting records or the financial statements;
- valuation services, opinions on the fairness of the price offered or reports on contributions in kind;
- internal audit outsourcing services;
- management functions;
- human resources services;
- expert services prohibited by regulatory authorities;
- design and implementation of a financial information system;
- legal services;
- actuarial services; and
- brokerage, investment counsel and investment agreement services.

XXVII. Review, with the Corporation's external auditors, the findings resulting from their audit, if any, and report to the Board of Directors on the following points:

- the effectiveness of the registers and the accounting, internal control and information systems of the Corporation and the extent to which such registers are appropriately kept and such systems are uniformly applied;
- in collaboration with the Human Resources and Compensation Committee, the competence and efficiency of personnel assigned to finance, accounting and internal control of the activities of the Corporation; and
- examine any other issue or perform any other work that the Board of Directors may deem appropriate to entrust to the Audit Committee from time to time.

Annual Work Program

The Audit Committee has elaborated and adopted its annual work program, which appears in the Corporation's Corporate Governance Manual.

Additional Comments

The Audit Committee approves the disclosure policy and reviews it periodically. When a follow-up is required of the Audit Committee, the latter coordinates the appropriate solution and supervises disclosure to ensure the consistency of any information that is disseminated regarding the Corporation.

transat