

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Notes	As at July 31, 2022 \$	As at October 31, 2021 \$
ASSETS			
Cash and cash equivalents		411,349	433,195
Cash and cash equivalents in trust or otherwise reserved	4	213,453	139,583
Trade and other receivables	5	340,912	108,857
Income taxes receivable		12,816	1,120
Inventories		19,503	10,514
Prepaid expenses		31,140	16,465
Derivative financial instruments		1,320	—
Current portion of deposits	6	28,419	10,130
Current assets		1,058,912	719,864
Cash and cash equivalents reserved	4	31,273	30,728
Deposits	6	148,479	112,044
Income taxes receivable	17	4,928	15,100
Property, plant and equipment	7	1,032,035	974,229
Intangible assets		13,939	16,849
Investment	8	8,587	9,476
Deferred financing costs		12,406	19,368
Non-current assets		1,251,647	1,177,794
		2,310,559	1,897,658
LIABILITIES			
Trade and other payables		281,544	141,413
Income taxes payable		1,803	1,354
Customer deposits and deferred revenues		585,641	292,158
Current portion of lease liabilities	9	120,284	171,557
Current portion of liability related to warrants	10	22,860	20,622
Current portion of provision for return conditions	11	1,280	3,065
Current liabilities		1,013,412	630,169
Long-term debt and lease liabilities	9	1,576,491	1,247,981
Liability related to warrants	10	9,792	15,935
Deferred government grant	9	174,193	167,394
Provision for return conditions	11	142,537	123,179
Other liabilities	12	27,724	27,497
Deferred tax liabilities		628	613
Non-current liabilities		1,931,365	1,582,599
NEGATIVE EQUITY			
Share capital	13	221,610	221,012
Share-based payment reserve		16,036	15,948
Deficit		(863,974)	(544,881)
Cumulative exchange differences		(7,890)	(7,189)
		(634,218)	(315,110)
		2,310,559	1,897,658

See accompanying notes to the interim unaudited condensed consolidated financial statements

On behalf of the Board,

Director

Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended July 31		Nine-month periods ended July 31	
		2022 \$	2021 \$	2022 \$	2021 \$
Revenues	14	508,304	12,548	1,068,899	62,037
Operating expenses					
Aircraft fuel		205,810	183	323,591	9,454
Salaries and employee benefits	14	91,024	25,775	197,130	74,965
Costs of providing tourism services		78,060	6,593	283,692	21,380
Airport and navigation fees		44,344	171	80,165	5,987
Aircraft maintenance		32,223	11,204	79,759	40,888
Sales and distribution costs		31,845	2,427	76,805	4,883
Aircraft rent	9	2,386	—	5,477	—
Other airline costs		53,715	2,244	100,924	14,412
Other		23,332	14,378	62,369	41,809
Share of net loss of a joint venture	8	610	501	1,415	3,782
Depreciation and amortization		38,173	47,355	112,144	120,117
Special items	15	—	85	—	7,256
		601,522	110,916	1,323,471	344,933
Operating loss		(93,218)	(98,368)	(254,572)	(282,896)
Financing costs	9	27,158	18,069	74,088	55,239
Financing income		(3,047)	(916)	(5,599)	(3,472)
Change in fair value of fuel-related derivatives and other derivatives		6,908	(2,062)	8,628	(10,691)
Revaluation of liability related to warrants	10	(14,506)	9,435	(13,697)	10,192
Gain on long-term debt modification	9	—	—	(22,191)	—
Loss (gain) on asset disposals	16	13	(913)	(4,005)	(19,810)
Foreign exchange (gain) loss		(1,706)	15,939	27,715	(46,704)
Loss before income tax expense		(108,038)	(137,920)	(319,511)	(267,650)
Income taxes (recovery)					
Current	17	(1,566)	139	(418)	374
Deferred		—	—	—	75
		(1,566)	139	(418)	449
Net loss for the period		(106,472)	(138,059)	(319,093)	(268,099)
Net income (loss) attributable to:					
Shareholders		(106,472)	(138,125)	(319,093)	(268,220)
Non-controlling interests		—	66	—	121
		(106,472)	(138,059)	(319,093)	(268,099)
Loss per share	13				
Basic		(2.82)	(3.66)	(8.44)	(7.11)
Diluted		(2.82)	(3.66)	(8.44)	(7.11)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Quarters ended July 31		Nine-month periods ended July 31	
	2022 \$	2021 \$	2022 \$	2021 \$
Net loss for the period	(106,472)	(138,059)	(319,093)	(268,099)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	—	—	—	—
Reclassification to net income (loss)	—	—	—	447
Deferred taxes	—	—	—	75
	—	—	—	522
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries for the period	1,224	3,149	(341)	756
Reclassification to net income (loss)	—	—	(360)	—
	1,224	3,149	(701)	756
Total other comprehensive income (loss)	1,224	3,149	(701)	1,278
Comprehensive loss for the period	(105,248)	(134,910)	(319,794)	(266,821)
Comprehensive income (loss) attributable to:				
Shareholders	(105,248)	(135,521)	(319,794)	(264,187)
Non-controlling interests	—	611	—	(2,634)
	(105,248)	(134,910)	(319,794)	(266,821)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Share capital \$	Share- based payment reserve \$	Retained earnings (deficit) \$	Accumulated other comprehensive income (loss)		Total \$	Non- controlling interests \$	Total equity \$
				Unrealized gain (loss) on cash flow hedges \$	Cumulative exchange differences \$			
Balance as at October 31, 2020	221,012	15,948	(164,138)	(522)	(5,993)	66,307	—	66,307
Net income (loss) for the period	—	—	(268,220)	—	—	(268,220)	121	(268,099)
Other comprehensive income (loss)	—	—	—	522	3,511	4,033	(2,755)	1,278
Comprehensive income (loss) for the period	—	—	(268,220)	522	3,511	(264,187)	(2,634)	(266,821)
Fair value changes of non- controlling interest liabilities	—	—	9,413	—	—	9,413	(9,413)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	9,292	9,292
Reclassification of non-controlling interest exchange difference	—	—	—	—	(2,755)	(2,755)	2,755	—
	—	—	9,413	—	(2,755)	6,658	2,634	9,292
Balance as at July 31, 2021	221,012	15,948	(422,945)	—	(5,237)	(191,222)	—	(191,222)
Net loss for the period	—	—	(121,339)	—	—	(121,339)	—	(121,339)
Other comprehensive loss	—	—	(597)	—	(699)	(1,296)	(1,253)	(2,549)
Comprehensive loss for the period	—	—	(121,936)	—	(699)	(122,635)	(1,253)	(123,888)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,253)	(1,253)	1,253	—
	—	—	—	—	(1,253)	(1,253)	1,253	—
Balance as at October 31, 2021	221,012	15,948	(544,881)	—	(7,189)	(315,110)	—	(315,110)
Net loss for the period	—	—	(319,093)	—	—	(319,093)	—	(319,093)
Other comprehensive loss	—	—	—	—	(701)	(701)	—	(701)
Comprehensive loss for the period	—	—	(319,093)	—	(701)	(319,794)	—	(319,794)
Issued from treasury	598	—	—	—	—	598	—	598
Share-based payment expense	—	88	—	—	—	88	—	88
	598	88	—	—	—	686	—	686
Balance as at July 31, 2022	221,610	16,036	(863,974)	—	(7,890)	(634,218)	—	(634,218)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

[Note 2, Uncertainty related to going concern]

Unaudited (in thousands of Canadian dollars)	Notes	Quarters ended July 31		Nine-month periods ended July 31	
		2022 \$	2021 \$	2022 \$	2021 \$
OPERATING ACTIVITIES					
Net loss for the period		(106,472)	(138,059)	(319,093)	(268,099)
Operating items not involving an outlay (receipt) of cash:					
Depreciation and amortization		38,173	47,355	112,144	120,117
Change in fair value of fuel-related derivatives and other derivatives		6,908	(2,062)	8,628	(10,691)
Revaluation of liability related to warrants		(14,506)	9,435	(13,697)	10,192
Gain on long-term debt modification	9	—	—	(22,191)	—
Loss (gain) on asset disposals	16	13	(913)	(4,005)	(19,810)
Foreign exchange (gain) loss		(1,706)	15,939	27,715	(46,704)
Share of net loss of a joint venture	8	610	501	1,415	3,782
Capitalized interest on long term debt and lease liabilities		11,714	12,540	34,016	26,926
Asset impairment		—	1,928	—	19,873
Deferred taxes	15	—	—	—	75
Employee benefits		480	516	1,440	2,053
Share-based payment expense		30	—	88	—
		(64,756)	(52,820)	(173,540)	(162,286)
Net change in non-cash working capital balances related to operations		19,595	(214,035)	77,271	(315,697)
Net change in provision for return conditions		1,722	8,639	13,098	(4,736)
Net change in other assets and liabilities related to operations		(19,285)	(25,041)	(34,622)	(7,468)
Cash flows related to operating activities		(62,724)	(283,257)	(117,793)	(490,187)
INVESTING ACTIVITIES					
Additions to property, plant and equipment and other intangible assets		(9,992)	(277)	(24,456)	(4,034)
Decrease (increase) in cash and cash equivalents reserved		—	28,372	(545)	25,540
Proceeds from sale of assets	16	—	—	—	422
Consideration paid for the buyback of a non-controlling interest		—	(15,000)	—	(15,000)
Capital contribution to a joint venture	8	—	—	—	(821)
Cash flows related to investing activities		(9,992)	13,095	(25,001)	6,107
FINANCING ACTIVITIES					
Proceeds from borrowings	9	4,623	365,122	213,217	534,973
Transaction costs		(2,614)	—	(2,614)	(3,242)
Proceeds from issuance of shares		337	—	598	—
Repayment of long-term debt		(3,344)	—	(3,344)	—
Repayment of lease liabilities	9	(24,191)	(12,093)	(83,600)	(43,733)
Cash flows related to financing activities		(25,189)	353,029	124,257	487,998
Effect of exchange rate changes on cash and cash equivalents		(1,956)	369	(3,309)	(974)
Net change in cash and cash equivalents		(99,861)	83,236	(21,846)	2,944
Cash and cash equivalents, beginning of period		511,210	346,141	433,195	426,433
Cash and cash equivalents, end of period		411,349	429,377	411,349	429,377
Supplementary information (as reported in operating activities)					
Net income taxes paid (recovered)		350	(1,209)	821	(2,506)
Interest paid		3,900	2,836	11,549	14,758

See accompanying notes to the interim unaudited condensed consolidated financial statements

Transat A.T. inc.

Notes to interim condensed consolidated financial

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

Note 1 Corporate information

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2022 were approved by the Corporation's Board of Directors on September 7, 2022.

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

Note 2 Uncertainty related to going concern

As part of the preparation of the financial statements, management is responsible for identifying any event or situation that may cast significant doubt on the Corporation's ability to continue as a going concern. Significant doubt regarding the Corporation's ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Corporation will be unable to honour its obligations as they fall due during a period of at least, and not limited to, 12 months from July 31, 2022. If the Corporation concludes that events or conditions cast significant doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible significant doubt.

Due to the global COVID-19 pandemic, the Corporation's operations have been severely disrupted and its financial results significantly impacted. As a result, the Corporation reported a net loss of \$319,093 and generated negative cash flow related to operations totalling \$117,793 for the nine-month period ended July 31, 2022. However, as discussed in Note 9, the Corporation renegotiated its agreement with the Government of Canada in order to borrow up to \$843,300 in additional liquidity through the Large Enterprise Emergency Financing Facility ("LEEFF"). The ratios applicable to the credit facilities are suspended until October 29, 2023, (previously October 30, 2022). In total, the available financing amounts to a maximum of \$963,300, of which \$862,216 was drawn down as at July 31, 2022.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions introduced by numerous countries, vaccination and testing requirements in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the 2022 winter season, the Corporation rolled out a reduced winter program that had to be adjusted following the emergence of the Omicron variant and new restrictive measures implemented by Canada and other countries. For the summer 2022 season, the Corporation has also deployed a reduced program although much more similar to pre-pandemic levels. While the situation considerably improved since the second quarter, the Corporation still cannot predict with certainty all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. Since the beginning of the pandemic, the Corporation implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. Although the lifting of certain restrictions has allowed a significant resumption of operations during 2022, the Corporation does not expect to reach the pre-pandemic level before 2023.

The Corporation's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the impact of the COVID-19 pandemic and related government restrictions on the Corporation's operations and liquidity (including the Corporation's ability to resume normal operations at a sufficient level), the Corporation's ability to increase revenues to generate positive cash flows from operations, and the continued support of its financial institutions, suppliers, lessors, credit card processors and other creditors. As discussed above, the Corporation entered into an agreement with the Government of Canada to borrow additional liquidity up to \$843,300 through the LEEFF, bringing the total available financing to a maximum of \$963,300. The credit facilities in place are subject to certain conditions including requirements relating to minimum unrestricted cash and certain financial ratios applicable once again as of October 30, 2023. In case of non-compliance, the maturity of the Corporation's borrowings could be accelerated. Management continues to assess its liquidity needs and the capital structure and is not ruling out any options that could provide greater financial flexibility to the Corporation.

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

There can be no assurance that the Corporation will be able to borrow sufficient additional amounts to meet its future needs, or that it will be able to do so on acceptable terms or that financial institutions, suppliers, lessors, credit card processors and other creditors will continue to support the Corporation. The COVID-19 pandemic significantly strained the Corporation's ability to return to profitability. As a result, there can be no assurance that the Corporation will be able to generate positive cash flows from operating activities in the next 12 months.

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

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to be in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities, and meet its obligations in the normal course of business. These interim condensed consolidated financial statements as at July 31, 2022 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 interim condensed consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada. These interim condensed consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*.

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

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

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

Significant accounting estimates and judgments

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

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

Impairment of non-financial assets

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

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

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

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

Provision for return conditions

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

Liability related to warrants

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

Transat A.T. inc.

Notes to interim condensed consolidated financial

The liability related to warrants is remeasured at the end of each period at fair value through profit or loss. It is classified in Level 3 of the fair value hierarchy. At each reporting date, the fair value of the liability related to warrants is determined using the Black-Scholes model, which uses significant inputs that are not based on observable market data, hence the classification in Level 3.

Changes in accounting method

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

In August 2020, the IASB published amendments to the following standards: IFRS 9, *Financial Instruments*; IAS 39, *Financial Instruments - Recognition and Measurement*; IFRS 7, *Financial Instruments - Disclosures*; IFRS 4, *Insurance Contracts*; and IFRS 16, *Leases*. The amendments focus on the effects on financial statements when a company replaces the old benchmark rate with an alternative as a result of the reform.

For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in contractual cash flows is a direct result of IBOR reform and occurs on an economically equivalent basis to the previous determination, the change will result in no immediate recognition of gain or loss. For hedge accounting, the practical expedient allows hedging relationships that are directly affected by the reform to continue. However, it may be necessary to account for additional inefficiencies.

The Corporation adopted these amendments on November 1, 2021 by applying the practical expedient. The adoption of these amendments did not have any impact on the Corporation's consolidated financial statements as of the date of first application or for the comparative periods.

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7, Statement of Cash Flows)

In April 2022, the IFRS Interpretations Committee finalized the agenda decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7, Statement of Cash Flows)*, which clarified that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash. Accordingly, such demand deposits should be presented as a component of cash and cash equivalents in the statements of cash flows and financial position, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7, *Statement of Cash Flows*.

The application of this agenda decision did not have any impact on the Corporation's consolidated financial statements.

Note 4 Cash and cash equivalents in trust or otherwise reserved

As at July 31, 2022, cash and cash equivalents in trust or otherwise reserved included \$185,966 [\$128,154 as at October 31, 2021] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of \$58,760, \$31,273 of which was recorded as non-current assets [\$42,157 as at October 31, 2021, \$30,728 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 5 Trade and other receivables

	As at July 31, 2022	As at October 31, 2021
	\$	\$
Credit card processors receivables	292,374	77,733
Government receivables	20,301	13,111
Trade receivables	14,834	9,775
Cash receivable from lessors	3,259	1,610
Other receivables	10,144	6,628
	340,912	108,857

Transat A.T. inc.

Notes to interim condensed consolidated financial

Government receivables as at July 31, 2022 did not include any wage subsidy amounts related to the Tourism and Hospitality Recovery Program ("THRP") or the Hardest-Hit Business Recovery Program ("HHBRP") [Government receivables as at October 31, 2021 included a wage subsidy of \$1,296 related to the Canada Emergency Wage Subsidy ("CEWS")]. The THRP and the HHBRP [Note 14] expired on May 7, 2022.

Note 6 Deposits

	As at July 31, 2022 \$	As at October 31, 2021 \$
Maintenance deposits with lessors	114,569	80,777
Deposits on leased aircraft and engines	34,753	33,926
Deposits with suppliers	27,576	7,471
	176,898	122,174
Less current portion	28,419	10,130
	148,479	112,044

Note 7 Property, plant and equipment

	Fleet \$	Aircraft equipment \$	Office furniture and equipment \$	Land, building and leasehold improvements \$	Right of use Fleet \$	Right of use Real estate and other \$	Total \$
Cost							
Balance as at October 31, 2021	117,118	135,486	57,193	78,684	1,300,068	122,450	1,810,999
Additions	537	5,208	2,256	5	158,198	691	166,895
Disposals	(4,585)	(36)	(144)	—	(32,140)	(712)	(37,617)
Write-offs	—	—	(658)	(1,330)	(8,874)	(7,085)	(17,947)
Exchange difference	—	—	—	1,609	—	(153)	1,456
Balance as at July 31, 2022	113,070	140,658	58,647	78,968	1,417,252	115,191	1,923,786
Accumulated depreciation							
Balance as at October 31, 2021	67,277	78,803	43,180	30,168	539,787	77,555	836,770
Depreciation	6,093	5,941	3,423	1,420	85,018	4,964	106,859
Disposals	(4,585)	(36)	(136)	—	(28,809)	(301)	(33,867)
Write-offs	—	—	(658)	(1,330)	(8,874)	(7,085)	(17,947)
Exchange difference	—	—	14	32	—	(110)	(64)
Balance as at July 31, 2022	68,785	84,708	45,823	30,290	587,122	75,023	891,751
Net book value as at July 31, 2022	44,285	55,950	12,824	48,678	830,130	40,168	1,032,035

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	Fleet \$	Aircraft equipment \$	Office furniture and equipment \$	Land, building and leasehold improvements \$	Right of use Fleet \$	Right of use Real estate and other \$	Total \$
Cost							
Balance as at October 31, 2020	162,773	136,183	58,649	82,966	1,457,559	148,971	2,047,101
Additions	3,160	713	580	—	241,754	432	246,639
Disposals	(46,562)	(790)	(174)	—	(379,552)	(19,453)	(446,531)
Write-offs	(69)	(620)	(1,741)	(773)	(12,760)	(7,095)	(23,058)
Depreciation	(2,184)	—	—	—	(6,933)	—	(9,117)
Exchange difference	—	—	(121)	(3,509)	—	(405)	(4,035)
Balance as at October 31, 2021	117,118	135,486	57,193	78,684	1,300,068	122,450	1,810,999
Accumulated depreciation							
Balance as at October 31, 2020	102,260	71,272	39,844	29,591	806,496	81,256	1,130,719
Depreciation	10,808	8,850	5,225	1,394	117,268	7,045	150,590
Disposals	(45,722)	(699)	(60)	—	(371,217)	(3,367)	(421,065)
Write-offs	(69)	(620)	(1,741)	(773)	(12,760)	(7,095)	(23,058)
Exchange difference	—	—	(88)	(44)	—	(284)	(416)
Balance as at October 31, 2021	67,277	78,803	43,180	30,168	539,787	77,555	836,770
Net book value as at October 31, 2021	49,841	56,683	14,013	48,516	760,281	44,895	974,229

During the nine-month period ended July 31, 2022, the Corporation early returned to the lessor a leased aircraft, namely an Airbus A330. This return resulted in disposals of property, plant and equipment and accumulated amortization of \$21,457. In addition, the Corporation took delivery of two Airbus A321LR aircraft.

Note 8 Investment

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

	\$
Balance as at October 31, 2021	9,476
Share of net loss	(1,415)
Translation adjustment	526
Balance as at July 31, 2022	8,587

The investment was translated at the USD/CAD closing rate of 1.2802 as at July 31, 2022 [1.2397 as at October 31, 2021].

Note 9 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at July 31, 2022 and October 31, 2021. The current portion of lease liabilities included deferred rent payments related to aircraft leases and real estate leases of \$9,034 and \$592, respectively [\$80,989 and \$2,340 in 2021, respectively]:

	Final maturity	Weighted average effective interest rate %	As at July 31, 2022 \$	As at October 31, 2021 \$
Long-term debt				
Secured debt - LEEFF	2024	5.55	77,241	43,827
Unsecured debt - LEEFF	2026	13.26	275,986	157,985
Unsecured credit facility - Travel credits	2028	13.82	177,290	140,590
Revolving credit facility	2024	7.40	49,666	49,805
Subordinated credit facility	2024	12.69	69,362	70,973
Long-term debt		11.99	649,545	463,180
Lease liabilities				
Fleet	2022-2034	5.81	1,002,926	904,922
Real estate and other	2022-2037	5.42	44,304	51,436
Lease liabilities		5.79	1,047,230	956,358
Total long-term debt and lease liabilities		8.16	1,696,775	1,419,538
Current portion of lease liabilities			(120,284)	(171,557)
Long-term debt and lease liabilities			1,576,491	1,247,981

Funding from the Government of Canada

On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada. The new agreement allows the Corporation to borrow up to \$843,300 in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF), an increase of \$100,000 from the original agreement. Under the new agreement, Transat also has access to an additional credit facility of up to \$50,000 subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, which Transat uses on an as-needed basis, are as follows:

Secured debt - LEEFF

On July 29, 2022, the Corporation renegotiated its secured LEEFF financing agreement in order to borrow additional liquidity of \$20,000, bringing the total amount of the credit facility to \$98,000. The maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms of the agreement remain unchanged. The non-revolving facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions, and continues to bear interest at bankers' acceptance rate plus a premium of 4.5%, or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. During the nine-month period ended July 31, 2022, the Corporation drew down a total amount of \$34,000. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and covenants from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, an amount of \$78,000 was drawn down [\$44,000 as at October 31, 2021] with a carrying value of \$77,241.

The Corporation concluded that the change related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded as at July 31, 2022 related to this amendment.

In addition, the additional liquidity granted under the secured LEEFF financing agreement amended on July 29, 2022 has been treated as a new tranche of existing long-term debt. Future draw downs will be accounted for in the same manner as previous draw downs.

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The financing arrangement provides Transat with an additional credit facility of up to \$10,000, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

Unsecured debt - LEEFF

On March 9, 2022 and July 29, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. Accordingly, on July 29, 2022, the Corporation obtained additional liquidity of \$80,000, bringing the total unsecured, non-revolving credit facility to \$392,000. Under the agreement amended on March 9, 2022, the credit facility now bears interest at 5.0% until December 31, 2023 (previously until April 29, 2022), increasing to 8.0% until December 31, 2024 (previously until April 29, 2023) and increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024 (previously until April 29, 2023). The maturity date for the initial amount of \$312,000 of the credit facility remains April 29, 2026 while the additional amount of \$80,000 will mature on July 29, 2027. In the event of a change in control, this credit facility becomes immediately due and payable.

The Corporation concluded that the modifications related to the LEEFF unsecured financing were non-substantial, as defined in IFRS 9, *Financial Instruments*. Accordingly, as at March 9, 2022, the carrying amount of the LEEFF unsecured financing facility was adjusted downward to the revised amount of future cash flows discounted using the original effective interest rate. The \$22,191 adjustment was recorded as a gain on long-term debt modification and was calculated as follows:

	\$
Financial liability carrying amount before the modification as at March 9, 2022	265,906
Financial liability carrying amount under the new terms as at March 9, 2022	243,715
Gain on long-term debt modification	(22,191)

The additional liquidity granted under the agreement related to the LEEFF unsecured financing amended on July 29, 2022 will be treated as a new tranche of existing long-term debt. Future drawdowns will be accounted for in the same manner as previous drawdowns.

The financing arrangement also provides Transat with an additional credit facility of up to \$40,000, subject to certain conditions precedent to be met on or before July 29, 2023, including obtaining additional third-party financing.

As of July 31, 2022, \$312,000 was drawn with a carrying amount of \$275,986. During the nine-month period ended July 31, 2022, the Corporation drew down a total of \$136,000. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a deduction from the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of operations under Change in fair value of fuel and other derivatives. As at July 31, 2022, the fair value of the prepayment option is \$67 [\$1,377 as at October 31, 2021] and was determined using a trinomial interest rate tree based on the Hull-White model.

As part of the amended financing package, the Corporation issued an additional 4,687,500 warrants, bringing the total warrants to 17,687,500 [Note 10] in connection with the unsecured financing - LEEFF.

Unsecured credit facility related to travel credits

On March 9, 2022, the Corporation renegotiated its agreement with the Government of Canada under the unsecured credit facility related to travel credits in order to borrow additional funds up to a maximum of \$43,300. The Corporation has now access to an amount of \$353,300 under the unsecured credit facility to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID-19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt - LEEFF and the unsecured debt - LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

Additional liquidity obtained under the unsecured credit facility related to travel credits was treated as a new tranche of existing long-term debt and was accounted for in the same way as previous tranches.

As at July 31, 2022, the credit facility was fully drawn and its carry amount stood at \$177,290. An amount of \$174,193 was also recognized as deferred government grant related to these drawdowns. During the nine-month period ended July 31, 2022, an amount of \$13,635 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

Other credit facilities

Revolving credit facility

On July 29, 2022, the Corporation renegotiated its \$50,000 revolving term credit agreement for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. This agreement can be extended for one year on each anniversary date subject to lender approval and becomes immediately due and payable in the event of a change of control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian and U.S. dollars. The agreement is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at LIBOR (London Interbank Offered Rate) in U.S. dollars, plus a premium of 4.5% or at the financial institution's prime rate, plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and conditions from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, the credit facility was fully drawn.

The Corporation concluded that the change related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded as at July 31, 2022 related to this amendment.

Subordinated credit facility

On July 29, 2022, the Corporation renegotiated its \$70,000 subordinated credit facility for its operations. Under the amended agreement, the maturity date was extended to April 29, 2024 (previously April 29, 2023). The other terms remain unchanged. In the event of a change of control, the agreement becomes immediately due and payable. The agreement is secured by a second ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate plus a premium of 6.0% or at the financial institution's prime rate, plus a premium of 5.0%. Until October 29, 2023 (previously October 31, 2022), an additional compounding premium of 3.75% will be added to the interest. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and conditions. The Corporation now benefits from a waiver of certain financial ratios and conditions from its lenders until October 29, 2023 (previously October 30, 2022). As at July 31, 2022, the credit facility was fully drawn.

The Corporation concluded that the change related to the extension of the maturity date was non-substantial as defined by IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded as at July 31, 2022 related to this amendment.

Revolving credit facility agreement – Letters of credit

The Corporation has a \$74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at July 31, 2022, \$54,895 of the facility was drawn [\$38,161 as at October 31, 2021], of which \$31,273 was to secure the obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure the obligations under senior executive defined benefit pension agreements will be drawn.

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Financing costs

Interest expense for the periods ended July 31, 2022 and 2021 is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest on lease liabilities	11,288	11,117	33,751	33,531
Interest on long-term debt	13,818	6,466	35,374	8,272
Accretion on provision for return conditions	983	347	2,034	684
Other interest	1,069	139	2,929	12,752
Financing costs	27,158	18,069	74,088	55,239

Other interest for the nine-month period ended July 31, 2021 consisted mainly of interest expense and standby and arrangement fees related to the \$70,000 subordinated credit facility.

Rent expense

Rent expense for the periods ended July 31, 2022 and 2021 is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Variable lease payments	2,386	—	5,477	—
Aircraft rent	2,386	—	5,477	—
Variable lease payments	383	—	791	—
Short-term leases	1,005	412	2,592	1,307
Low value leases	81	190	255	419
	3,855	602	9,115	1,726

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the nine-month period ended July 31, 2022:

	Cash flows	Non-cash changes	Total
	\$	\$	\$
Balance as at October 31, 2021			956,358
Repayments	(83,600)	—	(83,600)
New lease liabilities (new contracts and amendments)	—	147,163	147,163
Interest portion of deferred rent payments	—	9,892	9,892
Offset of rent payments and lease terminations	—	(9,653)	(9,653)
Exchange difference	—	27,070	27,070
Balance as at July 31, 2022	(83,600)	174,472	1,047,230

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Maturity analysis

Principal and interest payments on long-term debt and lease liabilities as at July 31, 2022 are detailed as follows. Interest on long-term debt only includes interest payable as at July 31, 2022. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.2802 as at July 31, 2022:

Year ending October 31	2022	2023	2024	2025	2026	2027 and up	Total
	\$	\$	\$	\$	\$	\$	\$
Long-term debt obligations	—	—	196,269	—	275,986	177,290	649,545
Fleet	44,858	165,674	167,390	151,111	141,930	595,457	1,266,420
Real estate and other	2,314	3,830	3,220	5,701	5,352	41,001	61,418
Lease liabilities	47,172	169,504	170,610	156,812	147,282	636,458	1,327,838
Total	47,172	169,504	366,879	156,812	423,268	813,748	1,977,383

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

Note 10 Liability related to warrants

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

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

Warrants are to vest in proportion to the drawings that will be made. Under the terms of the LEEFF unsecured financing agreement, if the loan was repaid prior to December 31, 2023 (previously April 29, 2022), 50% of the vested warrants would be forfeited.

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

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

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

- a maximum of 9,474,770 warrants could be exercised through the issuance of shares;
- 8,212,730 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,474,770 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,474,770 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

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

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

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

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

The change in the liability related to warrants for the nine-month period ended July 31, 2022 is detailed as follows:

	As at July 31, 2022	As at October 31, 2021
	\$	\$
Opening balance	36,557	–
Issuance	9,792	41,491
Revaluation of liability related to warrants	(13,697)	(4,934)
Closing balance	32,652	36,557
Current liability	22,860	20,622
Non-current liability	9,792	15,935
Closing balance	32,652	36,557

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at July 31, 2022, the primary unobservable input used in the model is expected volatility, which is estimated at 53.8%. A 5.0% increase in the expected volatility used in the pricing model would result in a total increase of \$2,386 in the liability related to the warrants as at July 31, 2022.

Note 11 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the nine-month period ended July 31, 2022 is detailed as follows:

	As at July 31, 2022	As at October 31, 2021
	\$	\$
Opening balance	126,244	143,598
Additional provisions	31,076	28,574
Change in estimate	(8,393)	(18,527)
Utilization of provision	(4,794)	–
Unused amounts reversed	(2,350)	(28,384)
Accretion	2,034	983
Closing balance	143,817	126,244
Current provisions	1,280	3,065
Non-current provisions	142,537	123,179
Closing balance	143,817	126,244

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Changes in estimates mainly include changes to the discount rate for the provision for return conditions. As at July 31, 2022, the unused amounts reversed correspond to the reversals of the provision for return conditions for three aircraft, including one aircraft whose lease was terminated and two aircraft that were returned early in 2021.

As at October 31, 2021, the unused amounts recovered included \$7,521 related to future repairs to aircraft that will not be made, \$6,610 related to the leases that matured during the year and \$14,253 related to reversals of provisions for return conditions for aircraft whose leases were terminated.

Note 12 Other liabilities

	As at July 31, 2022	As at October 31, 2021
	\$	\$
Employee benefits	27,724	27,120
Other liabilities	—	377
	27,724	27,497

Note 13 Equity

Authorized share capital

CLASS A VARIABLE VOTING SHARES

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

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

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

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Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

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

	Number of shares	\$
Balance as at October 31, 2020	37,747,090	221,012
Balance as at October 31, 2021	37,747,090	221,012
Issued from treasury	151,990	598
Balance as at July 31, 2022	37,899,080	221,610

As at July 31, 2022, the number of Class A Shares and Class B Shares stood at 1,323,937 and 36,575,143, respectively [1,694,125 and 36,052,965, respectively, as at October 31, 2021].

Stock option plan

	Number of options	Weighted average price (\$)
Balance as at October 31, 2021	1,108,262	7.55
Granted	150,000	4.18
Cancelled	(672,898)	7.77
Expired	(104,517)	7.86
Balance as at July 31, 2022	480,847	6.13
Options exercisable as at July 31, 2022	180,847	9.01

Warrants

No warrants were exercised during the quarter and nine-month period ended July 31, 2022. Accordingly, the Corporation issued no shares related to the exercise of warrants [Note 10].

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Loss per share

Basic and diluted loss per share were calculated as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2022	2021	2022	2021
(in thousands of dollars, except per share data)	\$	\$	\$	\$
NUMERATOR				
Net loss attributable to shareholders used in computing basic loss per share	(106,472)	(138,125)	(319,093)	(268,220)
Effect of deemed conversion of warrants	(14,506)	9,435	(13,697)	10,192
Less anti-dilutive impact	14,506	(9,435)	13,697	(10,192)
Net loss attributable to shareholders used in computing diluted loss per share	(106,472)	(138,125)	(319,093)	(268,220)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	37,795	37,747	37,795	37,747
Effect of potential dilutive securities				
Stock options	—	—	9	—
Warrants	—	2,629	—	2,087
Less anti-dilutive impact	—	(2,629)	(9)	(2,087)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	37,795	37,747	37,795	37,747
Loss per share				
Basic	(2.82)	(3.66)	(8.44)	(7.11)
Diluted	(2.82)	(3.66)	(8.44)	(7.11)

During the quarter and nine-month period ended July 31, 2022, 480,847 and 330,847 outstanding stock options, respectively, were excluded from the calculation since the exercise price exceeded the average share price for the period [958,262 stock options for the quarter and nine-month period ended July 31, 2021].

Note 14 Additional disclosure on revenue and expenses

Breakdown of revenue from contracts with customers

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Customers				
Transatlantic	297,705	487	365,182	6,775
Americas	205,488	11,269	690,964	48,697
Other	5,111	792	12,753	6,565
Total revenues	508,304	12,548	1,068,899	62,037

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Government grants

During the nine-month period ended July 31, 2022, the Corporation recognized a deduction of \$24,403 from Salaries and employee benefits related to the new subsidy programs (THRP and HHBRP). During the quarter and nine-month period ended July 31, 2021, the Corporation had recognized deductions of \$33,766 and \$101,282, respectively, from Salaries and employee benefits related to the CEWS program, including \$7,184 and \$26,975, respectively, for active employees.

Note 15 Special items

	Quarters ended July 31		Nine-month periods ended July 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Special items related to the transaction with Air Canada				
Termination payment	—	—	—	(12,500)
Professional fees	—	—	—	6,106
Reversal of compensation expense	—	(1,843)	—	(6,223)
	—	(1,843)	—	(12,617)
Other special items				
Impairment of contract costs and other assets	—	1,928	—	19,873
	—	1,928	—	19,873
	—	85	—	7,256

Special items related to the Air Canada transaction

Special items generally include restructuring charges and other significant unusual items as well as impairment losses. For the nine-month period ended July 31, 2021, the agreed upon amount of \$12,500 in termination fees for the arrangement agreement settled by Air Canada, \$6,106 in professional fees as well as \$6,223 in reversals of compensation expenses were recorded in connection with the terminated transaction with Air Canada. The compensation expenses were mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. Compensation expenses recorded as special items resulted from Air Canada's offer, which made it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans would be met, and also change the vesting period. Following the termination of the arrangement agreement with Air Canada, the Corporation recognized reversals of compensation expenses to reduce or even cancel certain provisions related to stock-based compensation plans, for which the performance criteria threshold has not been met.

Other special items

For the nine-month period ended July 31, 2021, special items included \$19,873 for impairment of contract balances related to commissions, costs related to the global distribution system and credit card fees that will not be reimbursed to the Corporation in connection with refunds made to travellers.

Note 16 Loss (gain) on asset disposals

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

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

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During the nine-month period ended July 31, 2021, the Corporation recognized, among others, a \$2,552 gain on lease termination related to the partial termination of real estate leases. Also, due to the significant reduction in capacity related to the COVID-19 pandemic, the Corporation early returned three leased aircraft to the lessors: two Airbus A330s and one Boeing 737-800. The gain on asset disposals of \$19,810 recognized during the period ended July 31, 2021 was mainly attributable to these lease terminations, which led to the recognition of a \$17,042 gain, since the total carrying amount of assets related to these leased aircraft was written off during the year ended October 31, 2020.

Note 17 Commitments and contingencies

Leases and other commitments

As at July 31, 2022, the Corporation was party to agreements to lease five Airbus A321neos for delivery up to 2024. The Corporation also has leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations under various contracts with suppliers, particularly in connection with information technology service contracts, undertaken in the normal course of business. The following table sets out the minimum payments due under aircraft leases to be delivered over the next few years and under leases with a term of less than 12 months and/or for low value assets, as well as purchase obligations:

Year ending October 31	2022	2023	2024	2025	2026	2027 and up	Total
	\$	\$	\$	\$	\$	\$	\$
Leases (aircraft and other)	155	16,505	36,742	38,595	57,578	598,221	747,796
Purchase obligations	2,296	4,627	2,950	4,750	—	—	14,623
	2,451	21,132	39,692	43,345	57,578	598,221	762,419

Litigation

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

As a result of the COVID-19 pandemic, the Corporation has been the subject of a number of petitions for class actions in connection with the reimbursement of customer deposits for airline tickets and packages that had to be cancelled. However, under the unsecured credit facility related to travel credits, travel credits issued as a result of flight cancellations arising from the COVID-19 pandemic were eligible for refund. Consequently, petitions for class actions that have not yet been settled may become moot. In any event, the Corporation has defended its position in the past and will continue to do so with vigour. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income (loss) and could have an unfavourable effect on cash. Nevertheless, the Corporation completed the process of reimbursing travel credits to customers who submitted a request, which could mitigate the impact of any unfavourable decision on cash flow and results.

Other

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

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The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. The Corporation had paid in this respect a total amount of \$15,100 to the tax authorities while challenging the notices assessment received. On August 23, 2022, the Corporation and the Canada Revenue Agency (CRA) came to an agreement on the tax treatment of the deductibility of ABCP-related tax losses. Under this settlement agreement, the Corporation recorded an income tax recovery of \$2,359 during the quarter ended July 31, 2022. The Corporation also expects to receive an amount of \$11,823 of which \$9,464 was already recorded as income taxes receivable. In addition, with respect to the settlement agreement, the Corporation expects to receive accrued interest, which will be recognized in the fourth quarter of the current year. Typically, a settlement agreement with the CRA leads to similar agreements with provincial tax authorities. However, no agreement with provincial tax authorities has been confirmed to date. If such agreements are entered into, the Corporation expects to receive from provincial tax authorities the balance of income taxes receivable of \$4,928 plus accrued interest receivable according to applicable prescribed tax rates. If not, the Corporation intends to defend itself vigorously and firmly believes that it has sufficient facts and arguments to ensure the final decision will be favourable.

Note 18 Guarantees

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

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

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

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2022, the total amount of these guarantees unsecured by deposits amounted to \$440. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2022, no amounts had been accrued with respect to the above-mentioned agreements.

Note 19 Segment disclosures

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

