TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2023

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Ticker symbol

TSX: TRZ

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2023, compared with the quarter ended July 31, 2022, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2022 and accompanying notes and the 2022 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2022 Annual Report. The risks and uncertainties set out in the MD&A of the 2022 Annual Report are herein incorporated by reference and remain substantially unchanged. Unless otherwise indicated, the information contained herein is dated as of September 13, 2023. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2023 and the Annual Information Form for the year ended October 31, 2022.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation, including those regarding its results, its financial position and its outlook for the future. 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.

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 and the lingering effects of the COVID-19 pandemic, 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, cybersecurity risks, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation’s ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2022 Annual Report.

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

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

- The outlook whereby, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

- The outlook whereby, the combination of sustained demand and firm pricing will allow the Corporation to cope with a cost environment that remains generally higher and volatile.

- The outlook whereby, the Corporation is raising the target for adjusted EBITDA margin from a range of 5.5% to 7% to a target of 7.5% to 8% for the year.

- The outlook whereby, for the upcoming winter season, the recent addition of four aircraft (three A321LRs and one A321ceo) and enhanced fleet utilization will contribute to increasing available capacity by 23%.

In making these statements, the Corporation assumes, among other things, that the standards and measures for the health and safety of personnel and travellers imposed by government and airport authorities will be consistent with those currently in effect, that workers will continue to be available to the Corporation, its suppliers and the companies providing passenger services at the airports, that credit facilities and other terms of credit extended by its business partners will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year and that fuel prices, exchange rates, selling prices, and hotel and other costs remain stable. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

Adjusted operating income (loss) or adjusted EBITDA	Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring costs and other significant unusual items, and including premiums related to derivatives that matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted pre-tax income (loss) or adjusted EBT	Income (loss) before income tax expense before change in fair value of derivatives, revaluation of liability related to warrants, gain (loss) on long-term debt modification, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, asset impairment, foreign exchange gain (loss) and other significant unusual items, and including premiums related to derivatives that matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) before net income (loss) from discontinued operations, change in fair value of derivatives, revaluation of liability related to warrants, gain (loss) on long-term debt modification, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring costs, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums related to derivatives that matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net earnings (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus lease liabilities, deferred government grant and liability related to warrants, net of deferred financing cost related to the unsecured debt - LEEFF. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.
Total net debt	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

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

	Quarters ended July 31		Nine-month periods ended July 31	
(in thousands of Canadian dollars, except per share amounts)	**2023** **$**	**2022** **$**	**2023** **$**	**2022** **$**
Operating income (loss)	**64,375**	(93,218)	**45,012**	(254,572)
Restructuring costs	**1,007**	—	**3,350**	—
Depreciation and amortization	**53,752**	38,173	**137,623**	112,144
Premiums related to derivatives that matured during the period	**(4,352)**	(2,779)	**(11,728)**	(2,779)
Adjusted operating income (loss)	**114,782**	(57,824)	**174,257**	(145,207)
Income (loss) before income tax expense	**58,028**	(108,038)	**(27,702)**	(319,511)
Asset impairment	**4,592**	—	**4,592**	—
Restructuring costs	**1,007**	—	**3,350**	—
Change in fair value of derivatives	**(12,168)**	6,908	**11,702**	8,628
Revaluation of liability related to warrants	**24,972**	(14,506)	**31,877**	(13,697)
Foreign exchange (gain) loss	**(29,052)**	(1,706)	**(36,014)**	27,715
Loss (gain) on asset disposals	**—**	13	**(2,511)**	(4,005)
Gain on long-term debt modification	**—**	—	**—**	(22,191)
Premiums related to derivatives that matured during the period	**(4,352)**	(2,779)	**(11,728)**	(2,779)
Adjusted pre-tax income (loss)	**43,027**	(120,108)	**(26,434)**	(325,840)
Net income (loss)	**57,303**	(106,472)	**(28,487)**	(319,093)
Asset impairment	**4,592**	—	**4,592**	—
Restructuring costs	**1,007**	—	**3,350**	—
Change in fair value of derivatives	**(12,168)**	6,908	**11,702**	8,628
Revaluation of liability related to warrants	**24,972**	(14,506)	**31,877**	(13,697)
Foreign exchange (gain) loss	**(29,052)**	(1,706)	**(36,014)**	27,715
Loss (gain) on asset disposals	**—**	13	**(2,511)**	(4,005)
Gain on long-term debt modification	**—**	—	**—**	(22,191)
Premiums related to derivatives that matured during the period	**(4,352)**	(2,779)	**(11,728)**	(2,779)
Tax recovery on ABCP losses	**—**	(2,359)	**—**	(2,359)
Adjusted net income (loss)	**42,302**	(120,901)	**(27,219)**	(327,781)
Adjusted net income (loss)	**42,302**	(120,901)	**(27,219)**	(327,781)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,372**	37,795	**38,220**	37,795
Adjusted net earnings (loss) per share	**1.10**	(3.20)	**(0.71)**	(8.67)

(in thousands of dollars)	As at July 31, 2023 $	As at October 31, 2022 $
Long-term debt	**710,653**	664,160
Deferred government grant	**152,576**	169,025
Liability related to warrants	**56,237**	24,360
Deferred financing costs	**(12,743)**	(12,552)
Lease liabilities	**1,131,752**	1,087,908
Total debt	**2,038,475**	1,932,901
Total debt	**2,038,475**	1,932,901
Cash and cash equivalents	**(570,592)**	(322,535)
Total net debt	**1,467,883**	1,610,366

3. FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of Canadian dollars, except per share amounts)	**2023** $	2022 $	Difference $	Difference %	**2023** $	2022 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**746,317**	508,304	238,013	46.8	**2,283,885**	1,068,899	1,214,986	113.7
Operating income (loss)	**64,375**	(93,218)	157,593	169.1	**45,012**	(254,572)	299,584	117.7
Net income (loss)	**57,303**	(106,472)	163,775	153.8	**(28,487)**	(319,093)	290,606	91.1
Basic earnings (loss) per share	**1.49**	(2.82)	4.31	152.8	**(0.75)**	(8.44)	7.69	91.1
Diluted earnings (loss) per share	**1.49**	(2.82)	4.31	152.8	**(0.75)**	(8.44)	7.69	91.1
Adjusted operating income (loss)[1]	**114,782**	(57,824)	172,606	298.5	**174,257**	(145,207)	319,464	220.0
Adjusted net income (loss)[1]	**42,302**	(120,901)	163,203	135.0	**(27,219)**	(327,781)	300,562	91.7
Adjusted net earnings (loss) per share[1]	**1.10**	(3.20)	4.30	134.4	**(0.71)**	(8.67)	7.96	91.8
Consolidated Statements of Cash Flows								
Operating activities	**(7,534)**	(62,724)	55,190	88.0	**378,113**	(117,793)	495,906	421.0
Investing activities	**(4,136)**	(9,992)	5,856	58.6	**(21,896)**	(25,001)	3,105	12.4
Financing activities	**(39,974)**	(25,189)	(14,785)	(58.7)	**(108,979)**	124,257	(233,236)	(187.7)
Effect of exchange rate changes on cash and cash equivalents	**(1,326)**	(1,956)	630	32.2	**819**	(3,309)	4,128	124.8
Net change in cash and cash equivalents	**(52,970)**	(99,861)	46,891	47.0	**248,057**	(21,846)	269,903	1,235.5

	As at July 31, 2023 $	As at October 31, 2022 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**570,592**	322,535	248,057	76.9
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**293,348**	375,557	(82,209)	(21.9)
	863,940	698,092	165,848	23.8
Total assets	**2,611,256**	2,271,131	340,125	15.0
Debt (current and non-current)	**710,653**	664,160	46,493	7.0
Total debt [1]	**2,038,475**	1,932,901	105,574	5.5
Total net debt [1]	**1,467,883**	1,610,366	(142,483)	(8.8)

[1] See Non-IFRS Financial Measures section

4. OVERVIEW

CORE BUSINESS

Founded in Montréal 35 years ago, Transat has achieved worldwide recognition as a provider of leisure travel, particularly as an airline under the Air Transat brand. Voted World's Best Leisure Airline by passengers at the 2023 Skytrax World Airline Awards, it flies to international destinations. By renewing its fleet with the most energy-efficient aircraft in their category, it is committed to a healthier environment, knowing that this is essential to its operations and the destinations it serves. Transat has been Travelife-certified since 2018.

5. BUSINESS DISPOSAL

On August 31, 2023, the Corporation finalized the agreement for the sale and purchase of its wholly owned subsidiary Laminama, S.A. de C.V. ["Laminama"], whose main asset is a land located in Puerto Morelos, Mexico, initially announced on July 10, to Finest Holding, B.V., a luxury hotel and resort group. The sale price, payable in cash, is firm and amounts to US$38.0 million [$51.4 million]. An amount of US$7.6 million [$10.0 million] was received upon signature of the agreement and recorded under Trade and other payables. The balance of the sale price was paid upon closing of the transaction.

6. CONSOLIDATED OPERATIONS

	Quarters ended July 31				Nine-month periods ended July 31			
	2023	2022	Difference	Difference	2023	2022	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**746,317**	508,304	238,013	46.8	**2,283,885**	1,068,899	1,214,986	113.7
Operating expenses								
Aircraft fuel	**158,140**	205,810	(47,670)	(23.2)	**449,979**	323,591	126,388	39.1
Salaries and employee benefits	**114,287**	91,024	23,263	25.6	**322,719**	197,130	125,589	63.7
Costs of providing tourism services	**93,345**	78,060	15,285	19.6	**626,689**	283,692	342,997	120.9
Airport and navigation fees	**55,159**	44,344	10,815	24.4	**133,436**	80,165	53,271	66.5
Aircraft maintenance	**50,018**	32,223	17,795	55.2	**123,426**	79,759	43,667	54.7
Sales and distribution costs	**45,340**	31,845	13,495	42.4	**165,190**	76,805	88,385	115.1
Aircraft rent	**2,041**	2,386	(345)	(14.5)	**7,864**	5,477	2,387	43.6
Other airline costs	**81,960**	53,715	28,245	52.6	**187,876**	100,924	86,952	86.2
Other	**27,846**	23,332	4,514	19.3	**82,163**	62,369	19,794	31.7
Share of net loss (income) of a joint venture	**(953)**	610	(1,563)	(256.2)	**(1,442)**	1,415	(2,857)	(201.9)
Depreciation and amortization	**53,752**	38,173	15,579	40.8	**137,623**	112,144	25,479	22.7
Restructuring costs	**1,007**	—	1,007	100.0	**3,350**	—	3,350	100.0
	681,942	601,522	80,420	13.4	**2,238,873**	1,323,471	915,402	69.2
Operating income (loss)	**64,375**	(93,218)	157,593	169.1	**45,012**	(254,572)	299,584	117.7
Financing costs	**33,694**	27,158	6,536	24.1	**98,582**	74,088	24,494	33.1
Financing income	**(11,099)**	(3,047)	(8,052)	(264.3)	**(30,922)**	(5,599)	(25,323)	(452.3)
Change in fair value of derivatives	**(12,168)**	6,908	(19,076)	(276.1)	**11,702**	8,628	3,074	35.6
Revaluation of liability related to warrants	**24,972**	(14,506)	39,478	272.1	**31,877**	(13,697)	45,574	332.7
Foreign exchange (gain) loss	**(29,052)**	(1,706)	(27,346)	(1,602.9)	**(36,014)**	27,715	(63,729)	(229.9)
Loss (gain) on asset disposals	**—**	13	(13)	(100.0)	**(2,511)**	(4,005)	1,494	37.3
Gain on long-term debt modification	**—**	—	—	—	**—**	(22,191)	22,191	100.0
Income (loss) before income tax expense	**58,028**	(108,038)	166,066	153.7	**(27,702)**	(319,511)	291,809	91.3
Income taxes (recovery)								
Current	**92**	(1,566)	1,658	105.9	**612**	(418)	1,030	246.4
Deferred	**633**	—	633	100.0	**173**	—	173	100.0
	725	(1,566)	2,291	146.3	**785**	(418)	1,203	287.8
Net income (loss) for the period	**57,303**	(106,472)	163,775	153.8	**(28,487)**	(319,093)	290,606	91.1

REVENUES

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

Compared with 2022, our revenues were up $238.0 million (46.8%) for the quarter ended July 31, 2023 and $1,215.0 million (113.7%) for the nine-month period ended July 31. These significant increases were attributable to the resumption of operations and to strong demand. In 2022, the Corporation's revenues were dampened, mainly during the first quarter, by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant. As a result, the Corporation reduced total winter season capacity by approximately 22% of the initially deployed capacity. Since then, the Corporation has deployed a winter season capacity at 95% of pre-pandemic levels and 90% for the summer season. Revenues for the nine-month period ended July 31, 2023 were slightly higher than for the same nine-month period in fiscal 2019.

For the quarter, across the entire network, the capacity offered represented 86% of that offered in 2019, while the capacity for the transatlantic routes, the main market during this period, represented 81% of the 2019 level. Overall, the number of travellers in the third quarter of 2023 was 9% lower than the number of travellers for the corresponding quarter of 2019, whereas the airline unit revenues, expressed in revenue per passenger-mile (or yield), were 29.1% higher than in 2019. For the transatlantic routes, the airline unit revenue showed an increase of 33.1%. Across all our markets, the Corporation reported a load factor of 88.8% compared with 88.6% in 2019.

For the 2023 winter season, the capacity offered for the South market represented 95% of that offered in 2019. Overall, the number of travellers was 8% lower than the number of travellers for the corresponding period of 2019, whereas the airline unit revenues were 21.0% higher. For our South market, the selling prices showed an average increase of 21.8%. Across all our markets, the Corporation reported a load factor of 85.0 % compared to 88.3% in 2019.

OPERATING EXPENSES

Total operating expenses were up $80.4 million (13.4%) for the quarter and $915.4 million (69.2%) for the nine-month period, compared with 2022. These increases are attributable to the greater capacity deployed compared with the corresponding periods of 2022.

Aircraft fuel

Aircraft fuel expense was down $47.7 million (23.2%) for the quarter and up $126.4 million (39.1%) for the nine-month period. For the quarter, the decrease was mainly attributable to a 41% drop in fuel prices, partially offset by a higher volume of litres consumed due to increased capacity compared with the corresponding period in 2022. For the nine-month period, the increase was mainly attributable to the higher volume of litres consumed due to increased capacity and the weakening of the Canadian dollar relative to the U.S. dollar, partially offset by a 20% drop in fuel prices compared with the corresponding period of 2022.

Salaries and employee benefits

Salaries and employee benefits were up $23.3 million (25.6%) for the quarter and $125.6 million (63.7%) for the nine-month period, compared with 2022. These increases were mainly attributable to the increased number of employees to support the resumption of airline operations.

During the nine-month period ended July 31, 2022, the Corporation benefited from the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP"), recording an amount of $24.4 million under these programs. The THRP and HHBRP ended on May 7, 2022.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. Compared with 2022, these costs increased by $15.3 million (19.6%) for the quarter and $343.0 million (120.9%) for the nine-month period. These increases primarily resulted from the rise in the number of packages sold compared with 2022.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $10.8 million (24.4%) during the quarter and $53.3 million (66.5%) during the nine-month period, compared with 2022. These increases mainly resulted from the greater capacity deployed compared with 2022 and to higher prices.

Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. Compared with 2022, these costs were up $17.8 million (55.2%) during the quarter and $43.7 million (54.7%) for the nine-month period. These increases were mainly attributable to the greater capacity deployed compared with 2022.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were up $13.5 million (42.4%) during the quarter and $88.4 million (115.1%) for the nine-month period, compared with 2022. These increases were mainly driven by higher revenues and advertising expenses following the resumption of operations.

Aircraft rent

Aircraft rent refers to variable aircraft rent and rent under short-term leases. Compared with 2022, these expenses decreased by $0.3 million (14.5%) during the quarter and increased by $2.4 million (43.6%) for the nine-month period. The increase for the nine-month period resulted from the rental of two aircrafts for the winter season, due to the delay in delivery of the Airbus A321LRs.

Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were up $28.2 million (52.6%) during the quarter and $87.0 million (86.2%) for the nine-month period, compared with 2022. These increases mainly resulted from the greater capacity deployed compared with 2022.

Other

Other costs were up $4.5 million (19.3%) during the quarter and $19.8 million (31.7%) for the nine-month period, compared with 2022. These increases resulted from higher business volume compared with 2022.

Share of net income (loss) of a joint venture

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net income amounted to $1.0 million for the third quarter, compared with a share of net loss of $0.6 million for the corresponding quarter of 2022. Our share of net income for the nine-month period amounted to $1.4 million, compared with a share of net loss of $1.4 million for 2022, showing more sustained signs of recovery compared with 2022.

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was up $15.6 million (40.8%) during the third quarter and $25.5 million (22.7%) for the nine-month period, compared with 2022. These increases were primarily due to the commissioning of two Airbus A321LRs in 2022.

Furthermore, given the agreement for the sale and purchase of the subsidiary Laminama entered into during the quarter ended July 31, 2023, the Corporation measured the recoverable amount of Laminama's non-current assets and compared it with their carrying amount. The recoverable amount of non-current assets held for sale was measured using a selling price allocation based on the fair value of the assets and liabilities held for sale, less costs to sell. As the recoverable amount of the land in Mexico was less than its carrying amount, the Corporation recorded an impairment loss of $4.6 million.

Restructuring costs

Restructuring costs are mainly employee termination benefits related to the closure of the Vancouver base effective June 30, 2023 as well as employee relocation costs.The Corporation recorded restructuring costs of $1.0 million during the quarter ended July 31, 2023 and $3.4 million for the nine-month period. For the quarter, restructuring costs included a $0.7 million expense for employee termination benefits and $0.4 million for employee relocation costs. For the nine-month period ended July 31, 2023, restructuring costs included a $3.0 million expense for employee termination benefits and $0.4 million for employee relocation costs.

OPERATING RESULTS

Given the above, we reported an operating income of $64.4 million during the third quarter, compared with a $93.2 million operating loss in 2022. For the nine-month period, we recorded operating income of $45.0 million compared with an operating loss of $254.6 million in 2022.

The improvement in operating results for the quarter and nine-month period was attributable to the resumption of flight operations, the recovery in demand and the increase in selling prices. For the quarter, the drop in fuel prices also contributed to the improvement in operating results, while the rise in fuel prices during the first six months dampened the improvement in our operating results for the nine-month period. Demand during the quarter and nine-month period was significantly greater compared with 2022. In 2022, the gradual and partial resumption of airline operations was hampered by the cancellation of flights for the winter season due to the drop in demand and booking cancellations following the emergence of the Omicron variant and restrictive measures put in place by the federal government on December 15, 2021.

For the quarter, the Corporation reported adjusted operating income of $114.8 million, compared with an adjusted operating loss of $57.8 million in 2022. For the nine-month period, the Corporation reported adjusted operating income of $174.3 million, compared with an adjusted operating loss of $145.2 million in 2022.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $6.5 million (24.1%) for the third quarter and $24.5 million (33.1%) for the nine-month period, compared with 2022. The increase resulted from the rise in lease liabilities, due to the addition of six new aircraft leases and higher interest rates.

Financing income

Financing income was up $8.1 million during the third quarter and $25.3 million for the nine-month period, compared with 2022, mainly due to higher interest rates compared with 2022 and the increase in average cash and cash equivalents balances.

Change in fair value of derivatives

The change in fair value of derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and exchange rates as well as the change in fair value of the pre-payment option on the unsecured debt - LEEFF.

During the quarter and nine-month period ended July 31, 2023, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies increased by $12.3 million and decreased by $11.6 million, respectively. For the quarter, this increase was mainly attributable to the increase in the fair value of fuel-related derivatives, partially offset by the decrease in the fair value of foreign currency derivatives. For the nine-month period, the decrease was mainly attributable to the decrease in the fair value of derivative financial instruments related to aircraft fuel and foreign currencies. During the quarter and nine-month period ended July 31, 2023, the fair value of the pre-payment option related to LEEFF unsecured financing decreased by $0.1 million. During the quarter and nine-month period ended July 31, 2022, the fair value of the pre-payment option related to LEEFF unsecured financing decreased by $0.1 million and $1.9 million, respectively.

Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the quarter ended July 31, 2023, the fair value of warrants increased by $25.0 million, mainly owing to the increase in the closing share price. For the nine-month period ended July 31, 2023, the fair value of warrants increased by $31.9 million, mainly owing to the increase in the closing share price from $2.60 to $4.79 between October 31, 2022 and July 31, 2023.

Foreign exchange (gain) loss

During the quarter, the Corporation recorded a foreign exchange gain of $29.1 million compared with $1.7 million in 2022. For the nine-month period, we recorded a foreign exchange gain of $36.0 million, compared with a foreign exchange loss of $27.7 million in 2022. For the quarter and nine-month period, the foreign exchange gain resulted mainly from the favourable exchange effect on lease liabilities related to aircraft, following the strengthening of the Canadian dollar against the U.S. dollar.

Gain on asset disposals

For the nine-month period ended July 31, 2023, the $2.5 million gain on asset disposals was due to the return of a Boeing 737-800 to the lessor. The gain resulted mainly from the reversal of related lease liabilities. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2020.

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

Gain on long-term debt modification

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

INCOME TAXES

Income tax expense totalled $0.7 million for the third quarter, compared with an income tax recovery of $1.6 million for the corresponding quarter of last year. For the nine-month period, the income tax expense amounted to $0.8 million, compared with an income tax recovery of $0.4 million in 2022. The effective tax rate was 1.3% for the quarter and 2.5% for the nine-month period, compared with 1.5% and 0.1% for the corresponding periods of 2022.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances related to Canadian operations whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the uncertainty as to when the Corporation would return to profitability. Accordingly, during the quarter and nine-month period ended July 31, 2023, no deferred tax assets of Canadian subsidiaries were recognized.

NET INCOME (LOSS) AND ADJUSTED NET INCOME (LOSS)

Considering the items discussed in the Consolidated Operations section, net income for the third quarter of 2023 was $57.3 million, or $1.49 per share (basic and diluted), compared with a net loss of $106.5 million, or $2.82 per share (basic and diluted), during the corresponding period of last year. For the nine-month period of 2023, net loss amounted to $28.5 million, or $0.75 per share (basic and diluted), compared with $319.1 million, or $8.44 per share (basic and diluted) during the corresponding period of last year. For the third quarter and nine-month period of 2023, the weighted average number of outstanding shares used to compute basic per share amount was 38,352,000 (38,372,000 for diluted per share amount) and 38,220,000 (basic and diluted), respectively, compared with 37,795,000 (basic and diluted) for the corresponding periods of 2022.

For the quarter and nine-month period ended July 31, 2023, the Corporation reported adjusted net income of $42.3 million ($1.10 per share) and an adjusted loss of $27.2 million ($0.71 per share), respectively, compared with an adjusted net loss of $120.9 million ($3.20 per share) and $327.8 million ($8.67 per share) for the corresponding periods of 2022.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. For all the quarters reported, revenue growth was attributable to resumption of operations. The Corporation had to fully suspend its airline operations from January 29, 2021 to July 30, 2021 due to the COVID-19 pandemic. Nevertheless, the recovery in demand continues to gather strength since July 31, 2021, driving revenue growth.

The improvement in our operating results was driven by the resumption of operations. The operating losses for the 2021 summer season (Q4) were mainly attributable to a significant decrease in our capacity during the partial resumption of airline operations due to the COVID-19 pandemic, as a result of which the decline in revenues was greater than the decrease in operating expenses. The recovery of demand was stronger in 2022 than in 2021 and continues to grow, and accordingly, operating results improved for the second half of summer 2022 (Q4) compared with 2021, as well as for the 2023 winter season (Q1 and Q2) and the 2023 summer season (Q3) compared with fiscal 2022. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	**Q4-2021** **$**	**Q1-2022** **$**	**Q2-2022** **$**	**Q3-2022** **$**	**Q4-2022** **$**	**Q1-2023** **$**	**Q2-2023** **$**	**Q3-2023** **$**
Revenues	62,781	202,438	358,157	508,304	**573,139**	**667,457**	**870,111**	**746,317**
Operating income (loss)	(118,326)	(73,841)	(87,513)	(93,218)	**(48,848)**	**(38,103)**	**18,740**	**64,375**
Net income (loss)	(121,339)	(114,345)	(98,276)	(106,472)	**(126,231)**	**(56,610)**	**(29,180)**	**57,303**
Net income (loss) attributable to shareholders	(121,339)	(114,345)	(98,276)	(106,472)	**(126,231)**	**(56,610)**	**(29,180)**	**57,303**
Basic earnings (loss) per share	(3.21)	(3.03)	(2.60)	(2.82)	**(3.32)**	**(1.49)**	**(0.76)**	**1.49**
Diluted earnings (loss) per share	(3.21)	(3.03)	(2.60)	(2.82)	**(3.32)**	**(1.49)**	**(0.76)**	**1.49**
Adjusted operating income (loss)(1)	(58,362)	(36,369)	(51,014)	(57,824)	**(11,545)**	**3,331**	**56,144**	**114,782**
Adjusted net income (loss)(1)	(118,400)	(95,317)	(111,563)	(120,901)	**(75,930)**	**(61,564)**	**(7,957)**	**42,302**
Adjusted net earnings (loss) per share(1)	(3.14)	(2.53)	(2.95)	(3.20)	**(2.00)**	**(1.62)**	**(0.21)**	**1.10**

1 See Non-IFRS financial measures section

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

As at July 31, 2023, cash and cash equivalents totalled $570.6 million compared with $322.5 million as at October 31, 2022. Cash and cash equivalents in trust or otherwise reserved amounted to $293.3 million as at the end of the third quarter of 2023, compared with $375.6 million as at October 31, 2022. The Corporation's statement of financial position reflected $19.9 million in negative working capital, for a ratio of 0.99, compared with $21.7 million in negative working capital and a ratio of 0.98 as at October 31, 2022.

Total assets increased by $340.1 million (15.0%), from $2,271.1 million as at October 31, 2022, to $2,611.3 million as at July 31, 2023. This increase is explained in the financial position table provided below. Equity decreased by $28.2 million, from a negative amount of $750.2 million as at October 31, 2022, to negative equity of $778.4 million as at July 31, 2023. The deterioration resulted primarily from the $28.5 million net loss.

(in thousands of dollars)	July 31, 2023 $	October 31, 2022 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**570,592**	322,535	248,057	See Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**293,348**	375,557	(82,209)	Seasonal nature of operations
Trade and other receivables	**146,554**	265,050	(118,496)	Decrease in receivables from credit card processors
Income taxes receivable	**2,464**	5,537	(3,073)	Collection of income taxes recoverable related to ABCP
Inventories	**30,291**	26,725	3,566	Increase in inventory of aircraft parts
Prepaid expenses	**54,553**	26,428	28,125	Seasonal nature of operations combined with increased business volume
Deposits	**374,304**	201,623	172,681	New deposits with credit card processors and increase in deposits for aircraft maintenance
Assets held for sale	**47,806**	—	47,806	Reclassification of assets held for sale, mainly land in Mexico
Deferred tax assets	**1,090**	953	137	Recognition of deferred tax assets by certain foreign subsidiaries
Property, plant and equipment	**1,038,362**	1,000,151	38,211	Mainly due to the delivery of two Airbus 321LRs and one Airbus A321ceo and the capitalization of eligible aircraft maintenance, partially offset by depreciation for the period and by the reclassification of land as an asset held for sale
Intangible assets	**13,614**	13,261	353	Software acquisitions partially offset by amortization for the period
Derivative financial instruments	**15,576**	11,939	3,637	Favourable change in fuel-related derivatives, partially offset by the unfavourable change in foreign currency derivatives contracted
Investment	**9,959**	8,820	1,139	Share of net income of a joint venture
Deferred financing costs	**12,743**	12,552	191	No significant difference

(in thousands of dollars)	July 31, 2023 $	October 31, 2022 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**324,414**	289,897	34,517	Seasonal nature of operations combined with increased business volume
Income taxes payable	**415**	1,054	(639)	No significant difference
Customer deposits and deferred revenues	**819,899**	602,509	217,390	Seasonal nature of operations combined with increased business volume
Derivative financial instruments	**6,842**	6,209	633	Unfavourable change in fuel-related derivatives, partially offset by the favourable change in foreign currency derivatives contracted
Long-term debt and lease liabilities	**1,842,405**	1,752,068	90,337	Addition of six new aircraft leases partially offset by principal repayments, the return of an aircraft and strengthening of the Canadian dollar against the U.S. currency.
Provision for return conditions	**163,230**	154,772	8,458	Increase mainly related to the passage of time
Liabilities related to assets held for sale	**624**	—	624	Reclassification of liabilities related to assets held for sale
Liability related to warrants	**56,237**	24,360	31,877	Increase in fair value of warrants during the period due to the changes in the Corporation's share price
Deferred government grant	**152,576**	169,025	(16,449)	Revenue from government grants for the period as per the effective interest method
Employee benefits liability	**22,341**	20,773	1,568	Amendments to certain pension plan agreements
Deferred tax liabilities	**623**	644	(21)	No significant difference
Equity				
Share capital	**223,083**	221,924	1,159	Shares issued from treasury
Share-based payment reserve	**16,265**	16,092	173	Share-based payment expense
Deficit	**(1,013,089)**	(984,602)	(28,487)	Net loss
Cumulative exchange differences	**(4,609)**	(3,594)	(1,015)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
(in thousands of dollars)	2023 $	2022 $	Difference $	2023 $	2022 $	Difference $
Cash flows related to operating activities	**(7,534)**	(62,724)	55,190	**378,113**	(117,793)	495,906
Cash flows related to investing activities	**(4,136)**	(9,992)	5,856	**(21,896)**	(25,001)	3,105
Cash flows related to financing activities	**(39,974)**	(25,189)	(14,785)	**(108,979)**	124,257	(233,236)
Effect of exchange rate changes on cash	**(1,326)**	(1,956)	630	**819**	(3,309)	4,128
Net change in cash and cash equivalents	**(52,970)**	(99,861)	46,891	**248,057**	(21,846)	269,903

Operating activities

Operating activities used cash flows of $7.5 million during the third quarter, compared with $62.7 million in 2022. The $55.2 million decrease in cash flows used in operating activities resulted from the $170.9 million increase in net income (loss) before operating items not involving an outlay (receipt) of cash and the $11.9 million increase in the net change in other assets and liabilities related to operations, partially offset by the $125.3 million decrease in cash flows generated by the net change in non-cash working capital balances related to operations and the $2.3 million decrease in the net change in the provision for return conditions.

Cash flows generated from operating activities amounted to $378.1 million for the nine-month period compared with cash flows used of $117.8 million in 2022. The $495.9 million increase in cash flows generated by operating activities resulted from the $322.3 million increase in net income (loss) before operating items not involving an outlay (receipt) of cash, the $169.4 million increase in cash flows generated by the net change in non-cash working capital balances related to operations, the $2.2 million increase in the net change in other assets and liabilities related to operations and the $2.1 million increase in the net change in the provision for return conditions.

Investing activities

Cash flows used in investing activities amounted to $4.1 million for the third quarter compared with $10.0 million in 2022, representing a decrease of $5.9 million. For the nine-month period, cash flows used in investing activities amounted to $21.9 million compared with $25.0 million in 2022, representing a decrease of $3.1 million. For the quarter and nine-month period ended July 31, 2023, additions to property, plant and equipment and intangible assets amounted to $14.1 million and $33.4 million, respectively, and consisted primarily in aircraft maintenance and spare parts, compared with $10.0 million and $24.5 million, respectively, in 2022. Furthermore, during the third quarter of 2023, a deposit of $10.0 million was received for the agreement for the sale and purchase of a subsidiary, whose main asset consisted of land located in Puerto Morelos, Mexico.

Financing activities

For the third quarter, cash flows used by financing activities amounted to $40.0 million compared with $25.2 million in 2022, representing an increase of $14.8 million. The Corporation made repayments on its lease liabilities amounting to $40.4 million compared with $24.2 million in 2022. No drawdowns were made during the quarter ended July 31, 2023, while the Corporation drew down a total of $4.6 million from its credit facilities in the corresponding period of 2022.

For the nine-month period, financing activities used $109.0 million in cash flows, compared with cash flows generated of $124.3 million in 2022. The Corporation made repayments on its lease liabilities amounting to $109.9 million compared with $83.6 million in 2022. No drawdowns were made during the nine-month period ended July 31, 2023, while the Corporation drew down a total of $213.2 million from its credit facilities in 2022.

FINANCING

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allows it to borrow up to $843.3 million through the Large Employer Emergency Financing Facility (LEEFF). The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses only on an as-needed basis, are as follows:

Secured debt – LEEFF

On April 28, 2023, the Corporation renegotiated its $98.0 million secured LEEFF credit facility, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. No drawdowns were made during the nine-month period ended July 31, 2023. As at July 31, 2023, and October 31, 2022, an amount of $78.0 million was drawn down with a carrying amount of $77.2 million as at July 31, 2023 ($77.2 million as at October 31, 2022). The unused amount of $20.0 million is available until October 29, 2023.

<u>Unsecured debt – LEEFF</u>

An amount of $392.0 million, in the form of an unsecured, non-revolving credit facility. The credit facility bears interest at a rate of 5.0% until December 31, 2023, increasing to 8.0% until December 31, 2024, and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024. An amount of $312.0 million matures on April 29, 2026, while the balance of $80.0 million matures on July 29, 2027. In the event of a change of control, this credit facility becomes immediately due and payable. As at July 31, 2023, and October 31, 2022, an amount of $312.0 million was drawn down with a carrying amount of $312.8 million as at July 31, 2023 ($284.8 million as at October 31, 2022). The unused amount of $80.0 million is available until October 29, 2023. No drawdowns were made during the nine-month period ended July 31, 2023.

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

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

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

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

As at July 31, 2023 and October 31, 2022, a total of 13,000,000 warrants had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

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

- a maximum of 9,599,107 warrants could be exercised through the issuance of shares;
- 8,088,393 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

<u>Unsecured credit facility related to travel credits</u>

An amount of $353.3 million, in the form of an unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at July 31, 2023 and October 31, 2022, the credit facility was fully drawn. As at July 31, 2023, the carrying amount of the credit facility was $199.2 million ($182.5 million as at October 31, 2022), and an amount of $152.6 million was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

On April 28, 2023, the Corporation renegotiated its $50.0 million revolving credit facility for operating purposes, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). This agreement can be extended for one year on each anniversary date subject to lender approval. The balance becomes immediately due and payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars and U.S. dollars. The agreement is secured by a first ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at July 31, 2023, and October 31, 2022, the credit facility was fully drawn.

Subordinated credit facility

On April 28, 2023, the Corporation renegotiated its $70.0 million subordinated credit facility operating purposes, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). The facility becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, plus a 6.0% premium, or at the financial institution's prime rate, plus a 5.0% premium. Until October 29, 2023, an additional capitalizable premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to comply with certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at July 31, 2023, and October 31, 2022, the credit facility was fully drawn.

Off-balance sheet arrangements

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $896.8 million as at July 31, 2023 ($978.0 million as at October 31, 2022) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at July 31, 2023 $**	**As at October 31, 2022 $**
Guarantees		
Irrevocable letters of credit	**1,302**	978
Collateral security contracts	**755**	469
Leases		
Lease obligations	**894,705**	976,510
	896,762	977,957

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

The Corporation has a $74.0 million annually renewable revolving credit facility for issuing letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at July 31, 2023, $62.1 million of the facility was drawn ($55.9 million as at October 31, 2022), including $29.8 million ($31.3 million as at October 31, 2022) to secure obligations under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits from which £1.2 million ($2.1 million) has been drawn down.

As at July 31, 2023, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $81.2 million compared with October 31, 2022. This decrease was primarily due to the delivery of two Airbus A321LRs and one Airbus321ceo, the appreciation of the Canadian dollar against the U.S. dollar, partially offset by the signing of an agreement for the lease of one Airbus A321XLR and the impact of higher interest rates on future rents.

We believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

Debt levels

The Corporation reported $710.7 million in long-term debt and $1,131.8 million in lease liabilities in the consolidated statement of financial position.

The Corporation’s total debt stood at $2,038.5 million as at July 31, 2023, up $105.6 million from October 31, 2022.. This increase was primarily due to the addition of two Airbus A321LRs, one Airbus321ceo and one Airbus A330 to our permanent fleet, partially offset by the repayment of lease liabilities, the return of an aircraft and the strengthening of the U.S. dollar against the Canadian dollar.

Total net debt decreased by $142.5 million from $1,610.4 million as at October 31, 2022 to $1,467.9 million as at July 31, 2023. The decrease in total net debt resulted from the increase in cash and cash equivalent balances, partially offset by the increase in total debt.

Outstanding shares

As at July 31, 2023, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at September 8, 2023, there were a total of 38,455,100 voting shares outstanding.

Stock options

As at September 8, 2023, a total of 440,659 stock options was outstanding, 90,659 of which were exercisable.

Warrants

As at July 31, 2023 and as at September 8, 2023, a total of 17,687,500 warrants was issued. As at July 31, 2023, and as at September 8, 2023, a total of 13,000,000 warrants had vested following drawdowns on the credit facility and no warrants had been exercised. Under the terms of the unsecured debt – LEEFF financing agreement, if the loan were to be repaid prior to December 31, 2023, 50% of the vested warrants would be forfeited.

8. OTHER

FLEET

As at July 31, 2023, Air Transat's permanent fleet consisted of thirteen Airbus A330s (332 or 345 seats), fourteen Airbus A321LRs (199 seats), eight Airbus A321ceos (199 seats). During the nine-month period ended July 31, 2023, one Airbus A330, two Airbus A321LRs and one Airbus A321ceo were commissioned and one Boeing 737-800 was returned to the lessor.

LITIGATION

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

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

9. ACCOUNTING

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2022. There have been no significant changes to the Corporation's accounting policies since that date.

CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 1 – Financial Statement Presentation

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

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

10. CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer who, among other things, consider adequate as at July 31, 2023, the design of:

- Disclosure controls and procedures that provide reasonable assurance that material financial information of the Corporation and its subsidiaries is properly disclosed and recorded, processed, summarized and reported within the time periods specified in the legislation;

- Internal control over financial reporting ["ICFR"] which provides, based on the established criteria in the 2013 COSO control framework, reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2023, that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

11. OUTLOOK

To date, load factors for the fourth quarter are 2.2 percentage points lower than in 2019, while airline unit revenues, expressed in yield, remain 26% higher. The combination of sustained demand and firm pricing will allow the Corporation to cope with a cost environment that remains generally higher and volatile.

Considering the solid results achieved in the first nine months of fiscal 2023, the Corporation is raising the target for adjusted EBITDA margin from a range of 5.5% to 7% to a target of 7.5% to 8% for the year. In making these forward-looking statements, the Corporation adjusted its assumptions for the full year, including moderate growth in Canada's GDP, an exchange rate of C$1.35 to US$1 and an average price per gallon of jet fuel of C$4.25.

For the upcoming winter season, the recent addition of four aircraft (three A321LRs and one A321ceo) and enhanced fleet utilization will contribute to increasing available capacity by 23%, as the Corporation continues to methodically expand its offering. Current market trends regarding demand and pricing continue to bode well for the early stages of the new fiscal year.

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

Unaudited (in thousands of Canadian dollars)	Notes	As at July 31, 2023 $	As at October 31, 2022 $
ASSETS			
Cash and cash equivalents		**570,592**	322,535
Cash and cash equivalents in trust or otherwise reserved	3	**263,598**	344,284
Trade and other receivables	4	**146,554**	265,050
Income taxes receivable		**2,464**	5,537
Inventories		**30,291**	26,725
Prepaid expenses		**54,553**	26,428
Derivative financial instruments		**15,576**	11,939
Current portion of deposits	5	**178,377**	29,392
Assets held for sale	6	**47,806**	—
Current assets		**1,309,811**	1,031,890
Cash and cash equivalents reserved	3	**29,750**	31,273
Deposits	5	**195,927**	172,231
Deferred tax assets		**1,090**	953
Property, plant and equipment	7	**1,038,362**	1,000,151
Intangible assets		**13,614**	13,261
Investment	8	**9,959**	8,820
Deferred financing costs		**12,743**	12,552
Non-current assets		**1,301,445**	1,239,241
		2,611,256	2,271,131
LIABILITIES			
Trade and other payables		**324,414**	289,897
Income taxes payable		**415**	1,054
Customer deposits and deferred revenues		**819,899**	602,509
Derivative financial instruments		**6,842**	6,209
Current portion of lease liabilities	9	**135,499**	137,165
Current portion of liability related to warrants	10	**39,986**	16,799
Current portion of provision for return conditions	11	**2,009**	—
Liabilities related to assets held for sale	6	624	—
Current liabilities		**1,329,688**	1,053,633
Long-term debt and lease liabilities	9	**1,706,906**	1,614,903
Liability related to warrants	10	**16,251**	7,561
Deferred government grant	9	**152,576**	169,025
Provision for return conditions	11	**161,221**	154,772
Employee benefits liability		**22,341**	20,773
Deferred tax liabilities		**623**	644
Non-current liabilities		**2,059,918**	1,967,678
NEGATIVE EQUITY			
Share capital	12	**223,083**	221,924
Share-based payment reserve		**16,265**	16,092
Deficit		**(1,013,089)**	(984,602)
Cumulative exchange differences		**(4,609)**	(3,594)
		(778,350)	(750,180)
		2,611,256	2,271,131

See accompanying notes to the interim unaudited condensed consolidated financial statements

On behalf of the Board,

Director

Director

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

		Quarters ended July 31		Nine-month periods ended July 31	
Unaudited		**2023**	**2022**	**2023**	**2022**
(in thousands of Canadian dollars, except per share amounts)	*Notes*	**$**	**$**	**$**	**$**
Revenues	*13*	**746,317**	508,304	**2,283,885**	1,068,899
Operating expenses					
Aircraft fuel		**158,140**	205,810	**449,979**	323,591
Salaries and employee benefits	*13*	**114,287**	91,024	**322,719**	197,130
Costs of providing tourism services		**93,345**	78,060	**626,689**	283,692
Airport and navigation fees		**55,159**	44,344	**133,436**	80,165
Aircraft maintenance		**50,018**	32,223	**123,426**	79,759
Sales and distribution costs		**45,340**	31,845	**165,190**	76,805
Aircraft rent	*9*	**2,041**	2,386	**7,864**	5,477
Other airline costs		**81,960**	53,715	**187,876**	100,924
Other		**27,846**	23,332	**82,163**	62,369
Share of net (income) loss of a joint venture	*8*	**(953)**	610	**(1,442)**	1,415
Depreciation and amortization	*7*	**53,752**	38,173	**137,623**	112,144
Restructuring costs	*14*	**1,007**	—	**3,350**	—
		681,942	601,522	**2,238,873**	1,323,471
Operating income (loss)		**64,375**	(93,218)	**45,012**	(254,572)
Financing costs	*9*	**33,694**	27,158	**98,582**	74,088
Financing income		**(11,099)**	(3,047)	**(30,922)**	(5,599)
Change in fair value of derivatives		**(12,168)**	6,908	**11,702**	8,628
Revaluation of liability related to warrants	*10*	**24,972**	(14,506)	**31,877**	(13,697)
Foreign exchange (gain) loss		**(29,052)**	(1,706)	**(36,014)**	27,715
Loss (gain) on asset disposals	*15*	**—**	13	**(2,511)**	(4,005)
Gain on long-term debt modification		**—**	—	**—**	(22,191)
Income (loss) before income tax expense		**58,028**	(108,038)	**(27,702)**	(319,511)
Income taxes (recovery)					
Current		**92**	(1,566)	**612**	(418)
Deferred		**633**	—	**173**	—
		725	(1,566)	**785**	(418)
Net income (loss) for the period		**57,303**	(106,472)	**(28,487)**	(319,093)
Earnings (loss) per share	*12*				
Basic		**1.49**	(2.82)	**(0.75)**	(8.44)
Diluted		**1.49**	(2.82)	**(0.75)**	(8.44)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

	Quarters ended July 31		Nine-month periods ended July 31	
Unaudited	**2023**	**2022**	**2023**	**2022**
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**
Net income (loss) for the period	**57,303**	(106,472)	**(28,487)**	(319,093)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	**(2,184)**	1,224	**(1,015)**	(341)
Reclassification to net income (loss)	**—**	—	**—**	(360)
Total other comprehensive income (loss)	**(2,184)**	1,224	**(1,015)**	(701)
Comprehensive income (loss) for the period	**55,119**	(105,248)	**(29,502)**	(319,794)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

Unaudited (in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Deficit $	Accumulated other comprehensive income (loss) Cumulative exchange differences $	Total equity $
Balance as at October 31, 2021	221,012	15,948	(544,881)	(7,189)	(315,110)
Net loss for the period	—	—	(319,093)	—	(319,093)
Other comprehensive loss	—	—	—	(701)	(701)
Comprehensive loss for the period	—	—	(319,093)	(701)	(319,794)
Issued from treasury	598	—	—	—	598
Share-based payment expense	—	88	—	—	88
Balance as at July 31, 2022	**221,610**	**16,036**	**(863,974)**	**(7,890)**	**(634,218)**
Net loss for the period	—	—	(126,231)	—	(126,231)
Other comprehensive income	—	—	5,603	4,296	9,899
Comprehensive income (loss) for the period	—	—	(120,628)	4,296	(116,332)
Issued from treasury	314	—	—	—	314
Share-based payment expense	—	56	—	—	56
Balance as at October 31, 2022	221,924	16,092	(984,602)	(3,594)	(750,180)
Net loss for the period	—	—	(28,487)	—	(28,487)
Other comprehensive loss	—	—	—	(1,015)	(1,015)
Comprehensive loss for the period	—	—	(28,487)	(1,015)	(29,502)
Issued from treasury	1,159	—	—	—	1,159
Share-based payment expense	—	173	—	—	173
Balance as at July 31, 2023	**223,083**	**16,265**	**(1,013,089)**	**(4,609)**	**(778,350)**

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

Unaudited (in thousands of Canadian dollars)	Notes	Quarters ended July 31 2023 $	 2022 $	Nine-month periods ended July 31 2023 $	 2022 $
OPERATING ACTIVITIES					
Net income (loss) for the period		**57,303**	(106,472)	**(28,487)**	(319,093)
Operating items not involving an outlay (receipt) of cash:					
Depreciation and amortization	7	**53,752**	38,173	**137,623**	112,144
Change in fair value of derivatives		**(12,168)**	6,908	**11,702**	8,628
Revaluation of liability related to warrants		**24,972**	(14,506)	**31,877**	(13,697)
Gain on long-term debt modification		**—**	—	**—**	(22,191)
Loss (gain) on asset disposals	15	**—**	13	**(2,511)**	(4,005)
Foreign exchange (gain) loss		**(29,052)**	(1,706)	**(36,014)**	27,715
Share of net (income) loss of a joint venture	8	**(953)**	610	**(1,442)**	1,415
Capitalized interest on long-term debt and lease liabilities		**11,190**	11,714	**33,127**	34,016
Deferred taxes		**633**	—	**173**	—
Employee benefits		**450**	480	**2,499**	1,440
Share-based payment expense		**61**	30	**173**	88
		106,188	(64,756)	**148,720**	(173,540)
Net change in non-cash working capital balances related to operations		**(105,749)**	19,595	**246,679**	77,271
Net change in provision for return conditions		**(598)**	1,722	**15,181**	13,098
Net change in other assets and liabilities related to operations		**(7,375)**	(19,285)	**(32,467)**	(34,622)
Cash flows related to operating activities		**(7,534)**	(62,724)	**378,113**	(117,793)
INVESTING ACTIVITIES					
Additions to property, plant and equipment and other intangible assets		**(14,138)**	(9,992)	**(33,421)**	(24,456)
Consideration received for assets held for sale	6	**10,002**	—	**10,002**	—
Decrease (increase) in cash and cash equivalents reserved		**—**	—	**1,523**	(545)
Cash flows related to investing activities		**(4,136)**	(9,992)	**(21,896)**	(25,001)
FINANCING ACTIVITIES					
Repayment of lease liabilities	9	**(40,407)**	(24,191)	**(109,947)**	(83,600)
Transaction costs		**—**	(2,614)	**(191)**	(2,614)
Proceeds from issuance of shares		**433**	337	**1,159**	598
Repayment of debt		**—**	(3,344)	**—**	(3,344)
Proceeds from borrowings	9	**—**	4,623	**—**	213,217
Cash flows related to financing activities		**(39,974)**	(25,189)	**(108,979)**	124,257
Effect of exchange rate changes on cash and cash equivalents		**(1,326)**	(1,956)	**819**	(3,309)
Net change in cash and cash equivalents		**(52,970)**	(99,861)	**248,057**	(21,846)
Cash and cash equivalents, beginning of period		**623,562**	511,210	**322,535**	433,195
Cash and cash equivalents, end of period		**570,592**	411,349	**570,592**	411,349
Supplementary information (as reported in operating activities)					
Net income taxes paid (recovered)		**(1,751)**	350	**(2,142)**	821
Net interest paid		**10,332**	3,900	**30,486**	11,549

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

Note 1 Corporate information

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2023, were approved by the Corporation's Board of Directors on September 13, 2023.

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

Note 2 Significant accounting policies

Basis of preparation

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2022.

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

Changes in accounting policy

Amendments to IAS 1, Presentation of Financial Statements

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

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

Note 3 Cash and cash equivalents in trust or otherwise reserved

As at July 31, 2023, cash and cash equivalents in trust or otherwise reserved included $229,208 [$319,162 as at October 31, 2022] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $64,140, $29,750 of which was recorded as non-current assets [$56,395 as at October 31, 2022, $31,273 of which was recorded as non-current assets], and pledged as collateral security against letters of credit.

Note 4 Trade and other receivables

	As at July 31, 2023 $	As at October 31, 2022 $
Credit card processor receivables	**61,499**	196,894
Government receivables	**36,963**	31,179
Trade receivables	**15,016**	9,497
Cash receivable from lessors	**15,217**	9,959
Other receivables	**17,859**	17,521
	146,554	265,050

Note 5 Deposits

	As at July 31, 2023 $	As at October 31, 2022 $
Maintenance deposits with lessors	**156,591**	135,563
Deposits with credit card processors	**170,321**	20,757
Deposits on leased aircraft and engines	**40,471**	37,920
Deposits with suppliers	**6,921**	7,383
	374,304	201,623
Less current portion	**178,377**	29,392
	195,927	172,231

Note 6 Assets held for sale

On August 31, 2023, the Corporation finalized the agreement for the sale and purchase of its wholly owned subsidiary Laminama, S.A. de C.V. ["Laminama"], whose main asset is a land located in Puerto Morelos, Mexico, initially announced on July 10, to Finest Holding, B.V., a luxury hotel and resort group. The sale price, payable in cash, is firm and amounts to US$38,000 [$51,414]. An amount of US$7,600 [$10,002] was received upon signature of the agreement and recorded under Trade and other payables. The balance of the sale price was paid upon closing of the transaction.

As at July 31, 2023, Laminama's assets and liabilities were presented as held for sale in the consolidated statements of financial position. As Laminama's operations do not represent a separate major line of business for the Corporation, Laminama's results are included in the Corporation's results from continuing operations in the consolidated statements of income (loss) and comprehensive income (loss) for the periods ended July 31, 2023.

Assets and liabilities held for sale are detailed as follows:

	As at July 31, 2023 $
Current assets	2,386
Land and other non-current assets	45,420
Assets held for sale	**47,806**
Current liabilities	624
Liabilities related to assets held for sale	**624**
Net assets held for sale	**47,182**

Note 7 Property, plant and equipment

	Leasehold improvements Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2022	105,911	142,270	46,843	63,209	1,415,370	111,449	1,885,052
Additions	1,179	15,143	2,757	371	196,968	2,765	219,183
Reclassification	—	—	(4,990)	4,990	—	—	—
Disposals	(1,599)	(34)	—	—	(18,690)	—	(20,323)
Write-offs	—	(45)	—	(4)	(1,976)	(1,574)	(3,599)
Impairment	—	—	—	(4,592)	—	—	(4,592)
Assets held for sale	—	—	—	(45,420)	—	—	(45,420)
Exchange difference	—	—	(97)	(1,893)	—	(13)	(2,003)
Balance as at July 31, 2023	105,491	157,334	44,513	16,661	1,591,672	112,627	2,028,298
Accumulated depreciation							
Balance as at October 31, 2022	63,648	86,376	32,842	11,534	618,142	72,359	884,901
Depreciation	6,160	5,940	2,633	520	110,037	3,800	129,090
Disposals	(1,599)	(2)	—	—	(18,690)	—	(20,291)
Write-offs	—	(45)	—	(4)	(1,976)	(1,574)	(3,599)
Exchange difference	—	—	(91)	(63)	—	(11)	(165)
Balance as at July 31, 2023	68,209	92,269	35,384	11,987	707,513	74,574	989,936
Net book value as at July 31, 2023	37,282	65,065	9,129	4,674	884,159	38,053	1,038,362

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

During the nine-month period ended July 31, 2023, the Corporation returned to the lessor a leased Boeing 737-800. This return resulted in disposals of property, plant and equipment and accumulated depreciation balances of $20,289. The carrying amount of assets related to this aircraft was fully impaired as at October 31, 2020. In addition, the Corporation took delivery of an Airbus A330, two Airbus A321LRs and an Airbus A321ceo.

Furthermore, given the agreement for the sale and purchase of its Laminama subsidiary entered into during the quarter ended July 31, 2023 *[Note 6]*, the Corporation measured the recoverable amount of Laminama's non-current assets and compared it with their carrying amount, before classifying its assets as assets held for sale. The recoverable amount of non-current assets held for sale was measured using a selling price allocation based on the fair value of assets and liabilities held for sale, less costs to sell. As the recoverable amount of the land in Mexico was less than its carrying amount, the Corporation recorded an impairment loss of $4,592.

Note 8 Investment

As at July 31, 2023, the change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2022	**8,820**
Share of net income	**1,442**
Translation adjustment	**(303)**
Balance as at July 31, 2023	**9,959**

The investment was translated at the USD/CAD closing rate of 1.3161 as at July 31, 2023 [1.3641 as at October 31, 2022].

Note 9 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at July 31, 2023, and October 31, 2022. The current portion of lease liabilities included deferred rent payments related to aircraft leases of $24,519 [$32,148 as at October 31, 2022]:

	Final maturity	Weighted average effective interest rate	As at July 31, 2023	As at October 31, 2022
		%	$	$
Long-term debt				
Secured debt - LEEFF	**2025**	**5.30**	**77,211**	77,215
Unsecured debt - LEEFF	**2026**	**13.27**	**312,796**	284,757
Unsecured credit facility - Travel credits	**2028**	**14.00**	**199,166**	182,520
Revolving credit facility	**2025**	**9.76**	**49,582**	49,644
Subordinated credit facility	**2025**	**15.16**	**71,898**	70,024
Long-term debt		**12.55**	**710,653**	664,160
Lease liabilities				
Fleet	**2023-2035**	**6.18**	**1,089,047**	1,044,951
Real estate and other	**2023-2037**	**5.53**	**42,705**	42,957
Lease liabilities		**6.16**	**1,131,752**	1,087,908
Total long-term debt and lease liabilities		**8.62**	**1,842,405**	1,752,068
Current portion of lease liabilities			**(135,499)**	(137,165)
Long-term debt and lease liabilities			**1,706,906**	1,614,903

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allows it to borrow up to $843,300 through the Large Employer Emergency Financing Facility ("LEEFF"). The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses on an as-needed basis, are as follows:

Secured debt - LEEFF

On April 28, 2023, The Corporation renegotiated its LEEFF secured debt agreement of $98,000, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5 %. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. No drawdowns were made during the nine-month period ended July 31, 2023. As at July 31, 2023, and October 31, 2022, an amount of $78,000 was drawn down with a carrying value of $77,211 as at July 31, 2023 [$77,215 as at October 31, 2022]. The unused amount of $20,000 is available until October 29, 2023.

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

Unsecured debt - LEEFF

An amount of $392,000, in the form of a non-revolving and unsecured credit facility. The credit facility bears interest at a rate of 5.0% until December 31, 2023, increasing to 8.0% until December 31, 2024, and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024. An amount of $312,000 matures on April 29, 2026, while the balance of $80,000 will mature on July 29, 2027. In the event of a change in control, this credit facility becomes immediately due and payable.

As at July 31, 2023, and October 31, 2022, an amount of $312,000 was drawn down with a carrying value of $312,796 as at July 31, 2023 [$284,757 as at October 31, 2022]. The unused amount of $80,000 is available until October 29, 2023. No drawdowns were made during the nine-month period ended July 31, 2023. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a deduction from the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of loss under Change in fair value of derivatives. As at July 31, 2023, the fair value of the prepayment option was nil [$128 as at October 31, 2022] and was determined using a trinomial tree approach based on the Hull-White model.

In the context of the financing arrangement, the Corporation issued a total of 17,687,500 warrants *[Note 10]* related to the unsecured financing facility - LEEFF.

Unsecured credit facility related to travel credits

An amount of $353,300, in the form of an unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at the rate of 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at July 31, 2023, and October 31, 2022, the credit facility was fully drawn. As at July 31, 2023, the carrying amount of the credit facility was $199,166 [$182,520 as at October 31, 2022], and an amount of $152,576 was also recognized as deferred government grant related to these drawdowns. During the nine-month period ended July 31, 2023, an amount of $16,646 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

Other credit facilities

Revolving credit facility

On April 28, 2023, the Corporation renegotiated its $50,000 revolving term credit agreement for its operations, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). This agreement can be extended for one year on each anniversary date subject to lender approval and becomes immediately due and payable in the event of a change of control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian and U.S. dollars. The agreement is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars, plus a premium of 4.5% or at the financial institution's prime rate, plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at July 31, 2023, and October 31, 2022, the credit facility was fully drawn.

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

Subordinated credit facility

On April 28, 2023, the Corporation renegotiated its $70,000 subordinated credit facility for its operations, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). The agreement becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at bankers' acceptance rate plus a premium of 6.0% or at the financial institution's prime rate, plus a premium of 5.0%. Until October 29, 2023, an additional capitalizable premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023. As at July 31, 2023, and October 31, 2022, the credit facility was fully drawn.

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

Revolving credit facility agreement – Letters of credit

The Corporation has a $74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at July 31, 2023, $62,080 had been drawn down under the facility [$55,935 as at October 31, 2022], $29,750 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure the obligations under senior executive defined benefit pension agreements will be drawn.

Financing costs

Interest expense for the periods ended July 31, 2023, and 2022, is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Interest expense on long-term debt	**16,766**	13,818	**48,822**	35,374
Interest expense on lease liabilities	**15,168**	11,288	**44,693**	33,751
Accretion on provision for return conditions	**1,247**	983	**3,765**	2,034
Other interest	**513**	1,069	**1,302**	2,929
Financing costs	**33,694**	27,158	**98,582**	74,088

Rent expense

Rent expense for the periods ended July 31, 2023, and 2022, is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Variable lease payments	**1,149**	2,386	**4,659**	5,477
Short-term leases	**892**	—	**3,205**	—
Aircraft rent	**2,041**	2,386	**7,864**	5,477
Variable lease payments	**219**	383	**747**	791
Short-term leases	**1,665**	1,005	**3,916**	2,592
Low value leases	**86**	81	**272**	255
	4,011	3,855	**12,799**	9,115

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the nine-month period ended July 31, 2023:

	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2022			**1,087,908**
Repayments	**(109,947)**	**—**	**(109,947)**
New lease liabilities (new contracts and amendments)	**—**	**189,414**	**189,414**
Interest portion of deferred rent payments	**—**	**2,962**	**2,962**
Offset of rent payments and lease terminations	**—**	**(2,474)**	**(2,474)**
Exchange difference	**—**	**(36,111)**	**(36,111)**
Balance as at July 31, 2023	**(109,947)**	**153,791**	**1,131,752**

Maturity analysis

Repayment of principal and interest on long-term debt and lease liabilities as at July 31, 2023 is detailed as follows. Interest on long-term debt only includes interest payable as at July 31, 2023. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.3161 as at July 31, 2023:

Year ending October 31	2023 $	2024 $	2025 $	2026 $	2027 $	2028 and up $	Total $
Long-term debt obligations	**—**	**—**	**198,691**	**312,796**	**—**	**199,166**	**710,653**
Fleet	51,419	187,329	191,010	170,547	153,735	638,634	**1,392,674**
Real estate and other	1,919	5,492	5,641	3,756	5,308	35,095	**57,211**
Lease liabilities	**53,338**	**192,821**	**196,651**	**174,303**	**159,043**	**673,729**	**1,449,885**
Total	**53,338**	**192,821**	**395,342**	**487,099**	**159,043**	**872,895**	**2,160,538**

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

Note 10 Liability related to warrants

In the context of the initial financing arrangement related to the unsecured facility – LEEFF *[Note 9]*, on April 29, 2021, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share, exercisable over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt – LEEFF.

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

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

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

As at July 31, 2023, and October 31, 2022, a total of 13,000,000 warrants had vested under the drawdowns on the unsecured debt – LEEFF and no warrants had been exercised.

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

- a maximum of 9,599,107 warrants could be exercised through the issuance of shares;
- 8,088,393 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,599,107 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,599,107 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

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

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

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

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

The change in the liability related to warrants for the nine-month period ended July 31, 2023, is detailed as follows:

	As at July 31, 2023	As at October 31, 2022
	$	$
Opening balance	**24,360**	36,557
Issuance	**—**	9,792
Revaluation of liability related to warrants	**31,877**	(21,989)
Closing balance	**56,237**	24,360
Current liability	**39,986**	16,799
Non-current liability	**16,251**	7,561
Closing balance	**56,237**	24,360

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at July 31, 2023, the primary unobservable input used in the model is expected volatility, which is estimated at 56.3%. A 5.0 percentage point increase in the expected volatility used in the pricing model would result in a total increase of $1,466 in the liability related to warrants as at July 31, 2023.

Note 11 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the nine-month period ended July 31, 2023, is detailed as follows:

	As at July 31, 2023 $	As at October 31, 2022 $
Opening balance	**154,772**	126,244
Additional provisions	**14,057**	49,858
Changes in estimates	**(9,364)**	(15,276)
Utilization of provision	**—**	(6,163)
Unused amounts reversed	**—**	(2,864)
Accretion	**3,765**	2,973
Closing balance	**163,230**	154,772
Current provisions	**2,009**	—
Non-current provisions	**161,221**	154,772
Closing balance	**163,230**	154,772

Changes in estimates mainly include adjustments to the inflation rate to be applied to estimated current costs and to the discount rate for the provision for return conditions.

As at October 31, 2022, the unused amounts reversed correspond to the reversals of the provision for return conditions for three aircraft, including one aircraft whose lease was terminated and two aircraft that were returned early in 2021.

Note 12 Equity

Authorized share capital

CLASS A VARIABLE VOTING SHARES

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

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

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

Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

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

	Number of shares	$
Balance as at October 31, 2021	37,747,090	221,012
Issued from treasury	265,054	912
Balance as at October 31, 2022	38,012,144	221,924
Issued from treasury	384,286	1,159
Balance as at July 31, 2023	**38,396,430**	**223,083**

As at July 31, 2023, the number of Class A Shares and Class B Shares stood at 2,842,328 and 35,554,102, respectively [1,428,479 and 36,583,665, respectively, as at October 31, 2022].

Stock option plan

	Number of options	Weighted average price ($)
Balance as at October 31, 2022	480,847	6.13
Granted	50,000	3.39
Cancelled	(25,125)	10.01
Expired	(49,688)	6.01
Balance as at July 31, 2023	**456,034**	**5.63**
Options exercisable as at July 31, 2023	**106,034**	**10.18**

Warrants

No warrants were exercised during the quarter and nine-month period ended July 31, 2023. Accordingly, the Corporation did not issue any shares related to the exercise of warrants *[Note 10]*.

Earnings (loss) per share

Basic and diluted earnings (loss) per share were calculated as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2023	**2022**	**2023**	**2022**
(in thousands of dollars, except per share data)	**$**	**$**	**$**	**$**
NUMERATOR				
Net income (loss) used in computing basic earnings (loss) per share	**57,303**	(106,472)	**(28,487)**	(319,093)
Effect of deemed conversion of warrants	**24,972**	(14,506)	**31,877**	(13,697)
Less anti-dilutive impact	**(24,972)**	14,506	**(31,877)**	13,697
Net income (loss) used in computing diluted earnings (loss) per share	**57,303**	(106,472)	**(28,487)**	(319,093)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**38,352**	37,795	**38,220**	37,795
Effect of potential dilutive securities				
Stock options	**20**	—	**3**	9
Warrants	**—**	—	**—**	—
Less anti-dilutive impact	**—**	—	**(3)**	(9)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**38,372**	37,795	**38,220**	37,795
Earnings (loss) per share				
Basic	**1.49**	(2.82)	**(0.75)**	(8.44)
Diluted	**1.49**	(2.82)	**(0.75)**	(8.44)

For the quarter and the nine-month periods ended July 31, 2023, a total of 256 034 and 456,034 outstanding stock options and the 9,599,107 vested warrants that can be exercised through the issuance of shares were excluded from the calculation since their exercise price exceeded the average share price for the period [480,847 stock options and 9,474,770 warrants for the quarter and the nine-month period ended July 31, 2022].

Note 13 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Customers				
Americas	**236,537**	205,488	**1,578,670**	690,964
Transatlantic	**502,591**	297,705	**686,888**	365,182
Other	**7,189**	5,111	**18,327**	12,753
Total revenues	**746,317**	508,304	**2,283,885**	1,068,899

Government grants

During the nine-month period ended July 31, 2022, the Corporation recognized a deduction in the amount of $24,403 from Salaries and employee benefits related to the subsidy programs (THRP and HHBRP). The THRP and HHBRP ended on May 7, 2022.

Note 14 Restructuring costs

	Quarters ended July 31		Nine-month periods ended July 31	
	2023 $	2022 $	2023 $	2022 $
Restructuring costs				
Severance	**651**	—	**2,994**	—
Staff relocation costs	**356**	—	**356**	—
	1,007	—	**3,350**	—

Restructuring costs mainly consist of employee termination benefits related to the closure of the Vancouver base effective June 30, 2023 and staff relocation costs,

The change in the provision for employee termination benefits for the nine-month period ended July 31, 2023, which was included in Trade and other payables, is as follows:

	As at July 31, 2023 $	As at October 31, 2022 $
Opening balance	**2,015**	5,220
Additional provisions	**3,551**	847
Utilization of provision	**(3,592)**	(4,052)
Unused amounts reversed	**(557)**	—
Closing balance	**1,417**	2,015

Note 15 Gain on asset disposals

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

During the nine-month period ended July 31, 2023, the gain on asset disposals of $2,511 was due to the return of a Boeing 737-800 to the lessor. The gain resulted mainly from the reversal of related lease liabilities. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2020.

During the nine-month period ended July 31, 2022, the gain on asset disposals of $4,005 was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a $4,085 gain, which resulted from the reversal of lease liabilities of $3,976 and other assets and liabilities totalling $109. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2021.

Note 16 Commitments and contingencies

Leases and other commitments

As at July 31, 2023, the Corporation was party to agreements to lease five Airbus A321LRs for delivery up to 2024 and four Airbus A321XLRs to be delivered between 2025 and 2027. The Corporation also has leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, particularly in connection with information technology service contracts, undertaken in the normal course of business. The following table sets out the minimum payments due under aircraft leases to be delivered over the next few years and under leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations:

Year ending October 31	2023 $	2024 $	2025 $	2026 $	2027 $	2028 and up $	Total $
Leases (aircraft and other)	3,136	30,061	41,484	60,020	71,520	688,484	**894,705**
Purchase obligations	11,626	7,750	4,782	32	14	—	**24,204**
	14,762	**37,811**	**46,266**	**60,052**	**71,534**	**688,484**	**918,909**

Litigation

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

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

Other

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

Note 17 Guarantees

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

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

Notes 5, 14, 17 and 24 to the consolidated financial statements for the year ended October 31, 2022, provide information about some of these agreements. The following constitutes additional disclosure.

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, as required by regulatory agencies, for the performance of the obligations included in mandates of its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2023, the total amount of these guarantees unsecured by deposits totalled $755. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2023, no amounts had been accrued with respect to the above-mentioned agreements.

Note 18 Segment disclosures

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

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