

## MANAGEMENT'S REPORT

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

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

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

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



Jean-Marc Eustache  
Chairman of the Board,  
President and Chief Executive Officer



Denis Pétrin  
Vice-President, Finance and Administration  
and Chief Financial Officer

## INDEPENDANT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of Transat A.T. Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at October 31, 2020 and 2019 and as at November 1, 2018, and the consolidated statements of loss, the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended October 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2020 and 2019 and as at November 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended October 31, 2020 and 2019 in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

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

### Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements, which indicates that the Group incurred a net loss of \$496.8 million for the year ended October 31, 2020 and, as of that date, the Corporation's current liabilities exceeded its total assets by \$163.2 million. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Emphasis of Matter – Adoption of a new accounting standard

We draw attention to note 5 to the consolidated financial statements, which describes the adoption of IFRS 16, *Leases*. Our opinion is not modified in respect of this matter.

### Other Information

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

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

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

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

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

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Montréal, Canada

December 11, 2020

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A113209

# TRANSAT A.T. INC.

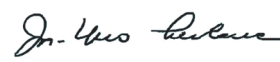
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*[Note 2, Uncertainty related to going concern]*

|                                                          |      | As at<br>October 31,<br>2020 | As at<br>October 31, 2019<br>Restated<br>[note 5] | As at<br>November 1, 2018<br>Restated<br>[note 5] |
|----------------------------------------------------------|------|------------------------------|---------------------------------------------------|---------------------------------------------------|
| (in thousands of Canadian dollars)                       | Note | \$                           | \$                                                | \$                                                |
| <b>ASSETS</b>                                            |      |                              |                                                   |                                                   |
| Cash and cash equivalents                                |      | 426,433                      | 564,844                                           | 593,654                                           |
| Cash and cash equivalents in trust or otherwise reserved | 6    | 252,379                      | 301,547                                           | 287,735                                           |
| Trade and other receivables                              | 7    | 95,334                       | 137,944                                           | 133,626                                           |
| Income taxes receivable                                  |      | 2,377                        | 1,423                                             | 11,405                                            |
| Inventories                                              |      | 10,024                       | 15,847                                            | 14,464                                            |
| Prepaid expenses                                         |      | 47,164                       | 74,489                                            | 63,706                                            |
| Derivative financial instruments                         | 8    | 964                          | 4,870                                             | 20,413                                            |
| Current portion of deposits                              | 9    | 16,471                       | 17,765                                            | 20,250                                            |
| <b>Current assets</b>                                    |      | <b>851,146</b>               | <b>1,118,729</b>                                  | <b>1,145,253</b>                                  |
| Cash and cash equivalents reserved                       | 6    | 56,268                       | 51,224                                            | 51,184                                            |
| Deposits                                                 | 9    | 136,904                      | 166,137                                           | 166,026                                           |
| Income taxes receivable                                  | 21   | 15,100                       | 15,100                                            | 15,100                                            |
| Deferred tax assets                                      | 21   | —                            | 28,148                                            | 16,105                                            |
| Property, plant and equipment                            | 10   | 916,382                      | 891,445                                           | 721,504                                           |
| Intangible assets                                        | 11   | 25,509                       | 36,852                                            | 42,689                                            |
| Derivative financial instruments                         | 8    | —                            | —                                                 | 84                                                |
| Investments                                              | 12   | 14,509                       | 16,533                                            | 16,084                                            |
| Other assets                                             |      | 253                          | 322                                               | 186                                               |
| <b>Non-current assets</b>                                |      | <b>1,164,925</b>             | <b>1,205,761</b>                                  | <b>1,028,962</b>                                  |
|                                                          |      | <b>2,016,071</b>             | <b>2,324,490</b>                                  | <b>2,174,215</b>                                  |
| <b>LIABILITIES</b>                                       |      |                              |                                                   |                                                   |
| Trade and other payables                                 | 13   | 232,243                      | 311,065                                           | 312,273                                           |
| Income taxes payable                                     |      | 203                          | 4,244                                             | 1,117                                             |
| Customer deposits and deferred revenues                  |      | 608,890                      | 561,404                                           | 517,352                                           |
| Derivative financial instruments                         | 8    | 10,055                       | 10,431                                            | 2,766                                             |
| Current portion of lease liabilities                     | 14   | 147,980                      | 99,814                                            | 71,250                                            |
| Current portion of provision for return conditions       | 15   | 14,963                       | —                                                 | —                                                 |
| <b>Current liabilities</b>                               |      | <b>1,014,334</b>             | <b>986,958</b>                                    | <b>904,758</b>                                    |
| Long-term debt and lease liabilities                     | 14   | 755,906                      | 566,115                                           | 493,920                                           |
| Provision for return conditions                          | 15   | 128,635                      | 155,120                                           | 128,528                                           |
| Other liabilities                                        | 16   | 50,215                       | 47,444                                            | 41,128                                            |
| Derivative financial instruments                         | 8    | —                            | 1,650                                             | 679                                               |
| Deferred tax liabilities                                 | 21   | 674                          | 9,752                                             | 11,739                                            |
| <b>Non-current liabilities</b>                           |      | <b>935,430</b>               | <b>780,081</b>                                    | <b>675,994</b>                                    |
| <b>EQUITY</b>                                            |      |                              |                                                   |                                                   |
| Share capital                                            | 17   | 221,012                      | 221,012                                           | 219,684                                           |
| Share-based payment reserve                              |      | 15,948                       | 15,948                                            | 18,017                                            |
| Retained earnings (deficit)                              |      | (164,138)                    | 336,993                                           | 362,590                                           |
| Unrealized gain (loss) on cash flow hedges               |      | (522)                        | (9,176)                                           | 1,971                                             |
| Cumulative exchange differences                          |      | (5,993)                      | (7,326)                                           | (8,799)                                           |
|                                                          |      | <b>66,307</b>                | <b>557,451</b>                                    | <b>593,463</b>                                    |
|                                                          |      | <b>2,016,071</b>             | <b>2,324,490</b>                                  | <b>2,174,215</b>                                  |

See accompanying notes to consolidated financial statements  
On behalf of the Board,

  
Director

  
Director

# TRANSAT A.T. INC.

## CONSOLIDATED STATEMENTS OF LOSS

*[Note 2, Uncertainty related to going concern]*

Years ended October 31

|                                                                        |           | 2020             | 2019             |
|------------------------------------------------------------------------|-----------|------------------|------------------|
|                                                                        |           |                  | Restated         |
|                                                                        |           |                  | [note 5]         |
| (in thousands of Canadian dollars, except per share amounts)           | Note      | \$               | \$               |
| <b>Revenues</b>                                                        | <b>18</b> | <b>1,302,069</b> | <b>2,937,130</b> |
| <b>Operating expenses</b>                                              |           |                  |                  |
| Costs of providing tourism services                                    |           | 431,562          | 808,937          |
| Aircraft fuel                                                          |           | 258,947          | 517,588          |
| Salaries and employee benefits                                         | 18, 22    | 239,250          | 412,375          |
| Aircraft maintenance                                                   |           | 110,413          | 229,909          |
| Sales and distribution costs                                           |           | 97,086           | 209,344          |
| Airport and navigation fees                                            |           | 77,622           | 175,833          |
| Aircraft rent                                                          | 14        | 23,358           | 46,803           |
| Other airline costs                                                    |           | 109,424          | 251,560          |
| Other                                                                  |           | 75,410           | 90,923           |
| Share of net loss (income) of a joint venture                          | 12        | 1,172            | 1,250            |
| Depreciation and amortization                                          | 18        | 204,112          | 182,321          |
| Special items                                                          | 19        | 99,675           | 23,875           |
|                                                                        |           | <b>1,728,031</b> | <b>2,950,718</b> |
| <b>Operating loss</b>                                                  |           | <b>(425,962)</b> | <b>(13,588)</b>  |
| Financing costs                                                        | 14        | 48,049           | 37,935           |
| Financing income                                                       |           | (13,625)         | (21,332)         |
| Change in fair value of fuel-related derivatives and other derivatives |           | 13,715           | 8,664            |
| Loss (gain) on asset disposals                                         | 20        | 11,271           | (9)              |
| Foreign exchange loss (gain)                                           |           | 3,601            | (1,110)          |
| <b>Loss before income tax expense</b>                                  |           | <b>(488,973)</b> | <b>(37,736)</b>  |
| <b>Income taxes (recovery)</b>                                         | <b>21</b> |                  |                  |
| Current                                                                |           | (4,376)          | 1,028            |
| Deferred                                                               |           | 12,168           | (9,048)          |
|                                                                        |           | <b>7,792</b>     | <b>(8,020)</b>   |
| <b>Net loss for the year</b>                                           |           | <b>(496,765)</b> | <b>(29,716)</b>  |
| <b>Net income (loss) attributable to:</b>                              |           |                  |                  |
| Shareholders                                                           |           | (496,545)        | (32,347)         |
| Non-controlling interests                                              |           | (220)            | 2,631            |
|                                                                        |           | <b>(496,765)</b> | <b>(29,716)</b>  |
| <b>Earnings (loss) per share</b>                                       | <b>17</b> |                  |                  |
| Basic                                                                  |           | (13.15)          | (0.86)           |
| Diluted                                                                |           | (13.15)          | (0.86)           |

See accompanying notes to consolidated financial statements

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

*[Note 2, Uncertainty related to going concern]*

Years ended October 31

|                                                                                      |      | 2020             | 2019            |
|--------------------------------------------------------------------------------------|------|------------------|-----------------|
|                                                                                      |      |                  | Restated        |
|                                                                                      |      |                  | [note 5]        |
| (in thousands of Canadian dollars)                                                   | Note | \$               | \$              |
| <b>Net loss for the year</b>                                                         |      | <b>(496,765)</b> | <b>(29,716)</b> |
| <b>Other comprehensive income (loss)</b>                                             |      |                  |                 |
| <b>Items that will be reclassified to net income</b>                                 |      |                  |                 |
| Change in fair value of derivatives designated as cash flow hedges                   |      | (1,191)          | (29,621)        |
| Reclassification to net income                                                       |      | 12,925           | 14,455          |
| Deferred taxes                                                                       | 21   | (3,080)          | 4,019           |
|                                                                                      |      | <b>8,654</b>     | <b>(11,147)</b> |
| Foreign exchange gain on translation of financial statements of foreign subsidiaries |      | 1,333            | 1,473           |
|                                                                                      |      | <b>1,333</b>     | <b>1,473</b>    |
| <b>Items that will never be reclassified to net income</b>                           |      |                  |                 |
| Retirement benefits – Net actuarial gains (losses)                                   | 23   | (827)            | (4,631)         |
| Deferred taxes                                                                       | 21   | (3,837)          | 1,225           |
|                                                                                      |      | <b>(4,664)</b>   | <b>(3,406)</b>  |
| Total other comprehensive income (loss)                                              |      | <b>5,323</b>     | <b>(13,080)</b> |
| <b>Comprehensive loss for the year</b>                                               |      | <b>(491,442)</b> | <b>(42,796)</b> |
| <b>Attributable to:</b>                                                              |      |                  |                 |
| Shareholders                                                                         |      | <b>(491,885)</b> | <b>(45,428)</b> |
| Non-controlling interest                                                             |      | <b>443</b>       | <b>2,632</b>    |
|                                                                                      |      | <b>(491,442)</b> | <b>(42,796)</b> |

See accompanying notes to consolidated financial statements

# TRANSAT A.T. INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*[Note 2, Uncertainty related to going concern]*

|                                                                     |                  |                                       | Accumulated other<br>comprehensive income<br>(loss) |                                                     |                                       |                      |                                  |                      |
|---------------------------------------------------------------------|------------------|---------------------------------------|-----------------------------------------------------|-----------------------------------------------------|---------------------------------------|----------------------|----------------------------------|----------------------|
|                                                                     | Share<br>capital | Share-<br>based<br>payment<br>reserve | Retained<br>earnings<br>(deficit)                   | Unrealized<br>gain (loss)<br>on cash<br>flow hedges | Cumulative<br>exchange<br>differences | Total                | Non-<br>controlling<br>interests | Total equity         |
|                                                                     |                  |                                       | Restated<br>[note 5]                                | Restated<br>[note 5]                                |                                       | Restated<br>[note 5] |                                  | Restated<br>[note 5] |
| (in thousands of Canadian dollars)                                  | \$               | \$                                    | \$                                                  | \$                                                  | \$                                    | \$                   | \$                               | \$                   |
| <b>Balance as at November 1, 2018</b>                               | 219,684          | 18,017                                | 362,590                                             | 1,971                                               | (8,799)                               | 593,463              | —                                | 593,463              |
| Net income (loss) for the year                                      | —                | —                                     | (32,347)                                            | —                                                   | —                                     | (32,347)             | 2,631                            | (29,716)             |
| Other comprehensive income (loss)                                   | —                | —                                     | (3,406)                                             | (11,147)                                            | 1,472                                 | (13,081)             | 1                                | (13,080)             |
| Comprehensive income (loss) for<br>the year                         | —                | —                                     | (35,753)                                            | (11,147)                                            | 1,472                                 | (45,428)             | 2,632                            | (42,796)             |
| Issued from treasury                                                | 940              | —                                     | —                                                   | —                                                   | —                                     | 940                  | —                                | 940                  |
| Exercise of options                                                 | 388              | (120)                                 | —                                                   | —                                                   | —                                     | 268                  | —                                | 268                  |
| Vesting of PSUs                                                     | —                | (19)                                  | —                                                   | —                                                   | —                                     | (19)                 | —                                | (19)                 |
| Share-based payment expense                                         | —                | 1,612                                 | —                                                   | —                                                   | —                                     | 1,612                | —                                | 1,612                |
| Reclassification of PSUs<br>as financial liability                  | —                | (3,542)                               | —                                                   | —                                                   | —                                     | (3,542)              | —                                | (3,542)              |
| Dividends                                                           | —                | —                                     | —                                                   | —                                                   | —                                     | —                    | (2,892)                          | (2,892)              |
| Fair value changes in non-<br>controlling interest liabilities      | —                | —                                     | 10,156                                              | —                                                   | —                                     | 10,156               | (10,156)                         | —                    |
| Reclassification of non-controlling<br>interest liabilities         | —                | —                                     | —                                                   | —                                                   | —                                     | —                    | 10,417                           | 10,417               |
| Reclassification of non-controlling<br>interest exchange difference | —                | —                                     | —                                                   | —                                                   | 1                                     | 1                    | (1)                              | —                    |
|                                                                     | 1,328            | (2,069)                               | 10,156                                              | —                                                   | 1                                     | 9,416                | (2,632)                          | 6,784                |
| <b>Balance as at October 31, 2019</b>                               | <b>221,012</b>   | <b>15,948</b>                         | <b>336,993</b>                                      | <b>(9,176)</b>                                      | <b>(7,326)</b>                        | <b>557,451</b>       | <b>—</b>                         | <b>557,451</b>       |
| Net loss for the year                                               | —                | —                                     | (496,545)                                           | —                                                   | —                                     | (496,545)            | (220)                            | (496,765)            |
| Other comprehensive income (loss)                                   | —                | —                                     | (4,664)                                             | 8,654                                               | 670                                   | 4,660                | 663                              | 5,323                |
| Comprehensive income (loss) for<br>the year                         | —                | —                                     | (501,209)                                           | 8,654                                               | 670                                   | (491,885)            | 443                              | (491,442)            |
| Dividends                                                           | —                | —                                     | —                                                   | —                                                   | —                                     | —                    | (849)                            | (849)                |
| Fair value changes in non-<br>controlling interest liabilities      | —                | —                                     | 78                                                  | —                                                   | —                                     | 78                   | (78)                             | —                    |
| Reclassification of non-controlling<br>interest liabilities         | —                | —                                     | —                                                   | —                                                   | —                                     | —                    | 1,147                            | 1,147                |
| Reclassification of non-controlling<br>interest exchange difference | —                | —                                     | —                                                   | —                                                   | 663                                   | 663                  | (663)                            | —                    |
|                                                                     | —                | —                                     | 78                                                  | —                                                   | 663                                   | 741                  | (443)                            | 298                  |
| <b>Balance as at October 31, 2020</b>                               | <b>221,012</b>   | <b>15,948</b>                         | <b>(164,138)</b>                                    | <b>(522)</b>                                        | <b>(5,993)</b>                        | <b>66,307</b>        | <b>—</b>                         | <b>66,307</b>        |

See accompanying notes to consolidated financial statements

# TRANSAT A.T. INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*[Note 2, Uncertainty related to going concern]*

Years ended October 31

|                                                                        |      | 2020      | 2019      |
|------------------------------------------------------------------------|------|-----------|-----------|
|                                                                        |      |           | Restated  |
|                                                                        |      |           | [note 5]  |
| (in thousands of Canadian dollars)                                     | Note | \$        | \$        |
| <b>OPERATING ACTIVITIES</b>                                            |      |           |           |
| Net loss for the year                                                  |      | (496,765) | (29,716)  |
| Non-cash operating items:                                              |      |           |           |
| Depreciation and amortization                                          | 18   | 204,112   | 182,321   |
| Change in fair value of fuel-related derivatives and other derivatives |      | 13,715    | 8,664     |
| Loss (gain) on asset disposals                                         | 20   | 11,271    | (9)       |
| Foreign exchange loss (gain)                                           |      | 3,601     | (1,110)   |
| Asset impairment                                                       | 19   | 89,127    | —         |
| Share of net loss (income) of a joint venture                          | 12   | 1,172     | 1,250     |
| Deferred taxes                                                         |      | 12,168    | (9,048)   |
| Employee benefits                                                      | 23   | 3,009     | 2,927     |
| Share-based payment expense                                            |      | —         | 1,612     |
|                                                                        |      | (158,590) | 156,891   |
| Net change in non-cash working capital balances related to operations  |      | 95,202    | 34,006    |
| Net change in provision for return conditions                          |      | (11,522)  | 26,592    |
| Net change in other assets and liabilities related to operations       |      | 28,774    | (1,468)   |
| <b>Cash flows related to operating activities</b>                      |      | (46,136)  | 216,021   |
| <b>INVESTING ACTIVITIES</b>                                            |      |           |           |
| Additions to property, plant and equipment and other intangible assets |      | (61,422)  | (163,933) |
| Increase in cash and cash equivalent reserved                          |      | (5,044)   | (40)      |
| Consideration received on business disposals, net of cash disposed of  |      | —         | 1,884     |
| Capital contribution to a joint venture                                | 12   | (2,042)   | (1,690)   |
| Proceeds from sale of assets                                           | 20   | 8,094     | —         |
| <b>Cash flows related to investing activities</b>                      |      | (60,414)  | (163,779) |
| <b>FINANCING ACTIVITIES</b>                                            |      |           |           |
| Proceeds from borrowings                                               | 14   | 49,980    | —         |
| Proceeds from issuance of shares                                       |      | —         | 1,208     |
| Repurchase of shares related to stock-based compensation               |      | —         | (19)      |
| Repayment of lease liabilities                                         | 14   | (82,505)  | (80,290)  |
| Dividends paid by a subsidiary to a non-controlling shareholder        |      | (849)     | (2,892)   |
| <b>Cash flows related to financing activities</b>                      |      | (33,374)  | (81,993)  |
| Effect of exchange rate changes on cash and cash equivalents           |      | 1,513     | 941       |
| <b>Net change in cash and cash equivalents</b>                         |      | (138,411) | (28,810)  |
| Cash and cash equivalents, beginning of year                           |      | 564,844   | 593,654   |
| <b>Cash and cash equivalents, end of year</b>                          |      | 426,433   | 564,844   |
| <b>Supplementary information (as reported in operating activities)</b> |      |           |           |
| Net income taxes paid (recovered)                                      |      | (245)     | (11,831)  |
| Interest paid                                                          |      | 1,769     | 912       |

See accompanying notes to consolidated financial statements

October 31, 2020 and 2019

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

## **Note 1 Corporate information**

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. The Corporation's Class A Variable Voting Shares and Class B Voting Shares are traded on the Toronto Stock Exchange under a single ticker symbol, namely "TRZ".

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

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2020 were approved by the Corporation's Board of Directors on December 11, 2020.

## **Note 2 Uncertainty related to going concern**

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from October 31, 2020. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation incurred a net loss of \$496,765 for the year ended October 31, 2020 and, as at that date, the Corporation's current liabilities exceeded the total of its current assets by \$163,188. However, as it is described in note 14 to the consolidated financial statements, the Corporation has a new \$250,000 subordinated short-term credit facility. This new credit facility may be drawn down in tranches at any moment prior to February 28, 2021, subject to certain pre-requisites and borrowing requirements. These conditions include certain requirements related to minimum unrestricted cash before and after a drawdown on the facility. Furthermore, the suspension of the application of financial ratios under the Corporation's revolving term credit facility and the new short-term loan facility expires on January 30, 2021, after which time, absent any extension, the Corporation could be in default of its obligations and the term of its borrowings could be accelerated. The new short-term credit facility will mature at the earliest date between March 31, 2021 and the closing of the arrangement with Air Canada.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations the Corporation flies to, and the imposition of quarantine measures both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating significant demand uncertainty, at least for fiscal 2021. In response to the first wave of the pandemic, the Corporation temporarily suspended its airline operations from April 1 to July 22, 2020. Subsequently, the Corporation implemented reduced summer and winter programs and is continuously making adjustments based on the level of demand and decisions made by health and state authorities. Transat cannot predict all the impacts of COVID-19 on its operations and results, or precisely when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While the likelihood of the availability of a vaccine in the near future makes it possible to hope for the resumption of operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

While the Corporation is making every effort and remains confident that the transaction with Air Canada will be completed, it cannot be certain of this outcome. Should the transaction not be completed, the Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on its ability to obtain additional financing before the maturity of the new subordinated short-term credit facility (currently, the maturity date is March 31, 2021), either through new sources of financing, including the amendment and renewal of its new subordinated short-term credit facility, the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its suppliers, lessors, credit card processors and other creditors. Should the transaction not take place, management is therefore seeking to secure financing that would be required before the maturity of the new subordinated short-term credit facility (currently, the maturity date is March 31, 2021) and is currently discussing with potential lenders, including government authorities. These discussions include a possible application under the Large Employer Emergency Financing Facility (LEEFF). Management could also try to extend the maturity of the new subordinated short-term credit facility to give itself more time to arrange the required overall financing. Management is also continuing to monitor possible government assistance programs, including sectoral financial support that could include loans and possibly other types of support announced by Canada's Minister of Transport. At the same time, the Corporation is negotiating with its lessors to amend lease terms and conditions.

There can be no assurance that additional funds available under the existing short-term credit facility will be sufficient to finance the Corporation's operations until the maturity of the credit facilities, that the Corporation will be able to again borrow sufficient amounts to meet its needs, or that it will be able to do so on acceptable terms, or that suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next twelve months.

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

These consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These consolidated financial statements as at October 31, 2020 and for the year then ended do not include adjustments to the value and classification of assets, liabilities and recorded expenses that would otherwise be required if the going concern basis proved to be inappropriate. Such adjustments may be significant.

### **Note 3    Significant accounting policies**

#### **Basis of preparation**

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

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

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

#### **Basis of consolidation**

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

**SUBSIDIARIES**

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

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

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

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

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

**INVESTMENT IN A JOINT VENTURE**

A joint venture is an entity in which the parties that have joint control over the entity have rights to the net assets of the entity. The Corporation's investment in a joint venture is accounted for using the equity method as follows:

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

## Foreign currency translation

### TRANSACTIONS AND BALANCES

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

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

### GROUP COMPANIES

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

## Cash equivalents

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

## Inventories

Inventories, consisting primarily of supplies and fuel, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be indicative of net realizable value.

## Lease term

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

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

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

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

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

## Property, plant and equipment

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

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

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

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

The fleet includes owned aircraft and improvements to leased aircraft. A portion of the cost of owned aircraft is allocated to the "major maintenance activities" subclass, which relates to airframe, engine and landing gear overhaul costs, and the remaining cost is allocated to Aircraft. Aircraft and major maintenance activities are depreciated taking into account their expected estimated residual value. Aircraft are depreciated on a straight-line basis over seven- to ten-year periods, and major maintenance activities are depreciated according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity, or their expected useful lives. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are depreciated according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income (loss) as incurred. Improvements to aircraft under operating leases are depreciated on a straight-line basis over the shorter of the corresponding lease term and their useful life.

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

## RIGHT-OF-USE ASSETS

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

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

## Goodwill

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

## Intangible assets

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

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

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

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

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

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

|                |            |
|----------------|------------|
| Software       | 3–10 years |
| Customer lists | 7–10 years |

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

Intangible assets with indefinite useful lives, consisting mainly of trademarks, are not amortized but are tested for impairment at least annually. The indefinite useful life of those assets is reviewed annually, at a minimum, to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. If they do not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

## Financial Instruments

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

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

### CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

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

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

#### Amortized cost

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

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

These derivative financial instruments are designated as cash flow hedges.

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

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

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

#### **DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING**

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

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

#### **TRANSACTION COSTS**

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

#### **FAIR VALUE**

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

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

- Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets accessible to the Corporation at the measurement date.
- Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.
- Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

### **Impairment of financial assets classified at amortized cost**

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

### **Impairment of non-financial assets**

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

#### **INTANGIBLE ASSETS**

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

#### **REVERSAL OF IMPAIRMENT LOSSES**

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

## Provisions

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

### PROVISION FOR RETURN CONDITIONS

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

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

## Employee future benefits

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

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

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

## Revenue recognition

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

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

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

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

#### **BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS**

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

#### **CONTRACT BALANCES**

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

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

### **Government grants**

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

### **Income Taxes**

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

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

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

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

## Share-based payment plans

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

### EQUITY-SETTLED TRANSACTIONS

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

### CASH-SETTLED TRANSACTIONS

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

### EMPLOYEE SHARE PURCHASE PLANS

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

## Earnings per share

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

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

## **Note 4 Significant accounting estimates and judgments**

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

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

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

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

### **Amortization and impairment of non-financial assets**

#### **DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT**

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

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

#### **IMPAIRMENT OF NON-FINANCIAL ASSETS**

Impairment exists when the carrying amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the various CGUs, including a sensitivity case analysis, are discussed in notes 10, 11 and 12.

As at October 31, 2020, the Corporation has determined that the significant declines in revenues and demand owing to the COVID-19 pandemic, and the resulting significant reductions in capacity are indications of impairment of its CGUs. Accordingly, the Corporation performed an impairment test on its CGUs. The recoverable amount of CGUs was determined based on fair value less costs to sell and using a transaction price of \$5.00 per share under the arrangement with Air Canada dated October 9, 2020. There can be no assurance that the transaction with Air Canada will be completed on the terms and conditions described in the circular or at all. Should the transaction not be completed, the Corporation's share price could fall. No impairment of the carrying amount of the Corporation's CGUs was recognized as their recoverable amount remain higher than their carrying amount.

Impairment tests of the fleet of aircraft that will not be used between now and the expiry of their lease, the land held in Mexico, the investment in a joint venture and trademarks were performed independent of the test performed on the Corporation's CGUs. These tests gave rise to the recognition of impairment charges of \$50,817 related to the fleet, \$32,826 related to the land in Mexico, \$3,100 related to the investment in a joint venture and \$2,384 related to the trademarks as special items [see notes 10, 11, 12 and 19]. Given that various assumptions are used in determining impairment charges, some inherent measurement uncertainty exists regarding such charges. Actual results will differ from estimated results based on assumptions.

### Fair value of derivative financial instruments

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved.

### Discount rate of lease liabilities

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

### Provision for return conditions

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

### Employee future benefits

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

## Taxes

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

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

Due to the COVID-19 pandemic, its adverse impact on our results and the significant uncertainty related to the timing of the return of demand for leisure travel, during the second quarter of the year ended October 31, 2020, the Corporation ceased to recognize deferred tax assets and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. In addition, the Corporation measured the available indicators to determine whether sufficient taxable income could be realized to utilize the deferred tax assets recorded before the second quarter of the year ended October 31, 2020. As discussed in note 2, due to the COVID-19 pandemic, the losses generated during the fiscal year ended October 31, 2020 and the significant uncertainty related to the timing of the return of demand for leisure travel are adverse indications that deferred tax assets may be realized. For the year ended October 31, 2020, these adverse indications outweighed the historical favourable indications and the Corporation reduced the balance of its deferred tax assets by \$18.4 million. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

## Note 5 Changes in accounting policies

### IFRS 16, *Leases*

IFRS 16, *Leases*, supersedes IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

Considering that the Corporation is committed under numerous leases, the adoption of IFRS 16 has a significant impact on its consolidated financial statements. For its leases, the Corporation recognizes a right-of-use asset and a liability at the present value of future lease payments. Depreciation and amortization of the right-of-use asset and interest expense on the lease liability replace rent expense related to leases.

IFRS 16 was applied retrospectively on November 1, 2019 with restatement for each prior reporting period presented. The opening consolidated statement of financial position as at November 1, 2018 and the consolidated statement of loss for the year ended October 31, 2019 have been restated. The Corporation has elected to apply the permitted capitalization exemptions for leases with terms of less than 12 months and leases of low value assets. The accounting policies resulting from the adoption of IFRS 16 are discussed below.

### FLEET

As at October 31, 2020, the Corporation operated 31 aircraft under leases [31 and 27 as at October 31, 2019 and 2018, respectively] for which right-of-use assets and lease liabilities are recognized under IFRS 16; these aircraft are part of the permanent fleet. During the winter season, the Corporation also has aircraft under leases for a period of approximately six months; these aircraft are part of the seasonal fleet. The Corporation has elected to apply the provisions of IFRS 16 for the seasonal fleet to continue to recognize the expenses associated with these leases under Aircraft rent on a straight-line basis over the lease term.

For the permanent fleet, on initial recognition, right-of-use assets are broken down and eligible maintenance costs are capitalized and depreciated over the shorter of the lease term or expected useful life. Subsequently, eligible maintenance costs over the lease term are capitalized and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft decreased and the depreciation expense increased following the adoption of IFRS 16.

All aircraft-related operating leases are denominated in U.S. dollars. The lease obligation in respect of leased aircraft and the provision for return conditions are denominated in U.S. dollars and must be revalued at the prevailing exchange rate as at the reporting date. Accordingly, the volatility of the foreign exchange gain (loss) recognized in the consolidated statement of income (loss) was higher upon application of IFRS 16.

The Corporation is party to leases for aircraft engines. Right-of-use assets and lease liabilities are recognized under IFRS 16 in respect of such leases, except for leases with terms of less than 12 months and leases of low value assets.

#### **REAL ESTATE AND OTHER LEASES**

The Corporation is party to real estate leases, in particular for spaces in airports, offices and travel agencies. Right-of-use assets and lease liabilities are recognized under IFRS 16 in respect of such leases, except for leases with terms of less than 12 months and leases with substantial substitution rights.

The Corporation is party to equipment leases, including automotive equipment. Right-of-use assets and lease liabilities are recognized under IFRS 16 in respect of such leases, except for short-term leases and leases of low value assets.

#### **PROVISION FOR RETURN CONDITIONS**

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

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

#### **COVID-19 RELATED RENT CONCESSIONS, AMENDMENT TO IFRS 16**

On May 28, 2020, the IASB issued *COVID-19-Related Rent Concessions – Amendment to IFRS 16*. Under certain conditions, this amendment allows a lessee to recognize any COVID-19 related rent concession in the same way it would account for the change under IFRS 16 if the change were not a lease modification. The Corporation has applied the provisions of this amendment to all of its leases in its consolidated financial statements for the year ended October 31, 2020. The adoption of this new amendment had no significant impact on the Corporation's consolidated statement of income (loss).

#### **CONSOLIDATED STATEMENT OF INCOME (LOSS) PRESENTATION**

Consolidated statement of income (loss) presentation was also amended to better reflect the nature of operating expenses. Certain operating expenses formerly reported under "Other airline costs" are now reported under "Airport and navigation fees". This change in consolidated statement of income (loss) presentation had no impact on operating results.

**IMPACT ON PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS**

The cumulative effect of the adoption of IFRS 16 on the consolidated statement of financial position, the consolidated statement of income (loss) and the consolidated statement of cash flows is detailed in the following tables.

**Consolidated statements of financial position**

|                                                              | As at<br>November<br>1, 2018<br>\$ | Fleet<br>\$     | Real estate<br>and other<br>\$ | As at<br>November<br>1, 2018<br>After<br>adjustments<br>\$ |
|--------------------------------------------------------------|------------------------------------|-----------------|--------------------------------|------------------------------------------------------------|
| (in thousands of Canadian dollars)                           |                                    |                 |                                |                                                            |
| <b>ASSETS</b>                                                |                                    |                 |                                |                                                            |
| Trade and other receivables                                  | 139,979                            | (7,339)         | 986                            | 133,626                                                    |
| Prepaid expenses                                             | 68,890                             | (5,165)         | (19)                           | 63,706                                                     |
| <b>Current assets</b>                                        | <b>1,156,790</b>                   | <b>(12,504)</b> | <b>967</b>                     | <b>1,145,253</b>                                           |
| Deposits                                                     | 41,742                             | 124,284         | —                              | 166,026                                                    |
| Deferred tax assets                                          | 14,954                             | (270)           | 1,421                          | 16,105                                                     |
| Property, plant and equipment                                | 201,478                            | 481,745         | 38,281                         | 721,504                                                    |
| Other assets                                                 | 26,685                             | (26,310)        | (189)                          | 186                                                        |
| <b>Non-current assets</b>                                    | <b>410,000</b>                     | <b>579,449</b>  | <b>39,513</b>                  | <b>1,028,962</b>                                           |
|                                                              | <b>1,566,790</b>                   | <b>566,945</b>  | <b>40,480</b>                  | <b>2,174,215</b>                                           |
| <b>LIABILITIES</b>                                           |                                    |                 |                                |                                                            |
| Trade and other payables                                     | 320,732                            | (7,710)         | (749)                          | 312,273                                                    |
| Current portion of provision for overhaul of leased aircraft | 27,313                             | (27,313)        | —                              | —                                                          |
| Current portion of lease liabilities                         | —                                  | 58,570          | 12,680                         | 71,250                                                     |
| <b>Current liabilities</b>                                   | <b>869,280</b>                     | <b>23,547</b>   | <b>11,931</b>                  | <b>904,758</b>                                             |
| Provision for overhaul of leased aircraft                    | 29,915                             | (29,915)        | —                              | —                                                          |
| Provision for return conditions                              | —                                  | 128,528         | —                              | 128,528                                                    |
| Lease liabilities                                            | —                                  | 454,499         | 39,421                         | 493,920                                                    |
| Other liabilities                                            | 92,025                             | (41,429)        | (9,468)                        | 41,128                                                     |
| Deferred tax liabilities                                     | 3,252                              | 8,220           | 267                            | 11,739                                                     |
| <b>Non-current liabilities</b>                               | <b>125,871</b>                     | <b>519,903</b>  | <b>30,220</b>                  | <b>675,994</b>                                             |
| <b>EQUITY</b>                                                |                                    |                 |                                |                                                            |
| Retained earnings                                            | 340,766                            | 23,495          | (1,671)                        | 362,590                                                    |
|                                                              | <b>571,639</b>                     | <b>23,495</b>   | <b>(1,671)</b>                 | <b>593,463</b>                                             |
|                                                              | <b>1,566,790</b>                   | <b>566,945</b>  | <b>40,480</b>                  | <b>2,174,215</b>                                           |

**Consolidated statements of financial position**

|                                                              | As at<br>October 31,<br>2019 | Fleet          | Real estate<br>and other | As at<br>October 31,<br>2019<br>After<br>adjustments |
|--------------------------------------------------------------|------------------------------|----------------|--------------------------|------------------------------------------------------|
| (in thousands of Canadian dollars)                           | \$                           | \$             | \$                       | \$                                                   |
| <b>ASSETS</b>                                                |                              |                |                          |                                                      |
| Trade and other receivables                                  | 137,449                      | 283            | 212                      | 137,944                                              |
| Prepaid expenses                                             | 83,822                       | (9,333)        | —                        | 74,489                                               |
| <b>Current assets</b>                                        | <b>1,127,567</b>             | <b>(9,050)</b> | <b>212</b>               | <b>1,118,729</b>                                     |
| Deposits                                                     | 41,226                       | 124,911        | —                        | 166,137                                              |
| Deferred tax assets                                          | 27,209                       | (270)          | 1,209                    | 28,148                                               |
| Property, plant and equipment                                | 235,161                      | 603,288        | 52,996                   | 891,445                                              |
| Other assets                                                 | 34,055                       | (33,599)       | (134)                    | 322                                                  |
| <b>Non-current assets</b>                                    | <b>457,360</b>               | <b>694,330</b> | <b>54,071</b>            | <b>1,205,761</b>                                     |
|                                                              | <b>1,584,927</b>             | <b>685,280</b> | <b>54,283</b>            | <b>2,324,490</b>                                     |
| <b>LIABILITIES</b>                                           |                              |                |                          |                                                      |
| Trade and other payables                                     | 315,395                      | (3,304)        | (1,026)                  | 311,065                                              |
| Current portion of provision for overhaul of leased aircraft | 27,151                       | (27,151)       | —                        | —                                                    |
| Current portion of lease liabilities                         | —                            | 88,214         | 11,600                   | 99,814                                               |
| <b>Current liabilities</b>                                   | <b>918,625</b>               | <b>57,759</b>  | <b>10,574</b>            | <b>986,958</b>                                       |
| Provision for overhaul of leased aircraft                    | 31,097                       | (31,097)       | —                        | —                                                    |
| Provision for return conditions                              | —                            | 155,120        | —                        | 155,120                                              |
| Lease liabilities                                            | —                            | 514,235        | 51,880                   | 566,115                                              |
| Other liabilities                                            | 97,498                       | (42,206)       | (7,848)                  | 47,444                                               |
| Deferred tax liabilities                                     | 1,274                        | 8,172          | 306                      | 9,752                                                |
| <b>Non-current liabilities</b>                               | <b>131,519</b>               | <b>604,224</b> | <b>44,338</b>            | <b>780,081</b>                                       |
| <b>EQUITY</b>                                                |                              |                |                          |                                                      |
| Retained earnings                                            | 314,325                      | 23,297         | (629)                    | 336,993                                              |
|                                                              | <b>534,783</b>               | <b>23,297</b>  | <b>(629)</b>             | <b>557,451</b>                                       |
|                                                              | <b>1,584,927</b>             | <b>685,280</b> | <b>54,283</b>            | <b>2,324,490</b>                                     |

**Consolidated statements of income**

|                                                              |           |          |                          |              | 2019<br>After |
|--------------------------------------------------------------|-----------|----------|--------------------------|--------------|---------------|
| Year ended October 31                                        | 2019      | Fleet    | Real estate<br>and other | Presentation | adjustments   |
| (in thousands of Canadian dollars, except per share amounts) | \$        | \$       | \$                       | \$           | \$            |
| <b>Revenues</b>                                              | 2,937,130 | —        | —                        | —            | 2,937,130     |
| <b>Operating expenses</b>                                    |           |          |                          |              |               |
| Aircraft maintenance                                         | 279,283   | (49,374) | —                        | —            | 229,909       |
| Airport and navigation fees                                  | 158,618   | —        | —                        | 17,215       | 175,833       |
| Aircraft rent                                                | 143,784   | (96,981) | —                        | —            | 46,803        |
| Other airline costs                                          | 262,477   | 6,298    | —                        | (17,215)     | 251,560       |
| Other                                                        | 105,304   | —        | (14,381)                 | —            | 90,923        |
| Depreciation and amortization                                | 64,078    | 108,054  | 10,189                   | —            | 182,321       |
|                                                              | 2,986,913 | (32,003) | (4,192)                  | —            | 2,950,718     |
| <b>Operating income (loss)</b>                               | (49,783)  | 32,003   | 4,192                    | —            | (13,588)      |
| Financing costs                                              | 1,520     | 33,501   | 2,914                    | —            | 37,935        |
| Foreign exchange (gain) loss                                 | 140       | (1,252)  | 2                        | —            | (1,110)       |
| <b>Income (loss) before income tax expense</b>               | (38,766)  | (246)    | 1,276                    | —            | (37,736)      |
| <b>Income taxes (recovery)</b>                               |           |          |                          |              |               |
| Deferred                                                     | (9,250)   | (48)     | 250                      | —            | (9,048)       |
|                                                              | (8,222)   | (48)     | 250                      | —            | (8,020)       |
| <b>Net income (loss) for the year</b>                        | (30,544)  | (198)    | 1,026                    | —            | (29,716)      |
| <b>Net income (loss) attributable to:</b>                    |           |          |                          |              |               |
| Shareholders                                                 | (33,191)  | (198)    | 1,042                    | —            | (32,347)      |
| Non-controlling interests                                    | 2,647     | —        | (16)                     | —            | 2,631         |
|                                                              | (30,544)  | (198)    | 1,026                    | —            | (29,716)      |
| <b>Earnings (loss) per share</b>                             |           |          |                          |              |               |
| Basic                                                        | (0.88)    | (0.01)   | 0.03                     | —            | (0.86)        |
| Diluted                                                      | (0.88)    | (0.01)   | 0.03                     | —            | (0.86)        |

**Consolidated Statements of Cash Flows**

| <b>Year ended October 31</b><br>(in thousands of Canadian              | <b>2019</b><br><b>\$</b> | <b>Fleet</b><br><b>\$</b> | <b>Real estate<br/>and other</b><br><b>\$</b> | <b>2019<br/>After<br/>adjustments</b><br><b>\$</b> |
|------------------------------------------------------------------------|--------------------------|---------------------------|-----------------------------------------------|----------------------------------------------------|
| <b>OPERATING ACTIVITIES</b>                                            |                          |                           |                                               |                                                    |
| Net income (loss) for the year                                         | (30,544)                 | (198)                     | 1,026                                         | (29,716)                                           |
| Operating items not involving an outlay (receipt) of                   |                          |                           |                                               |                                                    |
| Depreciation and amortization                                          | 64,078                   | 108,054                   | 10,189                                        | 182,321                                            |
| Foreign exchange loss (gain)                                           | 140                      | (1,252)                   | 2                                             | (1,110)                                            |
| Deferred taxes                                                         | (9,250)                  | (48)                      | 250                                           | (9,048)                                            |
|                                                                        | 38,868                   | 106,556                   | 11,467                                        | 156,891                                            |
| Net change in non-cash working capital balances related to operations  | 33,105                   | 712                       | 189                                           | 34,006                                             |
| Net change in provision for overhaul of leased aircraft                | 1,020                    | (1,020)                   | —                                             | —                                                  |
| Net change in provision for return conditions                          | —                        | 26,592                    | —                                             | 26,592                                             |
| Net change in other assets and liabilities related to operations       | (8,918)                  | 5,885                     | 1,565                                         | (1,468)                                            |
| <b>Cash flows related to operating activities</b>                      | <b>64,075</b>            | <b>138,725</b>            | <b>13,221</b>                                 | <b>216,021</b>                                     |
| <b>INVESTING ACTIVITIES</b>                                            |                          |                           |                                               |                                                    |
| Additions to property, plant and equipment and other intangible assets | (92,277)                 | (71,656)                  | —                                             | (163,933)                                          |
| <b>Cash flows related to investing activities</b>                      | <b>(92,123)</b>          | <b>(71,656)</b>           | <b>—</b>                                      | <b>(163,779)</b>                                   |
| <b>FINANCING ACTIVITIES</b>                                            |                          |                           |                                               |                                                    |
| Repayment of lease liabilities                                         | —                        | (67,069)                  | (13,221)                                      | (80,290)                                           |
| <b>Cash flows related to financing activities</b>                      | <b>(1,703)</b>           | <b>(67,069)</b>           | <b>(13,221)</b>                               | <b>(81,993)</b>                                    |
| Effect of exchange rate changes on cash and cash equivalents           | 941                      | —                         | —                                             | 941                                                |
| <b>Net change in cash and cash equivalents</b>                         | <b>(28,810)</b>          | <b>—</b>                  | <b>—</b>                                      | <b>(28,810)</b>                                    |
| Cash and cash equivalents, beginning of period                         | 593,654                  | —                         | —                                             | 593,654                                            |
| <b>Cash and cash equivalents, end of period</b>                        | <b>564,844</b>           | <b>—</b>                  | <b>—</b>                                      | <b>564,844</b>                                     |

**IFRIC 23, Uncertainty over Income Tax Treatments**

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to be considered in assessing an uncertain tax treatment and determining whether it is probable that a taxation authority will accept the treatment. Application of IFRIC 23 is effective for the Corporation's annual reporting period beginning on November 1, 2019. The adoption of this new IFRIC interpretation has no significant impact on the Corporation's consolidated financial statements.

**Note 6 Cash and cash equivalents in trust or otherwise reserved**

As at October 31, 2020, cash and cash equivalents in trust or otherwise reserved included \$242,622 [\$292,134 as at October 31, 2019] 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 \$66,025, \$56,268 of which was recorded as non-current assets [\$60,637 as at October 31, 2019, \$51,224 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit [see note 25].

## Note 7 Trade and other receivables

|                              | 2020          | 2019                 |
|------------------------------|---------------|----------------------|
|                              |               | Restated<br>[note 5] |
|                              | \$            | \$                   |
| Trade receivables            | 5,565         | 25,669               |
| Government receivables       | 26,017        | 21,863               |
| Cash receivable from lessors | 18,970        | 71,840               |
| Other receivables            | 44,782        | 18,572               |
|                              | <b>95,334</b> | <b>137,944</b>       |

As at October 31, 2020, amounts receivable due from government included \$16,061 as Canada Emergency Wage Subsidy ["CEWS"] receivable [note 18]. In addition, other amounts receivable included balances receivable from two credit card processors totalling \$19,177.

## Note 8 Financial Instruments

### Classification of financial instruments

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

|                                                                                            | Carrying amount                     |                                                        |                |         |            |
|--------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------|----------------|---------|------------|
|                                                                                            | Fair value<br>through net<br>income | Fair value<br>through other<br>comprehensive<br>income | Amortized cost | Total   | Fair value |
|                                                                                            |                                     |                                                        |                |         |            |
|                                                                                            |                                     |                                                        | \$             | \$      | \$         |
| <b>As at October 31, 2020</b>                                                              |                                     |                                                        |                |         |            |
| <b>Financial assets</b>                                                                    |                                     |                                                        |                |         |            |
| Cash and cash equivalents                                                                  | 426,433                             | —                                                      | —              | 426,433 | 426,433    |
| Cash and cash equivalents in trust or otherwise reserved                                   | 308,647                             | —                                                      | —              | 308,647 | 308,647    |
| Trade and other receivables                                                                | —                                   | —                                                      | 69,317         | 69,317  | 69,317     |
| Deposits on leased aircraft and engines                                                    | —                                   | —                                                      | 40,470         | 40,470  | 40,470     |
| Derivative financial instruments                                                           |                                     |                                                        |                |         |            |
| -Other foreign currency derivatives                                                        | 964                                 | —                                                      | —              | 964     | 964        |
|                                                                                            | 736,044                             | —                                                      | 109,787        | 845,831 | 845,831    |
| <b>Financial liabilities</b>                                                               |                                     |                                                        |                |         |            |
| Trade and other payables                                                                   | —                                   | —                                                      | 189,309        | 189,309 | 189,309    |
| Derivative financial instruments                                                           |                                     |                                                        |                |         |            |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 9,233                               | —                                                      | —              | 9,233   | 9,233      |
| -Other foreign currency derivatives                                                        | 454                                 | 368                                                    | —              | 822     | 822        |
| Non-controlling interest                                                                   | 37,800                              | —                                                      | —              | 37,800  | 37,800     |
| Long-term debt                                                                             | —                                   | —                                                      | 49,980         | 49,980  | 49,871     |
|                                                                                            | 47,487                              | 368                                                    | 239,289        | 287,144 | 287,035    |

|                                                                                            | Carrying amount                                             |                                                        |                                        |                               |                                    |
|--------------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------|----------------------------------------|-------------------------------|------------------------------------|
|                                                                                            | Fair value<br>through net<br>income<br>Restated<br>[note 5] | Fair value<br>through other<br>comprehensive<br>income | Amortized cost<br>Restated<br>[note 5] | Total<br>Restated<br>[note 5] | Fair value<br>Restated<br>[note 5] |
|                                                                                            | \$                                                          | \$                                                     | \$                                     | \$                            | \$                                 |
| <b>As at October 31, 2019</b>                                                              |                                                             |                                                        |                                        |                               |                                    |
| <b>Financial assets</b>                                                                    |                                                             |                                                        |                                        |                               |                                    |
| Cash and cash equivalents                                                                  | 564,844                                                     | —                                                      | —                                      | 564,844                       | 564,844                            |
| Cash and cash equivalents in trust or otherwise reserved                                   | 352,771                                                     | —                                                      | —                                      | 352,771                       | 352,771                            |
| Trade and other receivables                                                                | —                                                           | —                                                      | 116,081                                | 116,081                       | 116,081                            |
| Deposits on leased aircraft and engines                                                    | —                                                           | —                                                      | 38,415                                 | 38,415                        | 38,415                             |
| Derivative financial instruments                                                           |                                                             |                                                        |                                        |                               |                                    |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 407                                                         | —                                                      | —                                      | 407                           | 407                                |
| -Other foreign currency derivatives                                                        | 1,565                                                       | 2,898                                                  | —                                      | 4,463                         | 4,463                              |
|                                                                                            | 919,587                                                     | 2,898                                                  | 154,496                                | 1,076,981                     | 1,076,981                          |
| <b>Financial liabilities</b>                                                               |                                                             |                                                        |                                        |                               |                                    |
| Trade and other payables                                                                   | —                                                           | —                                                      | 234,611                                | 234,611                       | 234,611                            |
| Derivative financial instruments                                                           |                                                             |                                                        |                                        |                               |                                    |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 6,222                                                       | —                                                      | —                                      | 6,222                         | 6,222                              |
| -Other foreign currency derivatives                                                        | 2,621                                                       | 3,238                                                  | —                                      | 5,859                         | 5,859                              |
| Non-controlling interest                                                                   | 38,284                                                      | —                                                      | —                                      | 38,284                        | 38,284                             |
|                                                                                            | 47,127                                                      | 3,238                                                  | 234,611                                | 284,976                       | 284,976                            |

## Determination of fair value of financial instruments

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

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

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

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

The fair value of the non-controlling interest in respect of which a shareholder holds an option entitling him to require the Corporation to buy back his shares corresponds to its redemption price. The redemption price is based on a formula that factors in financial indicators.

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

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

|                                                                                               | Quoted prices<br>in active<br>markets<br>(Level 1)<br>\$ | Other<br>observable<br>inputs<br>(Level 2)<br>\$ | Unobservable<br>inputs<br>(Level 3)<br>\$ | Total<br>\$ |
|-----------------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------|-------------------------------------------|-------------|
| <b>As at October 31, 2020</b>                                                                 |                                                          |                                                  |                                           |             |
| <b>Financial assets</b>                                                                       |                                                          |                                                  |                                           |             |
| Derivative financial instruments                                                              |                                                          |                                                  |                                           |             |
| -Foreign exchange forward contracts and other<br>foreign currency derivatives                 | —                                                        | 964                                              | —                                         | 964         |
|                                                                                               | —                                                        | 964                                              | —                                         | 964         |
| <b>Financial liabilities</b>                                                                  |                                                          |                                                  |                                           |             |
| Derivative financial instruments                                                              |                                                          |                                                  |                                           |             |
| -Fuel purchasing forward contracts and other fuel-related<br>derivative financial instruments | —                                                        | 9,233                                            | —                                         | 9,233       |
| -Foreign exchange forward contracts and other<br>foreign currency derivatives                 | —                                                        | 822                                              | —                                         | 822         |
| Non-controlling interest                                                                      | —                                                        | —                                                | 37,800                                    | 37,800      |
|                                                                                               | —                                                        | 10,055                                           | 37,800                                    | 47,855      |

|                                                                                               | Quoted prices<br>in active<br>markets<br>(Level 1)<br>\$ | Other<br>observable<br>inputs<br>(Level 2)<br>\$ | Unobservable<br>inputs<br>(Level 3)<br>Restated<br>[note 5]<br>\$ | Total<br>Restated<br>[note 5]<br>\$ |
|-----------------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------|-------------------------------------|
| <b>As at October 31, 2019</b>                                                                 |                                                          |                                                  |                                                                   |                                     |
| <b>Financial assets</b>                                                                       |                                                          |                                                  |                                                                   |                                     |
| Derivative financial instruments                                                              |                                                          |                                                  |                                                                   |                                     |
| -Fuel purchasing forward contracts and other fuel-related<br>derivative financial instruments | —                                                        | 407                                              | —                                                                 | 407                                 |
| -Foreign exchange forward contracts and other<br>foreign currency derivatives                 | —                                                        | 4,463                                            | —                                                                 | 4,463                               |
|                                                                                               | —                                                        | 4,870                                            | —                                                                 | 4,870                               |
| <b>Financial liabilities</b>                                                                  |                                                          |                                                  |                                                                   |                                     |
| Derivative financial instruments                                                              |                                                          |                                                  |                                                                   |                                     |
| -Fuel purchasing forward contracts and other fuel-related<br>derivative financial instruments | —                                                        | 6,222                                            | —                                                                 | 6,222                               |
| -Foreign exchange forward contracts and other<br>foreign currency derivatives                 | —                                                        | 5,859                                            | —                                                                 | 5,859                               |
| Non-controlling interest                                                                      | —                                                        | —                                                | 38,284                                                            | 38,284                              |
|                                                                                               | —                                                        | 12,081                                           | 38,284                                                            | 50,365                              |

## Non-controlling interest

The minority shareholder of the subsidiary Trafictours Canada Inc. could require that the Corporation purchase its Trafictours Canada Inc. shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

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

|                                                  | 2020   | 2019<br>Restated<br>[note 5] |
|--------------------------------------------------|--------|------------------------------|
|                                                  | \$     | \$                           |
| Balance, beginning of year                       | 38,284 | 48,700                       |
| Net income                                       | (220)  | 2,631                        |
| Other comprehensive income                       | 663    | 1                            |
| Dividends                                        | (849)  | (2,892)                      |
| Change in fair value of non-controlling interest | (78)   | (10,156)                     |
|                                                  | 37,800 | 38,284                       |

## Management of risks arising from financial instruments

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

## Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled \$5,565 as at October 31, 2020 [\$25,669 as at October 31, 2019]. Trade accounts receivable consist of balances receivable from a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No other customer represented more than 10% of total accounts receivable as at October 31, 2020 and 2019. As at October 31, 2020, approximately 18% [approximately 7% as at October 31, 2019] of accounts receivable were over 90 days past due, whereas approximately 77% [approximately 90% as at October 31, 2019] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Other receivables included balances receivable from two credit card processors totalling \$19,177. The credit risk for these receivables is negligible.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled \$9,267 as at October 31, 2020 [\$20,576 as at October 31, 2019]. These deposits are offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled \$40,470 as at October 31, 2020 [\$38,415 as at October 31, 2019] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2020, the cash security deposits with lessors that have been claimed totalled \$18,970 [\$71,840 as at October 31, 2019] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors. The credit risk for these receivables is negligible.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2020 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2020.

## Liquidity risk

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

The maturities of the Corporation's financial liabilities as at October 31, 2020 are summarized in the following table, excluding lease liabilities, which are disclosed in note 14:

|                                          | Maturing in<br>under 1 year | Maturing in<br>1 to 2 years | Maturing in<br>2 to 5 years | Contractual<br>cash flows<br>Total | Carrying<br>amount<br>Total |
|------------------------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------------|-----------------------------|
|                                          | \$                          | \$                          | \$                          | \$                                 | \$                          |
| Accounts payable and accrued liabilities | 189,309                     | —                           | —                           | 189,309                            | 189,309                     |
| Non-controlling interest                 | 37,800                      | —                           | —                           | 37,800                             | 37,800                      |
| Derivative financial instruments         | 11,048                      | —                           | —                           | 11,048                             | 10,055                      |
| Long-term debt                           | —                           | 50,000                      | —                           | 50,000                             | 49,980                      |
| <b>Total</b>                             | <b>238,157</b>              | <b>50,000</b>               | <b>—</b>                    | <b>288,157</b>                     | <b>287,144</b>              |

## Market risk

### FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 64% [74% in 2019] of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 13% [19% in 2019] of revenues are earned in a currency other than the measurement currency of the reporting unit making the sale. To safeguard the value of commitments and anticipated transactions, the Corporation has a foreign currency risk management policy that authorizes the use of forward exchange forward contracts and other types of derivative financial instruments for the purchase and/or

sale of foreign currencies based on anticipated foreign exchange rate trends, expiring in generally less than 18 months. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any new foreign exchange derivatives since March 2020. The Corporation will reassess the situation from time to time.

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

| Net assets (liabilities)                                                         | U.S. dollar<br>\$ | Euro<br>\$   | Pound<br>sterling<br>\$ | Canadian<br>dollar<br>\$ | Other<br>currencies<br>\$ | Total<br>\$      |
|----------------------------------------------------------------------------------|-------------------|--------------|-------------------------|--------------------------|---------------------------|------------------|
| <b>2020</b>                                                                      |                   |              |                         |                          |                           |                  |
| <b>Financial statement<br/>measurement currency of the<br/>group's companies</b> |                   |              |                         |                          |                           |                  |
| U.S. dollar                                                                      | —                 | —            | —                       | 14                       | (533)                     | (519)            |
| Pound sterling                                                                   | 5                 | 134          | —                       | 40,559                   | —                         | 40,698           |
| Canadian dollar                                                                  | (792,367)         | (752)        | (1,834)                 | —                        | (345)                     | (795,298)        |
| Other currencies                                                                 | (652)             | 2            | —                       | —                        | 875                       | 225              |
| <b>Total</b>                                                                     | <b>(793,014)</b>  | <b>(616)</b> | <b>(1,834)</b>          | <b>40,573</b>            | <b>(3)</b>                | <b>(754,894)</b> |

For the year ended October 31, 2020, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in an \$8,006 increase or decrease in the Corporation's net loss for the year, whereas other comprehensive loss would have decreased or increased by \$929. For sensitivity analysis purposes, the impact of the U.S. dollar individually on the Corporation's net loss for the year would have resulted in an increase or decrease of \$8,273. Also for sensitivity analysis purposes, the impact of any other single currency on the Corporation's income would not be material.

As at October 31, 2020, due to a significant COVID-19 pandemic-related decrease in our capacity, 100% of estimated requirements for winter 2021 were covered by foreign exchange derivatives [63% of estimated requirements for fiscal 2020 were covered as at October 31, 2019]. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any foreign exchange derivatives for summer 2021.

#### **RISK OF FLUCTUATIONS IN FUEL PRICES**

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 18 months. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any new fuel-related derivatives since March 2020. The Corporation will reassess the situation from time to time.

For the year ended October 31, 2020, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a \$1,009 decrease or increase in the Corporation's net loss.

As at October 31, 2020, due to a significant decrease in our capacity related to the COVID-19 pandemic, 100% of estimated requirements for winter 2021 were covered by fuel-related derivatives [41% of estimated requirements for fiscal 2020 were covered as at October 31, 2019]. Due to the COVID-19 pandemic and the resulting lack of visibility on its future needs, the Corporation has not contracted any fuel-related derivatives for summer 2021.

### INTEREST RATE RISK

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

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

For the year ended October 31, 2020, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a \$1,106 increase or decrease in the Corporation's net loss.

### CAPITAL RISK MANAGEMENT

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

The Corporation manages its capitalization in accordance with changes in economic conditions. In order to maintain or adjust its capitalization, the Corporation may elect to declare dividends to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issue new shares.

The Corporation monitors its capitalization using the adjusted debt/equity ratio. This ratio is calculated by dividing total net debt by equity. Total net debt is equal to the aggregate of long-term debt and lease obligations, less cash and cash equivalents [not held in trust or otherwise reserved]. Although commonly used, this measure does not reflect the fair value of leases as it does not take into account current rates for similar obligations with similar terms and risks.

Due to the COVID-19 pandemic and the resulting effect on capital structure, the Corporation is suspending its strategy of maintaining its adjusted debt/equity ratio below 1 until operations return to normal. The calculation of the adjusted debt/equity ratio is summarized as follows:

|                            | 2020      | 2019<br>Restated<br>[note 5] |
|----------------------------|-----------|------------------------------|
|                            | \$        | \$                           |
| <b>Net debt</b>            |           |                              |
| Long-term debt             | 49,980    | —                            |
| Lease liabilities          | 853,906   | 665,929                      |
| Cash and cash equivalents  | (426,433) | (564,844)                    |
|                            | 477,453   | 101,085                      |
| Equity                     | 66,307    | 557,451                      |
| Adjusted debt/equity ratio | 720.1%    | 18.1%                        |

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2020, due to the COVID-19 pandemic, the Corporation benefited from a temporary suspension of these ratios by its lenders up to January 30, 2021. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

## Note 9 Deposits

|                                         | 2020    | 2019<br>Restated<br>[note 5] |
|-----------------------------------------|---------|------------------------------|
|                                         | \$      | \$                           |
| Deposits for maintenance to lessors     | 103,638 | 124,911                      |
| Deposits on leased aircraft and engines | 40,470  | 38,415                       |
| Deposits with suppliers                 | 9,267   | 20,576                       |
|                                         | 153,375 | 183,902                      |
| Less current portion                    | 16,471  | 17,765                       |
|                                         | 136,904 | 166,137                      |

## Note 10 Property, plant and equipment

|                                                  | Fleet     | Aircraft<br>equipment | Office<br>furniture<br>and<br>equipment | Land, building<br>and leasehold<br>improvements | Right-of-<br>use<br>Fleet | Right-of-<br>use<br>Real estate<br>and other | Total     |
|--------------------------------------------------|-----------|-----------------------|-----------------------------------------|-------------------------------------------------|---------------------------|----------------------------------------------|-----------|
|                                                  | \$        | \$                    | \$                                      | \$                                              | \$                        | \$                                           | \$        |
| <b>Cost</b>                                      |           |                       |                                         |                                                 |                           |                                              |           |
| Balance as at October 31, 2019                   | 328,737   | 125,102               | 60,037                                  | 115,558                                         | 1,344,885                 | 130,017                                      | 2,104,336 |
| Additions                                        | 6,839     | 25,852                | 5,089                                   | 1,294                                           | 269,227                   | 24,648                                       | 332,949   |
| Disposals                                        | (47,628)  | (14,600)              | (369)                                   | —                                               | (109,891)                 | (1,049)                                      | (173,537) |
| Write-offs                                       | (121,053) | —                     | (6,038)                                 | (1,885)                                         | (138)                     | (4,822)                                      | (133,936) |
| Depreciation                                     | (4,122)   | (171)                 | —                                       | (32,826)                                        | (46,524)                  | —                                            | (83,643)  |
| Exchange difference                              | —         | —                     | (70)                                    | 825                                             | —                         | 177                                          | 932       |
| Balance as at October 31, 2020                   | 162,773   | 136,183               | 58,649                                  | 82,966                                          | 1,457,559                 | 148,971                                      | 2,047,101 |
| <b>Accumulated depreciation</b>                  |           |                       |                                         |                                                 |                           |                                              |           |
| Balance as at October 31, 2019                   | 250,001   | 74,717                | 40,388                                  | 29,167                                          | 741,597                   | 77,021                                       | 1,212,891 |
| Depreciation                                     | 18,372    | 11,152                | 5,642                                   | 2,392                                           | 145,810                   | 9,262                                        | 192,630   |
| Disposals                                        | (45,060)  | (14,597)              | (209)                                   | —                                               | (80,773)                  | (130)                                        | (140,769) |
| Write-offs                                       | (121,053) | —                     | (6,038)                                 | (1,885)                                         | (138)                     | (4,822)                                      | (133,936) |
| Exchange difference                              | —         | —                     | 61                                      | (83)                                            | —                         | (75)                                         | (97)      |
| Balance as at October 31, 2020                   | 102,260   | 71,272                | 39,844                                  | 29,591                                          | 806,496                   | 81,256                                       | 1,130,719 |
| <b>Net book value as at<br/>October 31, 2020</b> | 60,513    | 64,911                | 18,805                                  | 53,375                                          | 651,063                   | 67,715                                       | 916,382   |

|                                                  | Fleet    | Aircraft<br>equipment | Office<br>furniture<br>and<br>equipment | Building and<br>leasehold<br>improvements | Right-of-<br>use<br>Fleet<br>Restated<br>[note 5] | Right-of-<br>use<br>Real estate<br>and other<br>Restated<br>[note 5] | Total<br>Restated<br>[note 5] |
|--------------------------------------------------|----------|-----------------------|-----------------------------------------|-------------------------------------------|---------------------------------------------------|----------------------------------------------------------------------|-------------------------------|
|                                                  |          | \$                    | \$                                      | \$                                        | \$                                                | \$                                                                   | \$                            |
| <b>Cost</b>                                      |          |                       |                                         |                                           |                                                   |                                                                      |                               |
| <b>Balance as at November 1, 2018</b>            | 339,093  | 118,679               | 53,102                                  | 96,123                                    | 1,152,517                                         | 105,460                                                              | 1,864,974                     |
| Additions                                        | 24,807   | 27,730                | 10,634                                  | 19,926                                    | 229,595                                           | 24,760                                                               | 337,452                       |
| Write-offs                                       | (35,163) | (21,307)              | (3,601)                                 | (352)                                     | (37,227)                                          | (136)                                                                | (97,786)                      |
| Exchange difference                              | —        | —                     | (98)                                    | (139)                                     | —                                                 | (67)                                                                 | (304)                         |
| <b>Balance as at October 31, 2019</b>            | 328,737  | 125,102               | 60,037                                  | 115,558                                   | 1,344,885                                         | 130,017                                                              | 2,104,336                     |
| <b>Accumulated depreciation</b>                  |          |                       |                                         |                                           |                                                   |                                                                      |                               |
| <b>Balance as at November 1, 2018</b>            | 251,348  | 88,238                | 38,335                                  | 27,598                                    | 670,770                                           | 67,181                                                               | 1,143,470                     |
| Depreciation                                     | 33,816   | 7,786                 | 5,711                                   | 1,930                                     | 108,054                                           | 9,950                                                                | 167,247                       |
| Write-offs                                       | (35,163) | (21,307)              | (3,601)                                 | (352)                                     | (37,227)                                          | (136)                                                                | (97,786)                      |
| Exchange difference                              | —        | —                     | (57)                                    | (9)                                       | —                                                 | 26                                                                   | (40)                          |
| <b>Balance as at October 31, 2019</b>            | 250,001  | 74,717                | 40,388                                  | 29,167                                    | 741,597                                           | 77,021                                                               | 1,212,891                     |
| <b>Net book value as at<br/>October 31, 2019</b> | 78,736   | 50,385                | 19,649                                  | 86,391                                    | 603,288                                           | 52,996                                                               | 891,445                       |

### Fleet-related property, plant and equipment

During the year ended October 31, 2020, the Corporation early returned four leased aircraft to the lessors: three Boeing 737-800s and one Airbus A330. These returns resulted in disposals of property, plant and equipment and accumulated amortization balances of \$118,886 and \$91,341, respectively.

Moreover, due to the significant COVID-19 pandemic-related capacity reductions, ten leased aircraft, i.e., five Airbus A330s, three Airbus A321neos and two Boeing 737-800s, will no longer be used until they are returned to the lessors. An impairment charge corresponding to the full carrying amount of the right-of-use assets, maintenance components and leasehold improvements for these aircraft was recorded under Special items in the consolidated statement of loss; these impairment charges totalled \$50,817. The Corporation is negotiating with the lessors of some of its aircraft in order to return them early [note 19].

### Land, building and leasehold improvements

Due to the COVID-19 pandemic occurring worldwide, the global tourism industry has faced a collapse in demand. The Corporation cannot currently forecast all the impacts of COVID-19 on its hotel development strategy, particularly the use of its land and the start of eventual construction work. However, the land in Mexico does not meet the required criteria to be presented as an asset held for sale. Given the uncertainty surrounding future use of the land, an assessment of the recoverable amount of the land in Mexico compared with its carrying amount has been made. The recoverable amount of the land was determined based on fair value less costs to sell. Fair value less costs to sell was estimated using level 3 input data, according to a valuation prepared by an independent, external valuator as at October 12, 2020. The determined recoverable amount of the land in Mexico is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized an impairment charge of \$32,826 related to its land in Mexico, under Special items, in order to bring the carrying value of the land to its recoverable amount of \$50,675 as at October 31, 2020 [note 19].

## Note 11 Intangible assets

|                                                | Software | Trademarks | Customer lists | Total   |
|------------------------------------------------|----------|------------|----------------|---------|
|                                                | \$       | \$         | \$             | \$      |
| <b>Cost</b>                                    |          |            |                |         |
| <b>Balance as at October 31, 2019</b>          | 162,800  | 20,381     | 12,789         | 195,970 |
| Additions                                      | 2,456    | —          | 12             | 2,468   |
| Write-offs and impairment                      | (6,737)  | —          | (207)          | (6,944) |
| Exchange difference                            | 24       | 37         | —              | 61      |
| <b>Balance as at October 31, 2020</b>          | 158,543  | 20,418     | 12,594         | 191,555 |
| <b>Accumulated amortization and impairment</b> |          |            |                |         |
| <b>Balance as at October 31, 2019</b>          | 130,710  | 15,809     | 12,599         | 159,118 |
| Amortization                                   | 11,410   | —          | 70             | 11,480  |
| Write-offs and impairment                      | (6,737)  | 2,384      | (207)          | (4,560) |
| Exchange difference                            | 8        | —          | —              | 8       |
| <b>Balance as at October 31, 2020</b>          | 135,391  | 18,193     | 12,462         | 166,046 |
| <b>Net book value as at October 31, 2020</b>   | 23,152   | 2,225      | 132            | 25,509  |

|                                                | Software | Trademarks | Customer lists | Total   |
|------------------------------------------------|----------|------------|----------------|---------|
|                                                | \$       | \$         | \$             | \$      |
| <b>Cost</b>                                    |          |            |                |         |
| <b>Balance as at October 31, 2018</b>          | 153,709  | 20,334     | 12,574         | 186,617 |
| Additions                                      | 9,088    | —          | 92             | 9,180   |
| Exchange difference                            | 3        | 47         | 123            | 173     |
| <b>Balance as at October 31, 2019</b>          | 162,800  | 20,381     | 12,789         | 195,970 |
| <b>Accumulated amortization and impairment</b> |          |            |                |         |
| <b>Balance as at October 31, 2018</b>          | 115,695  | 15,809     | 12,424         | 143,928 |
| Amortization                                   | 15,010   | —          | 52             | 15,062  |
| Exchange difference                            | 5        | —          | 123            | 128     |
| <b>Balance as at October 31, 2019</b>          | 130,710  | 15,809     | 12,599         | 159,118 |
| <b>Net book value as at October 31, 2019</b>   | 32,090   | 4,572      | 190            | 36,852  |

## Impairment testing in 2020

The Corporation performed its annual impairment test to determine whether the carrying amount of trademarks was higher than their recoverable amount.

The recoverable amount is determined based on value in use, using the royalty capitalization method. The Corporation prepares cash flow forecasts based on pre-established royalty rates, which represent what a third party would pay to use the trademark. The cash flow forecasts, which correspond to after-tax royalties, are then discounted.

The Corporation concluded that the recoverable value of the Canadian Affair trademark, determined on a value-in-use basis, was lower than its carrying amount as a result of a decrease in revenues and expected profitability for this trademark due to the COVID-19 pandemic. As a result, the Corporation recognized a \$1,884 impairment charge.

The Corporation concluded that the recoverable value of its wholly owned agency trademark Marlin Travel, determined based on value in use, was lower than its carrying amount as a result of a decrease in revenues and expected profitability for this trademark due to the COVID-19 pandemic. As a result, the Corporation recognized a \$500 impairment charge.

## Note 12 Investment

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

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

|                            | 2020<br>\$ | 2019<br>\$ |
|----------------------------|------------|------------|
| Balance, beginning of year | 16,533     | 16,084     |
| Capital contribution       | 2,042      | 1,690      |
| Share of net loss          | (1,172)    | (1,250)    |
| Impairment [note 19]       | (3,100)    | —          |
| Translation adjustment     | 206        | 9          |
|                            | 14,509     | 16,533     |

The investment was translated at the USD/CAD rate of 1.3336 as at October 31, 2020 [1.3142 as at October 31, 2019].

As at October 31, 2020, the Corporation determined that the declines in Desarrollo Transimar's revenues and demand due to the COVID-19 pandemic were objective evidence of impairment of its investment in a joint venture. Accordingly, the Corporation performed an impairment test on its investment to compare its recoverable amount with its carrying amount. The recoverable amount of the investment was determined based on the fair value less costs to sell. Fair value less costs to sell was established based on a valuation prepared by an external and independent appraiser as at October 31, 2020, using a discounted cash flow model based on Level 3 inputs. The cash flows used are management's most plausible projections given current and expected market conditions. The recoverable amount of the investment determined is less than its carrying amount. Accordingly, as at October 31, 2020, the Corporation recognized a \$3,100 impairment charge related to its investment under Special items in order for the carrying amount of the investment to be equal to its recoverable amount as at October 31, 2020.

As at October 31, 2020, the pre-tax discount rate used for the investment's impairment test was 7.1%.

The following table shows the condensed financial information regarding Desarrollo Transimar as at October 31, 2020 and 2019:

|                                           | 2020<br>\$     | 2019<br>\$     |
|-------------------------------------------|----------------|----------------|
| <b>Statement of financial position:</b>   |                |                |
| Current assets                            | 7,830          | 8,863          |
| Non-current assets                        | 97,323         | 93,479         |
| Current liabilities                       | 5,654          | 7,214          |
| Non-current liabilities                   | 64,282         | 62,063         |
| <b>Net assets</b>                         | <b>35,217</b>  | <b>33,065</b>  |
| <b>Impairment [note 19]</b>               | <b>(3,100)</b> | <b>—</b>       |
| <b>Carrying amount of investment</b>      | <b>14,509</b>  | <b>16,533</b>  |
| <b>Statement of comprehensive income:</b> |                |                |
| Revenues                                  | 11,054         | 6,370          |
| Net loss and comprehensive loss           | (2,344)        | (2,500)        |
| <b>Share of net income (loss)</b>         | <b>(1,172)</b> | <b>(1,250)</b> |

### Note 13 Trade and other payables

|                                        | 2020<br>\$     | 2019<br>Restated<br>[note 5]<br>\$ |
|----------------------------------------|----------------|------------------------------------|
| Trade payables                         | 90,750         | 124,208                            |
| Accrued expenses                       | 15,743         | 21,939                             |
| Salaries and employee benefits payable | 82,816         | 88,464                             |
| Government remittances                 | 5,134          | 38,170                             |
| Non-controlling interest [note 8]      | 37,800         | 38,284                             |
|                                        | <b>232,243</b> | <b>311,065</b>                     |

## Note 14 Long-term debt and lease liabilities

On October 9, 2020, the Corporation amended its \$50,000 revolving credit facility agreement for operating purposes. The amended agreement, which expires in 2022, may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreement require the Corporation to comply with certain financial ratios and conditions. As at October 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until January 30, 2021 and \$50,000 was drawn down under this credit facility.

On October 9, 2020, the Corporation entered into a \$250,000 subordinated short-term credit agreement for operating purposes. Under the agreement, which expires on March 31, 2021, or becomes immediately due in the event of a change of control, drawdowns may be made until February 28, 2021 in the form of bankers' acceptances or bank loans, in Canadian dollars, subject to certain conditions, including certain cash and cash equivalent requirements before and after a drawdown under the credit facility. The agreement is secured by a second movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican and European subsidiaries, subject to certain exceptions. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate, plus a premium. As at October 31, 2020, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders until January 30, 2021 and the credit facility was undrawn.

The Corporation also has a \$75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2020, \$60,266 had been drawn down under the facility [\$55,848 as at October 31, 2019], \$56,268 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at October 31, 2020 and 2019. The current portion of lease liabilities includes deferred rent payments related to aircraft leases and real estate leases of \$44,808 and \$2,819, respectively:

|                                                   | Final<br>Maturity | Weighted<br>Average<br>Interest<br>Rate | 2020           | 2019<br>Restated<br>[note 5] |
|---------------------------------------------------|-------------------|-----------------------------------------|----------------|------------------------------|
|                                                   |                   | %                                       | \$             | \$                           |
| <b>Long-term debt</b>                             | 2022              | 4.97                                    | <b>49,980</b>  | —                            |
| Lease liabilities                                 |                   |                                         |                |                              |
| Fleet                                             | 2020-2031         | 5.73                                    | 772,925        | 602,449                      |
| Real estate and other                             | 2020-2037         | 5.57                                    | 80,981         | 63,480                       |
| <b>Lease liabilities</b>                          |                   | 5.71                                    | <b>853,906</b> | 665,929                      |
| <b>Total long-term debt and lease liabilities</b> |                   | 5.67                                    | <b>903,886</b> | 665,929                      |
| Current portion of lease liabilities              |                   |                                         | (147,980)      | (99,814)                     |
| <b>Long-term debt and lease liabilities</b>       |                   |                                         | <b>755,906</b> | 566,115                      |

Interest expense for the years ended October 31, 2020 and 2019 is detailed as follows:

|                                              | 2020          | 2019<br>Restated<br>[note 5] |
|----------------------------------------------|---------------|------------------------------|
|                                              | \$            | \$                           |
| Interest on lease liabilities                | 40,781        | 33,035                       |
| Accretion on provision for return conditions | 2,454         | 3,380                        |
| Interest on long-term debt                   | 1,361         | —                            |
| Other interest                               | 3,453         | 1,520                        |
| <b>Financing costs</b>                       | <b>48,049</b> | <b>37,935</b>                |

Rent expense for the years ended October 31, 2020 and 2019 is detailed as follows:

|                         | 2020          | 2019<br>Restated<br>[note 5] |
|-------------------------|---------------|------------------------------|
|                         | \$            | \$                           |
| Variable lease payments | 4,810         | 8,987                        |
| Short-term leases       | 18,548        | 37,816                       |
| <b>Aircraft rent</b>    | <b>23,358</b> | <b>46,803</b>                |
| Variable lease payments | 1,002         | 6,839                        |
| Short-term leases       | 3,618         | 3,758                        |
| Low value leases        | 556           | 204                          |
|                         | <b>28,534</b> | <b>57,604</b>                |

## Cash flows related to lease liabilities

The following table details cash flows related to repayment of lease liabilities for the year ended October 31, 2020:

|                                                      | 2020            |                     |                | 2019            |                     |                |
|------------------------------------------------------|-----------------|---------------------|----------------|-----------------|---------------------|----------------|
|                                                      | Cash flows      | Non-cash<br>changes | Total          | Cash flows      | Non-cash<br>changes | Total          |
|                                                      | \$              | \$                  | \$             | \$              | \$                  | \$             |
| <b>Opening balance</b>                               |                 |                     | <b>665,929</b> |                 |                     | 565,170        |
| Repayments                                           | (82,505)        | —                   | (82,505)       | (80,290)        | —                   | (80,290)       |
| New lease liabilities (new contracts and amendments) | —               | 275,118             | 275,118        | —               | 180,125             | 180,125        |
| Interests on deferred payments                       | —               | 17,708              | 17,708         | —               | —                   | —              |
| Offset of rent payments and lease terminations       | —               | (25,022)            | (25,022)       | —               | —                   | —              |
| Exchange difference                                  | —               | 2,678               | 2,678          | —               | 924                 | 924            |
| <b>Closing balance</b>                               | <b>(82,505)</b> | <b>270,482</b>      | <b>853,906</b> | <b>(80,290)</b> | <b>181,049</b>      | <b>665,929</b> |

## Maturities of lease liabilities

Repayment of principal and interest on lease liabilities as at October 31, 2020 is detailed as follows. Lease liabilities denominated in U.S. dollars are translated at the USD/CAD closing rate of 1.3336 as at October 31, 2020:

| Year ended October 31    | 2021           | 2022           | 2023           | 2024           | 2025          | 2026 and up    | Total            |
|--------------------------|----------------|----------------|----------------|----------------|---------------|----------------|------------------|
|                          | \$             | \$             | \$             | \$             | \$            | \$             | \$               |
| Fleet                    | 176,185        | 126,752        | 119,313        | 99,285         | 92,073        | 351,691        | <b>965,299</b>   |
| Real estate and other    | 14,804         | 9,695          | 8,763          | 8,080          | 7,369         | 64,860         | <b>113,571</b>   |
| <b>Lease liabilities</b> | <b>190,989</b> | <b>136,447</b> | <b>128,076</b> | <b>107,365</b> | <b>99,442</b> | <b>416,551</b> | <b>1,078,870</b> |

Note 10 provides the information required for right-of-use assets and depreciation. Note 25 details the information required with respect to leases of aircraft that will be delivered in the coming fiscal years.

## Note 15 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 pre-determined maintenance conditions. The change in the provision for return conditions for the years ended October 31, 2020 and 2019 is detailed as follows:

|                         | 2020            | 2019                       |
|-------------------------|-----------------|----------------------------|
|                         | \$              | Restated<br>[note 5]<br>\$ |
| <b>Opening balance</b>  | <b>155,120</b>  | 128,528                    |
| Additional provisions   | <b>35,791</b>   | 16,127                     |
| Change in estimate      | <b>1,638</b>    | 7,085                      |
| Unused amounts reversed | <b>(51,405)</b> | —                          |
| Accretion               | <b>2,454</b>    | 3,380                      |
| <b>Closing balance</b>  | <b>143,598</b>  | 155,120                    |
| Current provisions      | <b>14,963</b>   | —                          |
| Non-current provisions  | <b>128,635</b>  | 155,120                    |
| <b>Closing balance</b>  | <b>143,598</b>  | 155,120                    |

As at October 31, 2020, additional provisions included \$6,395 related to impairment of leased aircraft [note 20]. In addition, the unused amounts recovered included \$16,705 related to reversals of provisions for return conditions for aircraft whose leases had been terminated.

## Note 16 Other liabilities

|                             | 2020          | 2019                       |
|-----------------------------|---------------|----------------------------|
|                             | \$            | Restated<br>[note 5]<br>\$ |
| Employee benefits [note 23] | <b>49,862</b> | 46,986                     |
| Other liabilities           | <b>353</b>    | 458                        |
|                             | <b>50,215</b> | 47,444                     |

## **Note 17 Equity**

### **Authorized share capital**

#### **CLASS A VARIABLE VOTING SHARES**

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

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

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

#### **CLASS B VOTING SHARES**

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

#### **PREFERRED SHARES**

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

## Issued and outstanding share capital

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

|                                       | Number of shares  | \$             |
|---------------------------------------|-------------------|----------------|
| <b>Balance as at October 31, 2018</b> | 37,545,335        | 219,684        |
| Issued from treasury                  | 169,862           | 940            |
| Exercise of options                   | 31,893            | 388            |
| <b>Balance as at October 31, 2019</b> | 37,747,090        | 221,012        |
| <b>Balance as at October 31, 2020</b> | <b>37,747,090</b> | <b>221,012</b> |

As at October 31, 2020, the number of Class A Shares and Class B Shares was 3,785,312 and 33,961,778, respectively [4,243,821 and 33,503,269, respectively, as at October 31, 2019].

## Subscription rights plan

The shareholders' subscription rights plan [the "rights plan"] entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider alternatives, thus allowing shareholders to receive full and fair value for their shares. The time limit for a permitted bid under the rights plan is 105 days. The rights plan terminated on the day after the 2020 annual general meeting on March 12, 2020.

## Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 829,196 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the performance criteria are determined on each grant. The options granted between January 14, 2009 and October 31, 2015 are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. For options granted starting November 1, 2015, vesting will no longer depend on meeting performance criteria. The options granted before October 31, 2013 are exercisable over a ten-year period, whereas those granted after that date are exercisable over a seven-year period, respectively. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years. Under the plan, in the event of a change of control, all outstanding stock options vest.

The following tables summarize all outstanding options:

|                                         | 2020              |                           | 2019              |                           |
|-----------------------------------------|-------------------|---------------------------|-------------------|---------------------------|
|                                         | Number of options | Weighted average price \$ | Number of options | Weighted average price \$ |
| Beginning of year                       | 1,748,570         | 10.15                     | 1,786,588         | 10.13                     |
| Exercised                               | —                 | —                         | (31,893)          | 8.41                      |
| Cancelled                               | (2,000)           | 19.24                     | (4,125)           | 15.76                     |
| Expired                                 | (8,000)           | 11.82                     | (2,000)           | 10.52                     |
| <b>End of year</b>                      | <b>1,738,570</b>  | <b>10.13</b>              | <b>1,748,570</b>  | <b>10.15</b>              |
| <b>Options exercisable, end of year</b> | <b>1,557,042</b>  | <b>10.03</b>              | <b>1,471,592</b>  | <b>10.05</b>              |

| Range of exercise price \$ | Outstanding options                                  |                                 |                           | Options exercisable                                  |                           |
|----------------------------|------------------------------------------------------|---------------------------------|---------------------------|------------------------------------------------------|---------------------------|
|                            | Number of options outstanding as at October 31, 2020 | Weighted average remaining life | Weighted average price \$ | Number of options exercisable as at October 31, 2020 | Weighted average price \$ |
| 6.01 to 7.48               | 572,758                                              | 1.6                             | 6.87                      | 572,758                                              | 6.87                      |
| 8.73 to 11.22              | 618,269                                              | 2.0                             | 10.07                     | 513,260                                              | 10.13                     |
| 12.25 to 12.49             | 449,493                                              | 0.2                             | 12.37                     | 372,974                                              | 12.35                     |
| 19.24                      | 98,050                                               | 0.2                             | 19.24                     | 98,050                                               | 19.24                     |
|                            | <b>1,738,570</b>                                     | <b>1.3</b>                      | <b>10.13</b>              | <b>1,557,042</b>                                     | <b>10.03</b>              |

#### COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the years ended October 31, 2020 and 2019, the Corporation granted no stock options to its key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model.

During the year ended October 31, 2020, the Corporation recorded no compensation expense [\$427 in 2019] for its stock option plan.

#### **Performance share unit plan**

Performance share units ["PSUs"] are awarded in connection with the performance share unit plan for senior executives. Under this plan, each eligible senior executive receives a portion of his or her compensation in the form of PSUs. PSUs consist of a number equal to a percentage of the participant's basic salary, divided by the fair market value of Class B Shares as at the award date. Once vested, PSUs give the participant the right to receive an equal number of shares or a cash payment, at the Corporation's discretion. Starting in 2017, PSUs awarded vest 100% in mid-January three years following the award, provided the performance criteria determined on the award are met. PSUs awarded prior to 2017 vest in three tranches of 16.67% in mid-January of each year for three years following the award, provided the performance criteria determined on each award are met. The remaining 50% of PSUs awarded vest in mid-January three years following their award, provided the plan member is still an employee of the Corporation. Under the plan, in the event of a change of control, all outstanding PSUs vest.

During the years ended October 31, 2020 and 2019, the Corporation granted no PSUs to its key executives and employees. As at October 31, 2020, the number of PSUs awarded amounted to 435,662. During the year ended October 31, 2020, the Corporation recognized a compensation expense reversal of \$3,807 [compensation expense of \$2,945 in 2019] for its performance share unit plan, which was recorded in full as a cash-settled transaction.

### Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2020, the Corporation was authorized to issue up to 355,790 shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued no shares [169,862 Class B Shares in 2019, for a total of \$940 in 2019] under the share purchase plan.

### Stock ownership incentive and capital accumulation plan

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

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

During the year ended October 31, 2020, the Corporation recognized no compensation expense [compensation expense of \$84 in 2019] for its stock ownership incentive and capital accumulation plan.

### Permanent stock ownership incentive plan

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

During the year ended October 31, 2020, the Corporation recognized no compensation expense [compensation expense of \$243 in 2019] for its permanent stock ownership incentive plan.

### Deferred share unit plan

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

As at October 31, 2020, the number of DSUs awarded amounted to 306,775 [306,775 as at October 31, 2019]. During the year ended October 31, 2020, the Corporation recorded a compensation expense reversal of \$3,289 [compensation expense of \$2,946 in 2019] for its deferred share unit plan.

## Restricted share unit plan

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

As at October 31, 2020, the number of RSUs awarded amounted to 149,097 [393,601 as at October 31, 2019]. During the year ended October 31, 2020, the Corporation recorded a compensation expense reversal of \$928 [compensation expense of \$5,615 in 2019] for its restricted share unit plan.

## Earnings per share

Basic and diluted earnings per share were calculated as follows:

|                                                                                                     | 2020      | 2019<br>Restated<br>[note 5] |
|-----------------------------------------------------------------------------------------------------|-----------|------------------------------|
| [In thousands, except per share amounts]                                                            | \$        | \$                           |
| <b>NUMERATOR</b>                                                                                    |           |                              |
| Net income (loss) attributable to shareholders                                                      | (496,545) | (32,347)                     |
| <b>DENOMINATOR</b>                                                                                  |           |                              |
| Adjusted weighted average number of outstanding shares                                              | 37,747    | 37,673                       |
| <b>Effect of dilutive securities</b>                                                                |           |                              |
| Stock options                                                                                       | —         | —                            |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings per share | 37,747    | 37,673                       |
| <b>Earnings (loss) per share</b>                                                                    |           |                              |
| Basic                                                                                               | (13.15)   | (0.86)                       |
| Diluted                                                                                             | (13.15)   | (0.86)                       |

Given the net losses recognized for the years ended October 31, 2020 and 2019, all 1,738,570 and 1,748,570 outstanding stock options, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

## Note 18 Additional disclosure on revenue and expenses

### Breakdown of revenue from contracts with customers

Revenue from contracts with customers is broken down as follows:

|                       | 2020             | 2019             |
|-----------------------|------------------|------------------|
|                       | \$               | \$               |
| <b>Customers</b>      |                  |                  |
| Transatlantic         | 164,804          | 1,173,884        |
| Americas              | 1,102,080        | 1,705,753        |
| <b>Other</b>          | 35,185           | 57,493           |
| <b>Total revenues</b> | <b>1,302,069</b> | <b>2,937,130</b> |

### Contract balances

Contract balances with customers are detailed as follows:

|                                              | 2020    | 2019    |
|----------------------------------------------|---------|---------|
|                                              | \$      | \$      |
| Trade accounts receivable [note 7]           | 5,565   | 25,669  |
| Other receivables [note 7]                   | 22,677  | —       |
| Contract costs, included in Prepaid expenses | 14,256  | 52,761  |
| Customer deposits and deferred revenues      | 608,890 | 561,404 |

### Salaries and employee benefits

|                                       | 2020           | 2019           |
|---------------------------------------|----------------|----------------|
|                                       | \$             | \$             |
| Salaries and other employee benefits  | 236,241        | 407,836        |
| Long-term employee benefits [note 23] | 3,009          | 2,927          |
| Share-based payment expense           | —              | 1,612          |
|                                       | <b>239,250</b> | <b>412,375</b> |

As of March 15, 2020, the Corporation made use of the CEWS for its Canadian workforce, which enabled it to finance part of the salaries of its staff still at work and to offer employees temporarily laid off to receive a part of their salary equivalent to the amount of the grant received, with no work required. The Corporation determined it fulfilled the employer eligibility criteria and claimed the CEWS for the period from March 15 to October 31, 2020. For the year ended October 31, 2020, the Corporation recognized a total deduction of \$113,596 from Salaries and other employee benefits expense related to CEWS, including \$38,782 for active employees.

### Depreciation and amortization

|                                           | 2020           | 2019                       |
|-------------------------------------------|----------------|----------------------------|
|                                           | \$             | Restated<br>[note 5]<br>\$ |
| Property, plant and equipment             | 192,630        | 167,247                    |
| Intangible assets subject to amortization | 11,480         | 15,062                     |
| Other assets                              | 2              | 12                         |
|                                           | <b>204,112</b> | <b>182,321</b>             |

## Note 19 Special items

|                                                                       | 2020          | 2019          |
|-----------------------------------------------------------------------|---------------|---------------|
|                                                                       | \$            | \$            |
| <b>Special items related to the transaction with Air Canada</b>       |               |               |
| Professional fees                                                     | 7,753         | 10,302        |
| Compensation (reversal of compensation) expense                       | (4,491)       | 13,573        |
|                                                                       | <b>3,262</b>  | <b>23,875</b> |
| <b>Other special items</b>                                            |               |               |
| Impairment of the fleet (including right-of-use asset) [note 10]      | 50,817        | -             |
| Impairment of the land in Mexico [note 10]                            | 32,826        | -             |
| Impairment of the investment in a joint venture [note 12]             | 3,100         | -             |
| Impairment of trademarks [note 11]                                    | 2,384         | -             |
| Provision for return conditions of impaired leased aircraft [note 15] | 6,395         | -             |
| Severance                                                             | 891           | -             |
|                                                                       | <b>96,413</b> | <b>-</b>      |
|                                                                       | <b>99,675</b> | <b>23,875</b> |

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. Due to the COVID-19 pandemic occurring worldwide, the global tourism industry has faced a collapse in demand. As a result, the Corporation had to scale back its capacity significantly and recognize impairment charges accordingly. These impairment charges are included under Special items.

For the year ended October 31, 2020, professional fees of \$7,753 and compensation expense reversals of \$4,491 were recorded in connection with the transaction with Air Canada. For the year ended October 31, 2019, professional fees of \$10,302 and compensation expenses of \$13,573 were recorded in connection with the transaction with Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and also changes the vesting period.

During the year ended October 31, 2020, the Corporation recorded severance benefits of \$891 for employees permanently laid off during the year ended October 31, 2020.

## Note 20 Loss (gain) on asset disposals

|                   | 2020          | 2019       |
|-------------------|---------------|------------|
|                   | \$            | \$         |
| Lease termination | 19,319        | -          |
| Engine disposals  | (8,094)       | -          |
| Other             | 46            | (9)        |
|                   | <b>11,271</b> | <b>(9)</b> |

Due to the significant reduction in capacity related to the COVID-19 pandemic, during the year ended October 31, 2020, the Corporation early returned four leased aircraft to the lessors: three Boeing 737-800s and one Airbus A330, and also terminated the leases of certain travel agencies. These lease terminations resulted in the recognition of a \$19,319 loss. In addition, during the year ended October 31, 2020, the Corporation disposed of Airbus A310 engines with a nil carrying value for an amount of \$8,094, which corresponds to the amount recorded as a gain on disposal of assets.

## Note 21 Income Taxes

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

| Consolidated statements of income            | 2020           | 2019<br>Restated<br>[note 5] |
|----------------------------------------------|----------------|------------------------------|
|                                              | \$             | \$                           |
| <b>Current</b>                               |                |                              |
| Current income taxes                         | (1,905)        | 1,243                        |
| Adjustment to taxes payable for prior years  | (2,471)        | (215)                        |
|                                              | <b>(4,376)</b> | <b>1,028</b>                 |
| <b>Deferred</b>                              |                |                              |
| Relating to temporary differences            | 10,009         | (8,934)                      |
| Adjustment to deferred taxes for prior years | 2,159          | (114)                        |
|                                              | <b>12,168</b>  | <b>(9,048)</b>               |
| <b>Income tax expense (recovery)</b>         | <b>7,792</b>   | <b>(8,020)</b>               |

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

|                                                         | 2020         |              | 2019<br>Restated<br>[note 5] |                |
|---------------------------------------------------------|--------------|--------------|------------------------------|----------------|
|                                                         | %            | \$           | %                            | \$             |
| Income taxes at the statutory rate                      | 26.5         | (128,774)    | 26.6                         | (10,056)       |
| Increase (decrease) resulting from:                     |              |              |                              |                |
| Effect of differences in Canadian and foreign tax rates | 0.4          | (1,737)      | 7.2                          | (2,718)        |
| Non-taxable items                                       | (0.5)        | 2,471        | (8.2)                        | 3,087          |
| Unrecognized losses for the current year                | (24.9)       | 120,925      | 1.1                          | (421)          |
| Derecognition of a future income tax asset              | (3.0)        | 14,559       | (6.2)                        | 2,353          |
| Adjustments for prior years                             | 0.1          | (312)        | 0.9                          | (329)          |
| Effect of tax rate changes                              | (0.0)        | 43           | (0.1)                        | 36             |
| Other                                                   | (0.1)        | 617          | (0.1)                        | 28             |
|                                                         | <b>(1.6)</b> | <b>7,792</b> | <b>21.2</b>                  | <b>(8,020)</b> |

The applicable statutory income tax rate was 26.5% for the year ended October 31, 2020 [26.6% for the year ended October 31, 2019]. The 0.1% rate decrease is due to the reduction in the applicable Québec tax rate which was lowered from 11.6% to 11.5%. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate.

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components and changes in temporary differences in deferred tax assets and liabilities for fiscal 2020 and 2019 were as follows:

|                                                   | 2020                             |                             |                                                   |                         |                         |                         |
|---------------------------------------------------|----------------------------------|-----------------------------|---------------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                                   | Balance,<br>beginning of<br>year | Recognized in<br>net income | Recognized in<br>other<br>comprehensive<br>income | Recognized in<br>equity | Exchange<br>differences | Balance, end<br>of year |
|                                                   | \$                               | \$                          | \$                                                | \$                      | \$                      | \$                      |
| Non-capital losses                                | 3,072                            | 2,207                       | —                                                 | —                       | —                       | 5,279                   |
| Excess of tax value over net carrying value of:   |                                  |                             |                                                   |                         |                         |                         |
| Property, plant and equipment and software        | (187,091)                        | (22,338)                    | —                                                 | —                       | 15                      | (209,414)               |
| Intangible assets, excluding software             | 702                              | (702)                       | —                                                 | —                       | —                       | —                       |
| Lease liabilities                                 | 176,218                          | 32,468                      | —                                                 | —                       | —                       | 208,686                 |
| Derivative financial instruments                  | 1,896                            | 1,116                       | (3,080)                                           | —                       | —                       | (68)                    |
| Other financial assets and other assets           | 271                              | (5,620)                     | —                                                 | —                       | —                       | (5,349)                 |
| Provisions                                        | 13,088                           | (12,896)                    | —                                                 | —                       | —                       | 192                     |
| Employee benefits                                 | 12,451                           | (8,614)                     | (3,837)                                           | —                       | —                       | —                       |
| Other financial liabilities and other liabilities | (2,211)                          | 2,211                       | —                                                 | —                       | —                       | —                       |
| <b>Deferred tax</b>                               | <b>18,396</b>                    | <b>(12,168)</b>             | <b>(6,917)</b>                                    | <b>—</b>                | <b>15</b>               | <b>(674)</b>            |

|                                                   | 2019                             |                             |                                                   |                         |                         |                            |
|---------------------------------------------------|----------------------------------|-----------------------------|---------------------------------------------------|-------------------------|-------------------------|----------------------------|
|                                                   | Balance,<br>beginning of<br>year | Recognized in<br>net income | Recognized in<br>other<br>comprehensive<br>income | Recognized in<br>equity | Exchange<br>differences | Balance, end<br>of year    |
|                                                   | Restated<br>[note 5]<br>\$       | Restated<br>[note 5]<br>\$  | Restated<br>[note 5]<br>\$                        | \$                      | \$                      | Restated<br>[note 5]<br>\$ |
| Non-capital losses                                | 243                              | 2,829                       | —                                                 | —                       | —                       | 3,072                      |
| Excess of tax value over net carrying value of:   |                                  |                             |                                                   |                         |                         |                            |
| Property, plant and equipment and software        | (149,562)                        | (36,906)                    | —                                                 | (612)                   | (11)                    | (187,091)                  |
| Intangible assets, excluding software             | 854                              | (131)                       | —                                                 | —                       | (21)                    | 702                        |
| Lease liabilities                                 | 149,558                          | 26,660                      | —                                                 | —                       | —                       | 176,218                    |
| Derivative financial instruments                  | (4,498)                          | 2,375                       | 4,019                                             | —                       | —                       | 1,896                      |
| Other financial assets and other assets           | 597                              | (326)                       | —                                                 | —                       | —                       | 271                        |
| Provisions                                        | 2,134                            | 10,572                      | —                                                 | 382                     | —                       | 13,088                     |
| Employee benefits                                 | 10,703                           | 523                         | 1,225                                             | —                       | —                       | 12,451                     |
| Other financial liabilities and other liabilities | (5,663)                          | 3,452                       | —                                                 | —                       | —                       | (2,211)                    |
| <b>Deferred tax</b>                               | <b>4,366</b>                     | <b>9,048</b>                | <b>5,244</b>                                      | <b>(230)</b>            | <b>(32)</b>             | <b>18,396</b>              |

The net deferred tax assets are detailed below:

|                                | 2020         | 2019<br>Restated<br>[note 5] |
|--------------------------------|--------------|------------------------------|
|                                | \$           | \$                           |
| Deferred tax assets            | —            | 28,148                       |
| Deferred tax liabilities       | (674)        | (9,752)                      |
| <b>Net deferred tax assets</b> | <b>(674)</b> | <b>18,396</b>                |

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

| Year of expiry | Unrecognized<br>\$ | Recognized<br>\$ |
|----------------|--------------------|------------------|
| 2021 - 2025    | 6,980              | —                |
| 2026 - 2030    | 13,368             | —                |
| 2031 - 2035    | 777                | —                |
| 2036 - 2040    | 267,945            | 18,493           |
| With no expiry | 3,383              | 1,676            |
|                | <b>292,453</b>     | <b>20,169</b>    |

As at October 31, 2020, non-capital losses carried forward and other unrecognized temporary differences were as follows:

|                                                 | Canada         |                |               |              |                |
|-------------------------------------------------|----------------|----------------|---------------|--------------|----------------|
|                                                 | Quebec         | Federal        | Mexico        | Other        | Total          |
|                                                 | \$             | \$             | \$            | \$           | \$             |
| Non-capital losses                              | 265,832        | 247,492        | 18,709        | 8,951        | 293,492        |
| Capital losses                                  | 2,478          | 2,478          | —             | —            | 2,478          |
| Excess of tax value over net carrying value of: |                |                |               |              |                |
| Property, plant and equipment and software      | 4,449          | 24,941         | 36,695        | 50           | 41,194         |
| Intangible assets, excluding software           | 3,902          | 3,902          | —             | —            | 3,902          |
| Derivative financial instruments                | 65,678         | 65,678         | 130           | 55           | 65,863         |
| Other financial assets and other assets         | 8,791          | 8,791          | —             | —            | 8,791          |
| Provisions                                      | 522            | —              | —             | —            | 522            |
| Lease liabilities                               | 58,733         | 58,733         | 529           | —            | 59,262         |
| Employee benefits                               | 49,862         | 49,862         | —             | —            | 49,862         |
| Deferred donations                              | 569            | 1,040          | —             | —            | 569            |
|                                                 | <b>460,816</b> | <b>462,917</b> | <b>56,063</b> | <b>9,056</b> | <b>525,935</b> |

The Corporation recognized a deferred tax liability of \$4,900 on retained earnings of one of its foreign subsidiaries. The Corporation recognized no other deferred tax liability on retained earnings of its foreign subsidiaries and its joint venture as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad. As of October 31, 2020, there are no taxable temporary differences for which a deferred income tax liability was recorded.

## Note 22 Related party transactions and balances

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

|                                                         | Country of incorporation | Interest (%) |       |
|---------------------------------------------------------|--------------------------|--------------|-------|
|                                                         |                          | 2020         | 2019  |
| Air Transat A.T. inc.                                   | Canada                   | 100.0        | 100.0 |
| Transat Tours Canada inc.                               | Canada                   | 100.0        | 100.0 |
| Transat Distribution Canada inc.                        | Canada                   | 100.0        | 100.0 |
| 11061987 Florida Inc.                                   | United States            | 100.0        | 100.0 |
| Transat Holidays USA Inc.                               | United States            | 100.0        | 100.0 |
| The Airline Seat Company Ltd.                           | United Kingdom           | 100.0        | 100.0 |
| Air Consultants France S.A.S.                           | France                   | 100.0        | 100.0 |
| Caribbean Transportation Inc.                           | Barbados                 | 70.0         | 70.0  |
| CTI Logistics Inc.                                      | Barbados                 | 70.0         | 70.0  |
| Sun Excursions Caribbean Inc.                           | Barbados                 | 70.0         | 70.0  |
| Propiedades Profesionales Dominicanas Carhel S.R.L.     | Dominican Republic       | 70.0         | 70.0  |
| Servicios y Transportes Punta Cana S.R.L.               | Dominican Republic       | 70.0         | 70.0  |
| TTDR Travel Company S.A.S.                              | Dominican Republic       | 70.0         | 70.0  |
| Turissimo Carribe Excusiones Dominican Republic C por A | Dominican Republic       | 70.0         | 70.0  |
| Turissimo Jamaica Ltd.                                  | Jamaica                  | 70.0         | 70.0  |
| Laminama S.A. de C.V.                                   | Mexico                   | 100.0        | 100.0 |
| Promociones Residencial Morelos S.A. de C.V.            | Mexico                   | 100.0        | 100.0 |
| Promotora Turística Regional S.A. de C.V.               | Mexico                   | 100.0        | 100.0 |
| Trafictours de Mexico S.A. de C.V.                      | Mexico                   | 70.0         | 70.0  |
| Desarrollo Transimar S.A. de C.V.                       | Mexico                   | 50.0         | 50.0  |

## Compensation of key senior executives

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

|                                      | 2020  | 2019  |
|--------------------------------------|-------|-------|
|                                      | \$    | \$    |
| Salaries and other employee benefits | 7,264 | 6,958 |
| Long-term employee benefits          | 1,567 | 1,280 |
| Share-based payment expense          | —     | 2,412 |

## Note 23 Employee future benefits

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

### Defined benefit arrangements and post-employment benefits

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a \$56,268 letter of credit to the trustee [see note 6]. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation as at October 31, 2020 and 2019:

|                                                  | 2020          | 2019          |
|--------------------------------------------------|---------------|---------------|
|                                                  | \$            | \$            |
| Present value of obligations, beginning of year  | 46,986        | 40,388        |
| Current service cost                             | 1,567         | 1,280         |
| Financial costs                                  | 1,442         | 1,647         |
| Benefits paid                                    | (960)         | (960)         |
| Experience losses (gains)                        | (656)         | (648)         |
| Actuarial loss (gain) on obligation              | 1,483         | 5,279         |
| <b>Present value of obligations, end of year</b> | <b>49,862</b> | <b>46,986</b> |

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

|                                          | 2020         | 2019         |
|------------------------------------------|--------------|--------------|
|                                          | \$           | \$           |
| Current service cost                     | 1,567        | 1,280        |
| Interest cost                            | 1,442        | 1,647        |
| <b>Total cost of retirement benefits</b> | <b>3,009</b> | <b>2,927</b> |

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2020:

|                           | \$            |
|---------------------------|---------------|
| Under one year            | 959           |
| One to five years         | 11,930        |
| Between five and 10 years | 15,690        |
| Between 10 and 15 years   | 13,752        |
| Between 15 and 20 years   | 11,212        |
|                           | <b>53,543</b> |

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.6 years as at October 31, 2020.

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

|                                       | 2020<br>% | 2019<br>% |
|---------------------------------------|-----------|-----------|
| <b>Retirement benefit obligation</b>  |           |           |
| Discount rate                         | 2.75      | 3.00      |
| Rate of increase in eligible earnings | 2.75      | 2.75      |
| <b>Retirement benefit expense</b>     |           |           |
| Discount rate                         | 3.00      | 4.00      |
| Rate of increase in eligible earnings | 2.75      | 2.75      |

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

|                                       | Retirement benefit<br>expense for<br>the year ended<br>October 31, 2020 | Retirement benefit<br>obligations as at<br>October 31, 2020 |
|---------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------|
| Increase (decrease)                   | \$                                                                      | \$                                                          |
| Discount rate                         | (6)                                                                     | (1,483)                                                     |
| Rate of increase in eligible earnings | 15                                                                      | 75                                                          |

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

|                                   | 2020<br>\$    | 2019<br>\$    |
|-----------------------------------|---------------|---------------|
| Plan assets at fair value         | —             | —             |
| Accrued benefit obligation        | 49,862        | 46,986        |
| <b>Retirement benefit deficit</b> | <b>49,862</b> | <b>46,986</b> |

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

|                         | \$              |
|-------------------------|-----------------|
| <b>Gains (losses)</b>   |                 |
| <b>October 31, 2018</b> | (7,184)         |
| Actuarial losses        | (4,631)         |
| Income taxes            | 1,225           |
| <b>October 31, 2019</b> | (10,590)        |
| Actuarial losses        | (827)           |
| Income taxes            | (3,837)         |
| <b>October 31, 2020</b> | <b>(15,254)</b> |

## Defined contribution pension plans

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

Contributions to defined contribution pension plans, which correspond to the cost recognized, amounted to \$10,656 for the year ended October 31, 2020 [\$14,310 for the year ended October 31, 2019].

## Note 24 Commitments and contingencies

### Leases and other commitments

As at October 31, 2020, the Corporation was party to agreements to lease 11 Airbus A321neos for delivery up to 2023. The Corporation also had 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, in particular related to hotel rooms and information technology service contracts entered into in the normal course of business. The following table presents the minimum payments due under leases for aircraft to be delivered over the next few years and leases with a term of less than 12 months and/or for low value assets, as well as the purchase obligations:

| Year ended October 31 | 2021          | 2022          | 2023          | 2024          | 2025          | 2026 and<br>up | Total          |
|-----------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                       | \$            | \$            | \$            | \$            | \$            | \$             | \$             |
| Leases                | 20,344        | 48,738        | 70,718        | 70,618        | 70,618        | 566,836        | 847,872        |
| Purchase obligations  | 9,690         | 7,347         | 4,224         | 2,648         | 4,750         | -              | 28,659         |
|                       | <b>30,034</b> | <b>56,085</b> | <b>74,942</b> | <b>73,266</b> | <b>75,368</b> | <b>566,836</b> | <b>876,531</b> |

### Litigation

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

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

### Other

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately \$16,200, as the Corporation intends to vigorously defend itself with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid \$15,100 to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount is recognized as income taxes receivable as at October 31, 2020 and 2019.

## **Note 25 Guarantees**

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

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

Notes 7, 9, 14, 23 and 24 to the consolidated financial statements provide information about some of these agreements. The following constitutes additional disclosure.

### **Leases**

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

### **Collateral security contracts**

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2020, the total amount of these guarantees unsecured by deposits was \$468. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2020, no amounts had been accrued with respect to the above-mentioned agreements.

### **Irrevocable credit facility unsecured by deposits**

The Corporation has a guarantee facility that is renewable in 2021. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of \$35,000. As at October 31, 2020, \$22,758 had been drawn down under the facility [\$24,350 in 2019].

## **Note 26 Segmented disclosure**

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