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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2023, compared with the year ended October 31, 2022, and should be read in conjunction with the audited consolidated financial statements and notes thereto. Unless otherwise indicated, the information contained herein is dated as of December 13, 2023. You will find more information about us on Transat's website at www.transat.com and on SEDAR+ at www.sedarplus.ca, including the Attest Reports for the year ended October 31, 2023, and the Annual Information Form.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation, including those regarding its results, its financial position and its outlook for the future. These forward-looking statements are identified by the use of terms and phrases such as "anticipate" "believe" "could" "estimate" "expect" "intend" "may" "plan" "potential" "predict" "project" "will" "would", the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease and the lingering effects of the COVID-19 pandemic, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to adequately mitigate the Pratt & Whitney engine issues, maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, cybersecurity risks, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third-party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of this MD&A.

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

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

- The outlook whereby, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby, the current demand and pricing conditions should allow the Corporation to cope with a cost environment that remains volatile and subject to inflationary pressures.
- The outlook whereby, the Corporation is setting a fiscal 2024 adjusted EBITDA margin target range of 7.5% to 9%.
- The outlook whereby, for fiscal 2024, the Corporation intends to increase available capacity by 19% through recent and planned aircraft additions, as well as further improvements in fleet utilization.

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

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	2023 $	2022 $	2021 $
Operating income (loss)	**89,733**	(303,420)	(401,222)
Restructuring and transaction costs	**3,626**	847	(5,878)
Depreciation and amortization	**186,355**	154,212	193,215
Premiums related to derivatives that matured during the period	**(16,450)**	(8,391)	–
Adjusted operating income (loss)	**263,264**	(156,752)	(213,885)
Loss before income tax expense	**(24,679)**	(449,473)	(389,415)
Asset impairment	**4,592**	783	33,450
Restructuring and transaction costs	**3,626**	847	(5,878)
Change in fair value of derivatives	**4,434**	9,685	(8,849)
Revaluation of liability related to warrants	**(3,544)**	(21,989)	(4,934)
Foreign exchange loss (gain)	**23,378**	92,150	(53,260)
Write-off of deferred financing costs	**12,743**	–	–
Loss on business disposal	**341**	–	–
Foreign exchange gain on business disposal	**(7,275)**	–	–
Gain on asset disposals	**(2,511)**	(3,934)	(17,347)
Gain on long-term debt modification	**(5,585)**	(22,191)	–
Premiums related to derivatives that matured during the period	**(16,450)**	(8,391)	–
Adjusted pre-tax loss	**(10,930)**	(402,513)	(446,233)
Net loss for the year	**(25,292)**	(445,324)	(389,559)
Asset impairment	**4,592**	783	33,450
Restructuring and transaction costs	**3,626**	847	(5,878)
Change in fair value of derivatives	**4,434**	9,685	(8,849)
Revaluation of liability related to warrants	**(3,544)**	(21,989)	(4,934)
Foreign exchange loss (gain)	**23,378**	92,150	(53,260)
Write-off of deferred financing costs	**12,743**	–	–
Loss on business disposal	**341**	–	–
Foreign exchange gain on business disposal	**(7,275)**	–	–
Gain on asset disposals	**(2,511)**	(3,934)	(17,347)
Gain on long-term debt modification	**(5,585)**	(22,191)	–
Premiums related to derivatives that matured during the period	**(16,450)**	(8,391)	–
Tax recovery on ABCP losses	**–**	(5,347)	–
Adjusted net loss	**(11,543)**	(403,711)	(446,377)
Adjusted net loss	**(11,543)**	(403,711)	(446,377)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,278**	37,838	37,747
Adjusted net loss per share	**(0.30)**	(10.67)	(11.83)

(in thousands of dollars)	October 31, 2023 $	October 31, 2022 $	October 31, 2021 $
Long-term debt	**669,145**	664,160	463,180
Deferred government grant	**146,634**	169,025	167,394
Liability related to warrants	**20,816**	24,360	36,557
Deferred financing costs	**—**	(12,552)	(19,368)
Lease liabilities	**1,221,451**	1,087,908	956,358
Total debt	**2,058,046**	1,932,901	1,604,121
Total debt	**2,058,046**	1,932,901	1,604,121
Cash and cash equivalents	**(435,647)**	(322,535)	(433,195)
Total net debt	**1,622,399**	1,610,366	1,170,926

3. FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	2023 $	2022 $	2021 $	Difference 2023 %	Difference 2022 %
Consolidated Statements of Loss					
Revenues	**3,048,352**	1,642,038	124,818	85.6	1,215.5
Operating income (loss)	**89,733**	(303,420)	(401,222)	129.6	24.4
Net loss for the year	**(25,292)**	(445,324)	(389,559)	94.3	(14.3)
Basic loss per share	**(0.66)**	(11.77)	(10.32)	94.4	(14.1)
Diluted loss per share	**(0.66)**	(11.77)	(10.32)	94.4	(14.1)
Adjusted operating income (loss)[1]	**263,264**	(156,752)	(213,885)	267.9	26.7
Adjusted net loss[1]	**(11,543)**	(403,711)	(446,377)	97.1	9.6
Adjusted net loss per share[1]	**(0.30)**	(10.67)	(11.83)	97.2	9.8
Consolidated Statements of Cash Flows					
Operating activities	**321,750**	(177,854)	(518,444)	280.9	65.7
Investing activities	**(7,935)**	(33,783)	4,542	76.5	(843.8)
Financing activities	**(203,021)**	99,689	522,071	(303.7)	(80.9)
Effect of exchange rate changes on cash and cash equivalents	**2,318**	1,288	(1,407)	80.0	191.5
Net change in cash and cash equivalents	**113,112**	(110,660)	6,762	202.2	(1,736.5)

	October 31, 2023 $	October 31, 2022 $	October 31, 2021 $	Difference 2023 %	Difference 2022 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**435,647**	322,535	433,195	35.1	(25.5)
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**450,752**	375,557	170,311	20.0	120.5
	886,399	698,092	603,506	27.0	15.7
Total assets	**2,569,370**	2,271,131	1,897,658	13.1	19.7
Debt (current and non-current)	**669,145**	664,160	463,180	0.8	43.4
Total debt[1]	**2,058,046**	1,932,901	1,604,121	6.5	20.5
Total net debt[1]	**1,622,399**	1,610,366	1,170,926	0.7	37.5

[1] See the Non-IFRS financial measures section

4. HIGHLIGHTS OF THE FISCAL YEAR

BUSINESS DISPOSAL

On August 31, 2023, the Corporation closed the agreement for the sale and purchase of its wholly owned subsidiary Laminama, S.A. de C.V. ["Laminama"], whose main asset is land located in Puerto Morelos, Mexico, at the fixed sale price of US$38.0 million ($51.4 million) paid in cash on that date. The Corporation drew down the proceeds from this transaction to make repayments of $53.0 million on its secured credit facilities.

EXPANSION OF VIRTUAL INTERLINING SERVICE

In 2023, the Corporation expanded its virtual interlining service with the addition of partners ASL Airlines France, Norwegian and Azul Airlines to its connectair by Air Transat platform, which now allows travellers to connect certain Air Transat flights with those of its partners to Algeria, Norway and Brazil, respectively. These new agreements bring the total number of partners available on the platform to 12 and the total number of additional destinations accessible annually via connectair to over 300.

In addition, on November 28, 2023, the Corporation and Porter Airlines announced a strengthening of their collaboration through the formation of a joint venture that integrates the complementary networks of Porter and Air Transat at the Toronto Pearson (YYZ) and Montréal-Trudeau (YUL) airports. This strategic alliance will allow greater connectivity between North, Central and South America, Europe, and North Africa.

NEW AIRCRAFT

In November 2022, the Corporation entered into an agreement for the delivery of two additional Airbus A321LRs, delivery being expected in 2024, bringing the total projected number of A321LRs to 19.

COLLECTIVE AGREEMENTS

In November 2022, the Corporation ratified a new five-year collective agreement with the International Association of Machinists and Aerospace Workers (AIMTA), representing maintenance workers and central baggage agents, up to April 30, 2027.

In July 2023, the Corporation renewed its collective agreement with employees in Crew Management and Planning, which is now valid until July 2027.

5. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists primarily of air carriers serving holiday travellers, mainly for tourism, vacation or to visit family and friends, as well as tour operators, travel agencies (both in-person and online), destination service companies, hoteliers and airlines. Each of these subsectors includes companies with different operating models.

CORE BUSINESS VISION AND STRATEGY

Core business

Founded in Montréal 36 years ago, Transat has achieved worldwide recognition as a provider of leisure travel. Known for operating as an air carrier under the Air Transat brand, Transat also consists of specialist tour operators and other entities in the retail distribution of holiday travel packages. Its full offerings include products and services for exploring a multitude of international destinations, mainly in Europe and the Caribbean, with growth ambitions in South America and North Africa.

Transat is headquartered in Montréal, with places of business in France and the United Kingdom, as well as the Caribbean. Its airline, Air Transat, is an important part of the Montréal-Trudeau (YUL) and Toronto Pearson (YYZ) airport platforms. Transat employs over 5,000 individuals who share the same purpose: reducing the distances that separate us.

Voted World's Best Leisure Airline by passengers at the 2023 Skytrax World Airline Awards, Air Transat is known for its exceptional customer service.

Strategy

In its 2022-2026 strategic plan, Transat set itself the objective of first making the Corporation profitable again and then completing its transformation to achieve a level of profitability that exceeds pre-pandemic levels, as well as grow in new markets. This phase must enable the Corporation to leverage those achievements after 2026 to propel Transat toward a new growth phase.

STRATEGIC PLAN

To that end, Transat is implementing or continuing certain changes:

- Refocus airline operations and redefine the network by ensuring a greater presence at Montréal-Trudeau, Toronto Pearson and in Eastern Canada;
- Develop and implement interline or codeshare partnership agreements to expand and strengthen the network and optimize aircraft usage, given the high volume of passenger traffic;
- Reduce costs and increase agility, particularly by renegotiating some commitments (fleet, real estate, etc.), by refocusing on airline businesses and a significant streamlining of the organization;
- Optimize financing structure over the long term;
- Increase efficiency by streamlining the fleet and bringing its average age down, around two types of Airbus aircraft (A330 and A321), optimizing aircraft usage, reducing seasonal fluctuations and enhancing revenue management practices.

The Corporation is continuing to rely on and leverage its strengths:

- A leisure travel brand popular with travellers, at a time when vacations and visiting family and friends are the driving factors for the rebound in air travel;
- A strong commitment to corporate responsibility for the environment and society for many years;
- Engaged teams with a strong sense of belonging to the Corporation;
- Long-term roots in Québec.

For fiscal 2024, in line with its 2022-2026 strategic plan, Transat has set the following objectives and performance drivers:

1. Continue to optimize cash and capital structure;
2. Finalize the fleet renewal strategy to support medium- and long-term growth;
3. Develop and implement a digital transformation plan to improve customer experience and increase the productivity of internal resources;
4. Continue to develop the air network by strengthening the best historical routes, opening new connections (Lima, Peru and Marrakesh, Morocco) and launching an expanded long-term business agreement with Porter;
5. Optimize the Corporation's pricing and revenue management practices;
6. Complete and deploy a global corporate responsibility strategy, with major projects including delivering the plan to decarbonize its operations and formalizing its commitments to diversity, equity and inclusion;
7. Continue to nurture corporate culture to foster a valued and enjoyable employee experience.

REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2023

The main objectives and achievements for fiscal 2023 were as follows:

Continue to strengthen the network, particularly by entering into partnerships to improve aircraft usage and expand into new markets, and by implementing a dynamic pricing solution

In 2023, the Corporation continued to develop its virtual interlining service with three new partners, as part of the development of its connectair by Air Transat platform. With the addition of ASL Airlines France, Norwegian and Azul Airlines in 2023, it will be easier for travellers to connect Air Transat flights with those of its new partners to Algeria, Norway and Brazil, respectively. These additions brought the number of partners available via the connectair by Transat platform to 12 and the total number of additional destinations accessible annually in Europe, North Africa, the Middle East, Central and South America and Canada to over 300.

These agreements are part of Air Transat's network development strategy through partnerships, in order to offer customers more options, diversify our route network and expand into new markets more quickly by combining complementary strengths with these partners.

In addition, the Corporation continued to deploy digital dynamic pricing solutions. Progress was made on improving and optimizing the Club Class contribution, with a strategy that maximizes revenue per seat-mile offered. Using the revenue optimization tool also allowed for better monitoring of daily changes and the performance of flights and cancellations.

Preserve liquidity and optimize cash to support the resumption and development of operations

Improved operational performance allowed the Corporation to considerably increase its liquidity. Accordingly, during fiscal 2023, the Corporation generated cash flows related to operating activities (before net changes in non-cash working capital balances related to operations, the provision for return conditions and other assets and liabilities related to operations) of $228.0 million, a sharp increase compared with cash outflows of $189.5 million for the previous year.

The Corporation's operations allowed it to end fiscal 2023 with cash and cash equivalents of $435.6 million, an improvement compared with $322.5 million at the end of the previous year. Cash and cash equivalents in trust or otherwise reserved amounted to $450.8 million as at the end of fiscal 2023, compared with $375.6 million as at the end of fiscal 2022.

Continue to streamline the fleet, in particular with the addition of new A321LR aircraft and implementation of the Mixed Fleet Flying accreditation program

During the fiscal year, the Corporation took delivery of one Airbus A330, three Airbus A321LRs and one Airbus A321ceo. Furthermore, in November 2022, the Corporation also entered into an agreement for the delivery of two additional Airbus A321LRs, delivery being expected in 2024.

Aircraft in the Airbus A320 family will provide substantial operational flexibility and meet Air Transat's needs, both for the winter and summer seasons.

As at October 31, 2023, Air Transat’s fleet consisted of thirteen Airbus A330s (332 or 345 seats), fifteen Airbus A321LRs (199 seats) and eight Airbus A321ceos (199 seats). Under the current agreements, the Corporation expects to take possession of four Airbus A321LRs in fiscal 2024.

After receiving accreditation in August 2022 from Transport Canada for its Mixed Fleet Flying program for Airbus 321s and A330s, the Corporation is adapting and implementing systems to deploy the program and realize its full potential. This program allows accredited pilots to fly both Airbus A321 and A330 aircraft, as well as for the pooling of the training and verification activities required for these aircraft.

Optimize capital structure

During fiscal 2023, the Corporation continued efforts to optimize its capital structure. As described in the Financing section, the Corporation renegotiated three of its financing agreements totalling $198.0 million during the fiscal year, mainly by extending the maturity date of this debt by one year to April 29, 2025 (previously April 29, 2024). These financing agreements are:

- The $78.0 million secured debt - LEEFF with the Government of Canada for through the Large Employer Emergency Financing Facility ["LEEFF"];
- The $50.0 million revolving credit facility agreement for operating purposes;
- The $70.0 million subordinated credit facility for its operations.

On August 31, 2023, the Corporation finalized the agreement for the sale and purchase of its wholly owned subsidiary Laminama, whose main asset is land located in Puerto Morelos, Mexico, at a fixed sale price of US$38.0 million [$51.4 million] paid in cash on that date. The Corporation drew down the proceeds from this transaction to make repayments amounting to $53.0 million on its secured credit facilities.

Accelerate growth in ancillary revenues

The Corporation continued to implement initiatives to accelerate the growth of its ancillary revenues. These initiatives included marketing campaigns to optimize the sale of additional checked baggage and Option Plus and Option Flex seat selections. Other initiatives focused on launching an upgrade program via online registration, including an auction for obtaining an upgrade to Club Class and the implementation of refined seat selection pricing.

Improve call centre performance

The Corporation progressively improved its call centre performance in 2023, as the average wait time decreased during the year. To this end, the Corporation added hundreds of new call centre staff and provided additional training and support to help these resources offer service that would meet efficiency target objectives.

Always with a view to improving customer experience, the Corporation diligently continued to deploy a higher number of self-service solutions, which should result in fewer calls processed and less time to process each request.

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents (not held in trust or otherwise reserved) totalled $435.6 million as at October 31, 2023.
Credit facilities	For operational purposes, we can also rely on, among other resources, a $50.0 million revolving term credit facility and a $46.0 million subordinated short-term credit facility maturing on April 29, 2025. In addition, as described in the Financing section, the Corporation had an agreement with the Government of Canada that allowed it to borrow $717.7 million in additional liquidity through the LEEFF. Section 7. Financial Position, Liquidity and Capital Resources of this MD&A contains more detail on this issue.

Our non-financial resources include:

Brand	The Corporation continues to strengthen its distinctive brand image and raise its profile.
Structure	The integrated structure enables us to ensure better quality control over our products and services, and facilitates implementing programs to achieve gains in efficiency.
Employees	The employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation’s effectiveness. In addition, we believe that the Corporation has strong a management team.
Supplier relationships	The Corporation has maintained over 36 years of privileged relationships with many local and destination suppliers, including hotel operators.

Transat has the resources it needs to meet its 2024 objectives and continue building on its long-term strategies.

6. CONSOLIDATED OPERATIONS

				Difference	
	2023	**2022**	**2021**	**2023**	**2022**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Revenues	**3,048,352**	1,642,038	124,818	85.6	1,215.5
Operating expenses					
Costs of providing tourism services	**707,023**	355,250	31,958	99.0	1,011.6
Aircraft fuel	**647,795**	526,152	22,373	23.1	2,251.7
Salaries and employee benefits	**442,623**	288,889	122,770	53.2	135.3
Sales and distribution costs	**214,076**	116,105	13,020	84.4	791.7
Airport and navigation fees	**191,283**	128,318	13,032	49.1	884.6
Depreciation and amortization	**186,355**	154,212	193,215	20.8	(20.2)
Aircraft maintenance	**172,812**	114,159	48,832	51.4	133.8
Aircraft rent	**12,254**	6,018	—	103.6	—
Other airline costs	**272,761**	162,082	24,643	68.3	557.7
Other	**110,769**	90,949	57,371	21.8	58.5
Share of net (income) loss of a joint venture	**(2,758)**	2,477	4,704	(211.3)	(47.3)
Restructuring and transaction costs	**3,626**	847	(5,878)	328.1	114.4
	2,958,619	1,945,458	526,040	52.1	269.8
Operating income (loss)	**89,733**	(303,420)	(401,222)	129.6	24.4
Financing costs	**135,397**	105,314	77,024	28.6	36.7
Financing income	**(42,966)**	(12,982)	(4,441)	231.0	192.3
Change in fair value of derivatives	**4,434**	9,685	(8,849)	54.2	(209.4)
Revaluation of liability related to warrants	**(3,544)**	(21,989)	(4,934)	(83.9)	345.7
Foreign exchange (gain) loss	**23,378**	92,150	(53,260)	74.6	(273.0)
Write-off of deferred financing costs	**12,743**	—	—	100.0	—
Loss on business disposal	**341**	—	—	100.0	—
Foreign exchange gain on business disposal	**(7,275)**	—	—	100.0	—
Gain on asset disposals	**(2,511)**	(3,934)	(17,347)	(36.2)	(77.3)
Gain on long-term debt modification	**(5,585)**	(22,191)	—	(74.8)	100.0
Pre-tax loss	**(24,679)**	(449,473)	(389,415)	94.5	(15.4)
Income taxes (recovery)					
Current	**528**	(3,174)	(52)	116.6	(6,003.8)
Deferred	**85**	(975)	75	108.7	(1,400.0)
	613	(4,149)	23	114.8	(18,139.1)
Net loss for the year	**(25,292)**	(445,324)	(389,438)	94.3	(14.4)
Loss per share:					
Basic	**(0.66)**	(11.77)	(10.32)	94.4	(14.1)
Diluted	**(0.66)**	(11.77)	(10.32)	94.4	(14.1)

REVENUES

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

For the year ended October 31, 2023, revenues were up $1,406.3 million (85.6%). This significant increase was attributable to the resumption of operations and to strong demand. In 2022, the Corporation's revenues were dampened, mainly during the first six-month period, by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant. As a result, the Corporation reduced total winter season capacity by approximately 22% of the initially deployed capacity. Since then, the Corporation has deployed a winter season capacity at 95% of pre-pandemic levels and 90% for the summer season. Compared with the corresponding period of fiscal 2019, revenues for the year ended October 31, 2023 were up 3.8%.

For the 2023 winter season, the number of travellers was 8% lower than the number of travellers for the corresponding period of 2019, whereas the airline unit revenues, expressed in revenue per passenger-mile (or yield), were 21.0% higher. For our South market, the selling prices showed an average increase of 21.8%. Across all our markets, the Corporation reported a load factor of 85.0% compared to 88.3% in 2019.

For the 2023 summer season, the number of travellers was 7% lower than the number of travellers for the corresponding period of 2019, whereas the airline unit revenues were 27.0% higher compared to 2019. For transatlantic routes, airline unit revenues showed an increase of 30.6%. Across all our markets, the Corporation reported a load factor of 88.4% compared to 88.6% in 2019.

OPERATING EXPENSES

Total operating expenses were up $1,013.2 million (52.1%) for the year, compared with 2022. This increase is attributable to the greater capacity deployed compared with the corresponding period of 2022.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. The $351.8 million (99.0%) increase resulted primarily from the rise in the number of packages sold compared with 2022.

Aircraft fuel

Aircraft fuel expense was up $121.6 million (23.1%) for the fiscal year. The increase was mainly attributable to the higher volume of litres consumed due to increased capacity and the weakening of the Canadian dollar relative to the U.S. dollar, partially offset by a 19% drop in fuel prices compared with the corresponding period of 2022.

Salaries and employee benefits

Salaries and employee benefits were up $153.7 million (53.2%) to $442.6 million for the year ended October 31, 2023. The increase was mainly attributable to the higher number of employees to support the resumption of airline operations. In addition, during year ended October 31, 2022, the Corporation benefited from the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP"), recording an amount of $24.4 million under these programs. The THRP and HHBRP ended on May 7, 2022.

Sales and distribution costs

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs amounted to $214.1 million, up $98.0 million (84.4%) from fiscal 2022. These increases were mainly driven by higher revenues and advertising expenses following the resumption of operations.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $63.0 million (49.1%) for the fiscal year, compared with 2022. The increase mainly resulted from the greater capacity deployed compared with 2022 and higher prices.

Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. These costs were up $58.7 million (51.4%) for the year, compared with 2022. These increases were mainly attributable to the greater capacity deployed compared with 2022.

Aircraft rent

Aircraft rent refers to variable aircraft rent and rent under short-term leases. These costs were up $6.2 million (103.6%) for the year, compared with 2022. This increase resulted from the rental of two aircrafts for the winter season and two aircrafts for the summer season, due to the delay in delivery of the Airbus A321LRs.

Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were up $110.7 million (68.3%) for the fiscal year, compared with 2022. These increases mainly resulted from the greater capacity deployed compared with 2022.

Other

Other costs were up $19.8 million (21.8%) for the fiscal 2023, compared with 2022. The increase resulted from higher business volume compared with 2022.

Share of net income (loss) of a joint venture

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net income for the year amounted to $2.8 million, compared with a share of net loss of $2.5 million for 2022, showing more sustained signs of recovery compared with 2022.

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was up $32.1 million (20.8%) in fiscal 2023. This increase was primarily due to the commissioning of two Airbus A321LRs in 2022 and one Airbus A330, three Airbus A321LRs and one A321ceo in 2023.

Furthermore, before signing the agreement for the sale and purchase of its Laminama subsidiary entered into during the quarter ended July 31, 2023, the Corporation measured the recoverable amount of Laminama's non-current assets and compared it with their carrying amount. As the recoverable amount of the land in Mexico was less than its carrying amount, the Corporation recorded an impairment loss of $4.6 million.

Restructuring costs

Restructuring costs are mainly employee termination benefits related to the closure of the Vancouver base effective June 30, 2023 as well as employee relocation costs. During the year ended October 31, 2023, the Corporation recorded restructuring costs of $3.6 million, compared with $0.8 million in 2022.

OPERATING RESULTS

Given the above, we reported operating income of $89.7 million for the year, compared with an operating loss of $303.4 million in 2022. Operating results by season are summarized as follows:

				Difference	
	2023	**2022**	**2021**	**2023**	**2022**
(in thousands of dollars)	**$**	**$**	**$**	**%**	**%**
Winter season					
Revenues	**1,537,568**	560,595	49,489	174.3	1,032.8
Operating expenses	**1,556,931**	721,949	234,017	115.7	208.5
Operating loss	**(19,363)**	(161,354)	(184,528)	88.0	12.6
Operating loss (%)	**(1.3)**	(28.8)	(372.9)	95.6	92.3
Summer season					
Revenues	**1,510,784**	1,081,443	75,329	39.7	1,335.6
Operating expenses	**1,401,688**	1,223,509	292,023	14.6	319.0
Operating income (loss)	**109,096**	(142,066)	(216,694)	176.8	34.4
Operating income (loss) (%)	**7.2**	(13.1)	(287.7)	155.0	95.4

For the winter season, the Corporation reported an operating loss amounting to $19.4 million (1.3%), compared with $161.4 million (28.8%) in 2022. Demand during the winter season was significantly higher compared with 2022. In 2022, the gradual and partial resumption of airline operations was hampered by the cancellation of flights for the winter season due to the drop in demand and booking cancellations following the emergence of the Omicron variant and restrictive measures put in place by the federal government on December 15, 2021.

During the summer season, the Corporation reported operating income of $109.1 million (7.2%) compared with an operating loss of $142.1 million (13.1%) for the previous year. The improvement in operating results was attributable to the resumption of operations, the recovery in demand and the increase in selling prices. The drop in fuel prices also contributed to the improvement in operating results. In 2022, the significant rise in fuel prices and the weakening of the dollar against the U.S. currency greatly dampened the improvement in our summer season results.

During the winter season, the Corporation recorded an adjusted operating income of $59.5 million (3.9%), compared with an adjusted operating loss of $87.4 million (15.6%) in 2022. For the summer season, we recorded an adjusted operating income of $203.8 million (13.5%) compared with an adjusted operating loss of $69.4 million (6.4%) in 2022. Overall, for the fiscal year, the Corporation recorded an adjusted operating income of $263.3 million (8.6%), compared with an adjusted operating loss of $156.8 million (9.5%) in 2022.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $30.1 million (28.6%) in fiscal 2023 compared with 2022. The increase resulted from the rise in lease liabilities, mainly due to the addition of seven new aircraft leases and higher interest rates.

Financing income

Financing income was up $30.0 million (231.0%) during the year, compared with 2022, mainly due to higher interest rates compared with 2022 and the increase in average cash and cash equivalents balances.

Change in fair value of derivatives

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

During the year ended October 31, 2023, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies decreased by $4.3 million. The decrease was mainly attributable to the decrease in the fair value of derivative financial instruments related to aircraft fuel and foreign currencies. During the year ended October 31, 2023, the fair value of the pre-payment option related to the unsecured debt – LEEFF decreased by $0.1 million.

In 2022, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies decreased by $7.9 million. This decrease was mainly attributable to lower fair value of fuel-related derivatives combined with a $1.8 million decrease in the fair value of the pre-payment option related to the unsecured debt - LEEFF.

Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the fiscal year. For the year ended October 31, 2023, the fair value of warrants decreased by $3.5 million, due to the forfeiture of 4,687,500 warrants, given that the Corporation made no drawdowns on the additional $80.0 million that was available until October 29, 2023 on its unsecured, non-revolving credit facility (unsecured debt - LEEFF), partially offset by an increase in the closing share price from $2.60 to $3.01 between October 31, 2022 and October 31, 2023.

Foreign exchange (gain) loss

For fiscal 2023, the Corporation recorded a foreign exchange loss of $23.4 million compared with a loss of $92.2 million in 2022. For fiscal 2023, the foreign exchange loss resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the Canadian dollar against the U.S. dollar.

Write-off of deferred financing costs

The Corporation's financing agreements allowed it to borrow additional liquidity totalling $100 million until October 29, 2023. The corporation recorded deferred financing costs consisting of the initial fair value of the 4,687,500 additional warrants issued on July 29, 2022 as part of the amendments to the financing package related to the unsecured debt - LEEFF and related costs. Since the Corporation made no drawdowns on this additional liquidity, the $12.7 million balance of its financing costs was written off.

Loss on business disposal

On August 31, 2023, the Corporation closed the agreement for the sale and purchase of its wholly owned subsidiary Laminama, whose main asset is land located in Puerto Morelos, Mexico. Following this transaction, the Corporation recorded a loss on business disposal of $0.3 million.

Foreign exchange gain on business disposal

A foreign exchange gain on business disposal of $7.3 million was recognized following the reclassification to the statement of loss of the Cumulative exchange differences related to the sale of the Corporation's wholly owned subsidiary Laminama.

Gain on asset disposals

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

During the year ended October 31, 2022, the $3.9 million gain was mainly attributable to the early return of one Airbus A330 to the lessor. This lease termination led to the recognition of a $4.1 million gain, which resulted from the reversal of lease liabilities of $4.0 million and other assets and liabilities totalling $0.1 million. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2021.

Gain on long-term debt modification

On October 31, 2023, the Corporation reviewed its initial estimates of the future repayments related to the unsecured debt - LEEFF, given the terms of its agreement relative to current market conditions. The Corporation now expects to repay the credit facility at maturity on April 26, 2026. Accordingly, the carrying amount of the unsecured debt - LEEFF was adjusted downward to the revised amount of future cash flows discounted using the initial effective rate. The $5.6 million adjustment was recorded as a gain on long-term debt modification.

During the year ended October 31, 2022, the Corporation renegotiated certain terms of its agreement with the Government of Canada for the unsecured debt - LEEFF. The Corporation concluded that the modifications related to the unsecured debt - LEEFF were non-substantial as defined in IFRS 9, *Financial Instruments*. Accordingly, the carrying amount of the unsecured debt - LEEFF was adjusted downward to the revised amount of future cash flows discounted using the initial effective rate. The $22.2 million adjustment was recorded as a gain on long-term debt modification.

INCOME TAXES

For fiscal 2023, the income tax expense amounted to $0.6 million, compared with an income tax recovery of $4.1 million in 2022. The effective tax rates were 2.5% and 0.9%, respectively, for the years ended October 31, 2023 and 2022.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances related to Canadian operations whose recognition could no longer be justified under IFRS. Accordingly, during the year ended October 31, 2023, no deferred tax assets of Canadian subsidiaries were recognized.

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

Considering the items discussed in the Consolidated Operations section, for fiscal 2023, net loss was $25.3 million, or $0.66 per share (basic and diluted), compared with $445.3 million, or $11.77 per share (basic or diluted) during the corresponding period of the previous year. For the year ended October 31, 2023, the weighted average number of outstanding shares used to compute per share amounts was 38,278,000 (basic and diluted) compared with 37,838,000 (basic and diluted) for 2022.

For the year ended October 31, 2023, adjusted net loss amounted to $11.5 million ($0.30 per share) compared with $403.7 million ($10.67 per share) in 2022.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. For all the quarters reported, revenue growth was attributable to resumption of operations and an increase in selling prices. In 2022, the Corporation's revenues were dampened, mainly during the winter, by the sharp decline in demand and massive booking cancellations following the emergence of the Omicron variant. As a result, the Corporation reduced the total winter season capacity in 2022.

The improvement in operating results was attributable to the resumption of operations, the recovery in demand and the increase in selling prices; operating results for all quarters reported in 2023 showed an improvement compared with 2022. For the 2023 winter season (Q1 and Q2), the increase in fuel prices dampened the improvement in our results. For the 2023 summer season (Q3 and Q4), the improvement in operating results was also attributable to the drop in fuel prices, partially offset by the weakening of the dollar against the U.S. currency. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	**Q1-2022** $	**Q2-2022** $	**Q3-2022** $	**Q4-2022** $	**Q1-2023** $	**Q2-2023** $	**Q3-2023** $	**Q4-2023** $
Revenues	202,438	358,157	508,304	573,139	**667,457**	**870,111**	**746,317**	**764,467**
Operating income (loss)	(73,841)	(87,513)	(93,218)	(48,848)	**(38,103)**	**18,740**	**64,375**	**44,721**
Net income (loss)	(114,345)	(98,276)	(106,472)	(126,231)	**(56,610)**	**(29,180)**	**57,303**	**3,195**
Basic earnings (loss) per share	(3.03)	(2.60)	(2.82)	(3.32)	**(1.49)**	**(0.76)**	**1.49**	**0.08**
Diluted earnings (loss) per share	(3.03)	(2.60)	(2.82)	(3.32)	**(1.49)**	**(0.76)**	**1.49**	**0.08**
Adjusted operating income (loss)[1]	(36,369)	(51,014)	(57,824)	(11,545)	**3,331**	**56,144**	**114,782**	**89,007**
Adjusted net income (loss)[1]	(95,317)	(111,563)	(120,901)	(75,930)	**(61,564)**	**(7,957)**	**42,302**	**15,676**
Adjusted net earnings (loss) per share[1]	(2.53)	(2.95)	(3.20)	(2.00)	**(1.62)**	**(0.21)**	**1.10**	**0.41**

[1] See the Non-IFRS financial measures section

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $764.5 million in revenues, up $191.3 million from $573.1 million for the corresponding period of 2022. This increase was attributable to the resumption of flight operations, sustained demand and an increase in selling prices. Operations generated an operating income of $44.7 million compared with an operating loss of $48.8 million in 2022. Operating results improved compared with 2022 but were strongly reined in by the rise in fuel prices and the weakening of the dollar against the U.S. currency.

We recorded net income of $3.2 million in the fourth quarter ($0.08 per share, basic and diluted), compared with a net loss of $126.2 million ($3.32 per share, basic and diluted) in 2022.

For the fourth quarter, adjusted net income amounted to $15.7 million ($0.41 per share) compared with an adjusted net loss of $75.9 million ($2.00 per share) in 2022.

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

As at October 31, 2023, cash and cash equivalents totalled $435.6 million compared with $322.5 million as at October 31, 2022. Cash and cash equivalents in trust or otherwise reserved amounted to $450.8 million at the end of fiscal 2023, compared with $375.6 million as at October 31, 2022. The Corporation's statement of financial position reflected $57.7 million in negative working capital, for a ratio of 0.95, compared with $21.7 million in negative working capital and a ratio of 0.98 as at October 31, 2022.

Total assets increased by $298.2 million (13.1%), from $2,271.1 million as at October 31, 2022 to $2,569.4 million as at October 31, 2023. This increase is explained in the financial position table provided below. Equity decreased by $28.9 million, from negative equity of $750.2 million as at October 31, 2022, to negative equity of $779.0 million as at October 31, 2023. The decrease resulted primarily from the $25.3 million net loss.

(in thousands of dollars)	October 31, 2023 $	October 31, 2022 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**435,647**	322,535	113,112	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**450,752**	375,557	75,195	Higher business volume
Trade and other receivables	**138,675**	265,050	(126,375)	Decrease in receivables from credit card processors
Income taxes receivable	**598**	5,537	(4,939)	Collection of income taxes recoverable related to ABCP
Inventories	**33,735**	26,725	7,010	Increase in inventory of aircraft parts
Prepaid expenses	**38,113**	26,428	11,685	Higher business volume
Deposits	**322,805**	201,623	121,182	New deposits with credit card processors and increase in deposits for aircraft maintenance
Deferred tax assets	**1,047**	953	94	Recognition of deferred tax assets by certain foreign subsidiaries
Property, plant and equipment	**1,083,109**	1,000,151	82,958	Mainly due to the delivery of three Airbus A321LRs, one Airbus A321ceo and one Airbus A330, and the capitalization of eligible aircraft maintenance, partially offset by depreciation for the period and by the sale of land in Mexico
Intangible assets	**14,771**	13,261	1,510	Software acquisitions partially offset by amortization for the period
Derivative financial instruments	**38,321**	11,939	26,382	Favourable change in fuel-related and foreign currency derivatives contracted
Investment	**11,797**	8,820	2,977	Share of net income of a joint venture
Deferred financing costs	**—**	12,552	(12,552)	Write-off of deferred financing costs

(in thousands of dollars)	October 31, 2023 $	October 31, 2022 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**319,764**	289,897	29,867	Higher business volume
Income taxes payable	**416**	1,054	(638)	No significant difference
Customer deposits and deferred revenues	**754,176**	602,509	151,667	Higher business volume
Derivative financial instruments	**17,158**	6,209	10,949	Unfavourable change in fuel-related derivatives and foreign currency derivatives contracted
Long-term debt and lease liabilities	**1,890,596**	1,752,068	138,528	Mainly due to the addition of aircraft leases for three Airbus A321LRs, one Airbus A321ceo and one Airbus A330, and the weakening of the dollar against the U.S. currency, partially offset by principal repayments and the return of an aircraft
Provision for return conditions	**177,832**	154,772	23,060	Increase mainly related to the passage of time
Liability related to warrants	**20,816**	24,360	(3,544)	Forfeiture of warrants, partially offset by the increase in fair value during the period due to the change in the Corporation's share price
Deferred government grant	**146,634**	169,025	(22,391)	Revenue from government grants for the period as per the effective interest method
Employee benefits liability	**20,961**	20,773	188	No significant difference
Deferred tax liabilities	**56**	644	(588)	No significant difference
Equity				
Share capital	**223,450**	221,924	1,526	Shares issued from treasury
Share-based payment reserve	**16,329**	16,092	237	Share-based payment expense
Deficit	**(1,008,452)**	(984,602)	(23,850)	Net loss
Cumulative exchange differences	**(10,366)**	(3,594)	(6,772)	Reclassification of the foreign exchange gain on business disposal, partially offset by the foreign exchange gain on the translation of the financial statements of foreign subsidiaries

CASH FLOWS

				Difference	
(in thousands of dollars)	2023 $	2022 $	2021 $	2023 %	2022 %
Cash flows related to operating activities	**321,750**	(177,854)	(518,444)	280.9	65.7
Cash flows related to investing activities	**(7,935)**	(33,783)	4,542	76.5	(843.8)
Cash flows related to financing activities	**(203,021)**	99,689	522,071	(303.7)	(80.9)
Effect of exchange rate changes on cash	**2,318**	1,288	(1,407)	80.0	191.5
Net change in cash and cash equivalents	**113,112**	(110,660)	6,762	202.2	(1,736.5)

Operating activities

Operating activities generated cash flows of $321.8 million, compared with cash flows used of $177.9 million in 2022. The $499.6 million increase in cash flows generated by operating activities resulted from the $417.5 million increase in net income (loss) before operating items not involving an outlay (receipt) of cash, the $76.1 million increase in cash flows generated by the net change in non-cash working capital balances related to operations, the $5.7 million increase in the net change in the provision for return conditions and the $0.4 million increase in the net change in other assets and liabilities related to operations.

Investing activities

Cash flows used in investing activities amounted to $7.9 million for fiscal 2023, compared with cash flows of $33.8 million used in 2022. For the year ended October 31, 2023, additions to property, plant and equipment and intangible assets amounted to $57.6 million and consisted primarily in aircraft maintenance and spare parts, compared with $32.5 million in 2022. Furthermore, in 2023, a net consideration of $48.1 million was received for the disposal of Laminama, whose main asset consisted of land.

Financing activities

Cash flows used in financing activities amounted to $203.0 million for fiscal 2023, compared with cash flows generated of $99.7 million in 2022. The Corporation made repayments on its lease liabilities amounting to $151.4 million compared with $108.3 million in 2022. The Corporation also made repayments on its credit facilities for a total of $53.0 million, compared with $3.3 million in 2022. No drawdowns were made during the year ended October 31, 2023, whereas the Corporation drew down a total of $213.2 million from its credit facilities in 2022.

FINANCING

Funding from the Government of Canada

The Corporation has entered into an agreement with the Government of Canada that allowed it to borrow $743.3 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF). On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada to borrow additional funds of $100.0 million. These additional funds were available until October 29, 2023 and were undrawn by the Corporation. The amended agreement also granted Transat access to an additional credit facility of $50.0 million until July 29, 2023, subject to certain conditions, including obtaining additional third-party financing. The Corporation made no drawdowns on this additional credit facility. The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF are as follows:

Secured debt – LEEFF

On April 28, 2023, the Corporation renegotiated its LEEFF secured debt agreement at the original principal amount of $78.0 million mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024). The Corporation also renegotiated its agreement on July 29, 2022 in order to be able to borrow additional liquidity of $20.0 million, which was available until October 29, 2023 and undrawn, and to extend the maturity date to April 29, 2024 (previously April 29, 2023). The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at October 31, 2023, the financial ratios and covenants were met. During the year ended October 31, 2023, the Corporation made a repayment amounting to $25.6 million, bringing the principal payable balance to $52.4 million. As at October 31, 2023, the credit facility was fully drawn down and the carrying amount stood at $51.9 million [$77.2 million as at October 31, 2022].

Unsecured debt – LEEFF

An amount of $312.0 million in the form of an unsecured, non-revolving credit facility that matures on April 29, 2026. The credit facility was renegotiated on March 9, 2022 and July 29, 2022 to gain access to additional liquidity of $80.0 million, which was available until October 29, 2023 and undrawn, and to modify the interest rate. The credit facility bears interest at a rate of 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). In the event of a change of control, this credit facility becomes immediately due and payable. As at October 31, 2023, the credit facility was fully drawn and the carrying amount stood at $317.2 million [$284.8 million as at October 31, 2022].

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

On July 29, 2022, as part of the amendments to the financing arrangement related to the unsecured debt - LEEFF, the Corporation issued an additional 4,687,500 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $3.20 per share over a 10-year period, representing 18.75% of the additional commitment available under the unsecured debt - LEEFF. On October 29, 2023, these 4,687,500 warrants were forfeited, since the Corporation did not draw down on the additional $80.0 million of its unsecured, non-renewable credit facility (unsecured debt – LEEFF), which was available until that date.

Under the terms of the LEEFF unsecured financing agreement, if the loan were to be repaid prior to December 31, 2023, 50% of the vested warrants would be forfeited.

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

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

Under the limitations set out above, if the 13,000,000 warrants issued are exercised:

- A maximum of 9,622,339 warrants could be exercised through the issuance of shares;
- 3,377,661 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

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 $43.3 million, bringing the total amount to $353.3 million. The unsecured credit facility was granted to issue refunds to travellers who were scheduled to depart on or after February 1, 2020 and to whom a travel credit was issued as a result of COVID–19. This credit facility matures on April 29, 2028 and bears interest at 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

As at October 31, 2023 and October 31, 2022, the credit facility was fully drawn. As at October 31, 2023, the carrying amount of the credit facility was $205.2 million ($182.5 million as at October 31, 2022), and an amount of $146.6 million ($169.0 million as at October 31, 2022) was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

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

Subordinated credit facility

On April 28, 2023 and July 29, 2022, the Corporation renegotiated its subordinated credit facility for operating purposes at the original principal amount of $70.0 million, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024) and April 29, 2024 (previously April 29, 2023), respectively. The facility becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at bankers' acceptance rate plus a premium of 6.0% or at the financial institution's prime rate, plus a premium of 5.0%. Until October 29, 2023, an additional capitalizable premium of 3.75% was added to the interest. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at October 31, 2023, the financial ratios and covenants were met. During the year ended October 31, 2023, the Corporation made a repayment of $27.4 million, $3.4 million of which was capitalized interest, bringing the principal payable balance to $46.0 million. As at October 31, 2023 and October 31, 2022, the credit facility was fully drawn.

Off-balance sheet arrangements

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $851.5 million as at October 31, 2023 ($978.0 million as at October 31, 2022) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**2023** **$**	**2022** **$**
Guarantees		
Irrevocable letters of credit	**1,350**	978
Collateral security contracts	**797**	469
Leases		
Lease obligations	**849,320**	976,510
	851,467	977,957
Agreements with suppliers	**54,407**	17,352
	905,874	995,309

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

The Corporation has a $74.0 million annually renewable revolving credit facility for issuing letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at October 31, 2023, $69.9 million of the facility was drawn ($55.9 million as at October 31, 2022), including $29.8 million ($31.3 million as at October 31, 2022) to secure obligations under senior 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.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits from which £1.1 million ($1.9 million) has been drawn down.

As at October 31, 2023, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $126.5 million compared with October 31, 2022. This decrease was primarily due to the delivery of three Airbus A321LRs and one Airbus321ceo, partially offset by the weakening of the Canadian dollar against the U.S. dollar, the signing of an agreement for the lease of one Airbus A321XLR and the impact of higher interest rates on future rents.

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

CONTRACTUAL OBLIGATIONS BY YEAR Years ending October 31	**2024** **$**	**2025** **$**	**2026** **$**	**2027** **$**	**2028** **$**	**2029 and up** **$**	**Total** **$**
Contractual obligations							
Long-term debt	21,449	189,507	406,061	4,309	355,377	—	976,703
Lease liabilities	217,974	213,284	188,744	177,034	161,524	618,829	1,577,389
Leases (off-balance sheet)	17,857	36,440	55,839	67,629	70,581	600,974	849,320
Agreements with suppliers and other obligations	30,112	13,544	7,403	7,283	3,152	31,814	93,308
	287,392	452,775	658,047	256,255	590,634	1,251,617	3,496,720

Debt

The Corporation reported $669.1 million in long-term debt and $1,221.5 million in lease liabilities in the consolidated statement of financial position.

The Corporation's total debt stood at $2,058.0 million as at October 31, 2023, up $125.1 million from October 31, 2022. This increase was primarily due to the addition of three Airbus A321LRs, one Airbus321ceo and one Airbus A330 to our permanent fleet and the strengthening of the U.S. dollar against the Canadian currency, partially offset by the repayment of lease liabilities and the repayment of long-term debt.

Total net debt increased by $12.0 million from $1,610.4 million as at October 31, 2022 to $1,622.4 million as at October 31, 2023. The increase in total net debt resulted from the increase in total debt, partially offset by the increase in cash and cash equivalent balances.

Outstanding shares

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

As at December 8, 2023, there were a total of 38,595,923 voting shares outstanding.

Stock options

As at December 8, 2023, a total of 425,904 stock options was outstanding, 75,904 of which were exercisable.

Warrants

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

8. OTHER

FLEET

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

LITIGATION

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

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

9. ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. We periodically review these estimates, which are based on historical experience, changes in the business environment and other factors, including expectations of future events, that management considers reasonable under the circumstances. Our estimates involve judgments we make based on the information available to us. 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.

This discussion addresses only those estimates that we consider important based on the degree of uncertainty and the likelihood of a material impact if we had used different estimates. There are many other areas in which we use estimates about uncertain matters.

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 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 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 at October 31, 2023, the Corporation determined that that there were no indicators that an asset could have become impaired.

As at October 31, 2022, the Corporation determined that the declines in revenues and demand owing to the COVID-19 pandemic constituted 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, using a discounted cash flow model. This model is based on Level 3 inputs within the fair value hierarchy. Cash flows were derived from the financial forecasts for 2023-2026, based on the Corporation's 2022-2026 strategic plan and 2023 budget, which corresponded with management's best estimates and were approved by the Board of Directors, and took into account at-that-time and expected market conditions, including the impact of the COVID-19 pandemic. The Corporation used various assumptions in the preparation of these projections, which are by their nature uncertain and may have changed unpredictably; accordingly, it is possible that these projections will not be achieved, particularly if demand remains at lower-than-expected levels and travel restrictions persist over time.

The significant assumptions used in the impairment test are as follows:

- An average discount rate of 15.70%, which is the Corporation's weighted average capital cost. This rate was determined taking into account a number of factors such as the risk-free interest rate, the required return on equity investments, risk factors specific to the air transportation industry and risk factors specific to the Corporation's CGUs;
- A long-term growth rate of 2.0% beyond the 5-year period, based on the Bank of Canada's target inflation rate;
- A per gallon fuel price between US$2.24 and US$3.79, based on management's best estimates.

As at October 31, 2022, no impairment in the carrying amount of the Corporation's two CGUs was recognized, as their recoverable amount remained higher than their carrying amount. Sensitivity analyses were performed on the significant assumptions used in the discounted cash flow model and no impairment would have resulted from a change in those assumptions.

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 is performed 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.

The estimates used to determine the provision for return conditions are based on historical experience, actual costs of work and the inflation rate of those costs, 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, totalling $51.3 million, 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.

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.

Taxes

Due to the adverse impact of the COVID-19 pandemic on its results, the Corporation ceased to recognize deferred tax assets of its Canadian subsidiaries and reduced the carrying amount of deferred tax asset balances for which it was no longer able to justify recognition under IFRS. The Corporation measured the available positive and adverse indicators to determine whether sufficient taxable income could be realized to recognize the existing deferred tax assets. There are adverse indications related to losses generated during the year ended October 31, 2023, and the previous fiscal years. These adverse indications outweighed the historical favourable indications and the Corporation did not record any deferred tax assets for its Canadian subsidiaries during the year ended October 31, 2023. The tax deductions underlying these deferred tax assets remain available for future use against taxable income.

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.

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.

Foreign exchange risk management

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 78% of the Corporation's costs were incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 17% of revenues were 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 certain types of foreign currency derivatives based on anticipated foreign exchange rate trends, expiring in generally less than 18 months.

The Corporation can document certain foreign exchange derivatives as hedging instruments and, if applicable, regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These foreign exchange derivatives 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 (loss). Any ineffective portion within a cash flow hedge is recognized in net income (loss), as incurred, under Change in fair value of 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 (loss) 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.

Management of fuel price risk

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 certain types of fuel-related derivative financial instruments, expiring in generally less than 12 months.

The derivative financial instruments used for fuel purchases are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under Change in fair value of 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.

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 $11.3 million as at October 31, 2023 ($9.5 million as at October 31, 2022). 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 customer represented more than 10% of total accounts receivable as at October 31, 2023 and 2022. As at October 31, 2023, approximately 11% (approximately 14% as at October 31, 2022) of accounts receivable were over 90 days past due, whereas approximately 77% (approximately 78% as at October 31, 2022) 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.

As at October 31, 2023, the balance receivable and deposits from credit card processors totalled $46.9 million and $92.1 million, respectively ($196.9 million and $20.8 million, respectively, as at October 31, 2022). The credit risk for these receivables is negligible.

Under the terms of its aircraft and engine leases, the Corporation makes deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $43.7 million as at October 31, 2023 ($37.9 million as at October 31, 2022), 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, 2023, the cash security deposits with lessors that have been claimed totalled $18.9 million ($10.0 million as at October 31, 2022) 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.

Pursuant to certain agreements entered into with its service providers, the Corporation makes deposits. These deposits totalled $7.0 million as at October 31, 2023 ($7.4 million as at October 31, 2022). These deposits are offset by purchases from suppliers. Risk arises from the fact that these suppliers might not be able to honour their obligations by providing the required services. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable suppliers in its active markets. These deposits are spread across a large number of suppliers and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2023, related 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"]), A2 (by Standard & Poor's) or P2 (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 was exposed to a significant concentration of credit risk as at October 31, 2023.

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. 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.

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.

CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 12 – Income Taxes

On May 23, 2023, the IASB issued amendments to IAS 12, *Income Taxes*. These amendments introduce a mandatory temporary exception to the requirements to recognize and disclose information about deferred taxes related to the implementation of the Pillar 2 model rules. The Corporation has applied the mandatory temporary exception, which is effective immediately and is to be applied retrospectively, in jurisdictions in which the rules have been substantively enacted. The Corporation has determined that the retrospective application of these amendments has no impact on its consolidated net loss for the year ended October 31, 2023. For fiscal years beginning on or after November 1, 2023, additional information on income tax expense (recovery) and other information on the tax exposures related to Pillar 2 will have to be disclosed.

Amendments to IAS 1 – Presentation of Financial Statements

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

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

10. RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation's financial position, operating results and activities.

This section does not purport to cover all contingencies or to describe all factors that are likely to affect the Corporation or its activities. Moreover, the risks and uncertainties described may or may not materialize, and may develop differently or have consequences other than those contemplated in this MD&A. Additional risks and uncertainties not currently known to the Corporation or that are currently considered immaterial could also materialize in the future and adversely affect the Corporation.

RISK GOVERNANCE

To improve its risk management capacities, the Corporation has set up a framework for identifying, assessing and managing the different risks applicable to its industry and to companies in general. This framework is based on the following principles:

- Promote a culture of risk awareness at the head office and in subsidiaries; and
- Integrate risk management into strategic, financial and operating objectives.

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which they are responsible, and/or limit the likelihood of these risks materializing. This owner is the first line of defence from a risk management standpoint. The Corporation's support services, namely the Finance, Legal Affairs, IT Security and Human Resources functions, constitute a second line of defence through their involvement in the design and operation of the complementary risk mitigating actions. Lastly, the Internal Audit department of the Corporation is the third line of defence to provide independent assurance on the effectiveness and efficiency of controls over these mitigating actions.

In addition, the Corporation has adopted an ongoing risk management process that includes a quarterly assessment of risk exposures for the Corporation and its subsidiaries, under the oversight of the Audit Committee (financial risks), the Human Resources and Compensation Committee (human resource risks) and the Risk Management and Corporate Responsibility Committee (strategic and operational risks).

Managing these risks is also shared between members of the Corporation's management and the members of the Board of Directors using consistent mapping and language in order to eliminate a silo approach to risk management. As a result of the constantly evolving economic and socio-political context, all risks to which the Corporation is exposed have been re-assessed in detail by the Corporation's officers. As part of this essential process, risks were reprioritized based on their level of probability of occurrence and their quantitative and qualitative impact on the Corporation's business. These risk are then classified according to the impact they may have on the strategic plan, the Corporation and operations. The outcome of this annual exercise comprised a total of 30 risks, rated in order of importance: red for the 6 high-priority risks, orange for the 7 priority risks, yellow for the 11 moderate risks and green for the 6 low risks. These risks were then grouped according to the subject matter and the owner for ease of reference and to ensure that mitigation measures are properly applied as set out in the following paragraphs.

KEY RISKS

An overview of each of the key risk categories is provided below, along with a description of the main measures to reduce the occurrence and mitigate, where possible, the potential impact of these risks on the Corporation's business objectives. Although insurance coverage is purchased for some of these risks, and operational mitigating actions are in place, there can be no assurance that these actions would effectively reduce risks that could have an adverse impact on the Corporation's financial position, reputation and/or ability to achieve its strategic and operational objectives.

FINANCIAL RISKS

Due to the risks described below under economic and general risks, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

Since current market conditions and the Corporation's financial health are not optimal, the Corporation could face difficulties in refinancing its debt and therefore meeting its future financing needs. The Corporation continues to review various options to refinance a portion of the existing debt, including that owed to the Government of Canada, on more advantageous terms than those currently in place. The Corporation cannot guarantee it will have access to such sources of financing or to acceptable financing terms. Although the Corporation has regularly succeeded in extending the maturity date of its debt and has secured lines of credit, there can be no assurance that it will have the necessary liquidity to meet its obligations.

The Corporation's current credit facilities are subject to compliance with certain financial ratios and covenants. There can be no assurance that the Corporation will meet these financial ratios and covenants and that it will be able to use its current credit facilities or secure additional financing. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional financing under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

In addition, in the normal course of business, the Corporation is facing a number of short-term maturities related to service contracts with credit card processors. These agreements will have to be renewed or replaced under market conditions prevailing at the time of their expiry, which could result in more onerous borrowing and operating terms and conditions for the Corporation or an inability to renew or replace such contracts.

Transat is particularly exposed to fluctuations in fuel costs. Although the Corporation has implemented a fuel price hedging program, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any such fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

Transat has significant non-cancellable lease liabilities relating to its aircraft fleet. If the Corporation's operations do not return to sufficient levels, the payments to be made under our existing lease agreements could have a substantial impact on our business.

Transat is exposed, due to its many arrangements with foreign-based suppliers, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar. These exchange rate fluctuations could increase our operating costs or decrease our revenues.

Recent interest rate hikes could also impact interest expense on our fixed- and variable-rate debt instruments, which in turn could affect our interest expense.

In the normal course of business, we receive customer deposits and advance payments. If funds from advance payments were to diminish or be unavailable to pay our suppliers, we would be required to secure alternative capital funding. There could be no assurance that additional funding would be available under terms and conditions suitable to the Corporation, which could adversely affect our business. In accordance with our investment policy, we are required to invest these deposits and advance payments exclusively in investment-grade securities. Any failure of these investment securities to perform at historical levels could reduce our interest income. In addition, the Corporation is exposed to the risk that the financial institutions with which it holds securities or enters into agreements would be unable to honour their obligations.

As a Corporation that processes information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. In addition, credit card processors have already taken mitigation measures such as withholding funds until the service is re-established. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

It is also sometimes difficult to foresee how certain Canadian or international tax laws will be interpreted by the appropriate tax authorities. Subsequent to interpretation of these laws by the different authorities, the Corporation may have to review its own interpretations of tax laws, which in turn could have an adverse impact on our profit margin.

The Corporation is making every effort and remains confident of returning to profitability under its strategic plan, based on current market conditions and the resumption of its operations. However, there can be no assurance that the Corporation will be able to settle its debts and meet its obligations in the normal course of business. In addition, to finance the Corporation's operations until the maturity of the credit facilities, the Corporation may have to again borrow sufficient amounts to meet its needs, but there can be no assurance 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.

Other socio-economic and geo-political factors are also present and create additional uncertainty related to travel demand in the coming months. These factors are further discussed below in the Economic and General Risks section.

Lastly, the travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, comparisons of our operating results between quarters or between six-month periods are not necessarily meaningful and should not be relied on as indicators of future performance.

CYBER ATTACK RISK

In connection with its operations, the Corporation gathers, uses and retains over a fixed period of time large amounts of customer data for commercial, marketing and other purposes in our various computer systems. This data is stored and processed in our facilities and in third-party facilities, including, for example, in a cloud-based environment hosted by a third party. The integrity and protection of the data of our customers, employees and business, as well as the continued operation of our systems and other third-party service providers, are essential to our operations. Security and privacy regulations and contractual obligations are increasingly demanding and have onerous penalties for non-compliance.

Despite our efforts to protect against unauthorized access to our systems and sensitive information, due to the scope and complexity of their information technology structure, our reliance on third parties to support and protect our structure and data, and a constantly evolving cyber threat environment, our systems and those of third parties we rely on are subject to disruptions, failures, unauthorized access, cyber terrorism, employee errors, negligence, fraud or other misuse. In addition, given the sophistication of hackers to gain unauthorized access to our sensitive information, we may be unable to detect the violation for long periods of time, or even not at all.

Such events, whether accidental or intentional, could result in the theft, unauthorized access or disclosure, loss, misuse or unlawful use of customer data that could damage our reputation, disrupt our services or result in business loss, as well as repair and other costs, fines, investigations, legal actions or proceedings. As a result, future incidents could have a material adverse effect on the Corporation, including our business, financial condition, liquidity and operating results.

HUMAN RESOURCE RISKS

The Corporation’s ability to achieve its plan to resume operations is dependent on the experience of its key executives and employees and their knowledge of the tourism, travel and airline industries. In the current economic environment and that of the tourism industry, it is difficult to retain the resources necessary for recovery due to the limited ability to pay employees their fair value. As a result, the loss of key employees could adversely affect our business and operating results.

In addition, our recruitment program, salary structure, performance management programs, succession plan, retention plan and training plan involve risks that could negatively impact our ability to attract and retain the skilled resources needed to regain the pre-pandemic level of operations and support the Corporation's future growth and success. The resumption of the Corporation's activities requires new hires and represents a serious challenge given the labour shortage in the overall economy in Québec and Canada. This shortage has given rise to salary expectations that are challenging for the Corporation because of its limited capacity to compensate employees in this new labour market context.

Labour costs are a significant component of the Corporation's operating expenses. There can be no assurance that Transat will be able to maintain these costs at levels that will not adversely affect its operations, results of operations or financial condition.

The Corporation’s Air Transat subsidiary is the only subsidiary with unionized employees, who are governed by five collective agreements. The agreement governing flight attendants, namely the "Canadian Union of Public Employees", Airline Division, which covers a significant pool of employees, expired on October 31, 2022. Furthermore, it is possible that negotiations to renew this collective agreement, could give rise to work stoppages or slowdowns or substantially higher labour costs in the coming years that could unfavourably impact our operations and operating income.

In addition, the aviation industry is currently facing pressure from airline pilot unions who are demanding compensation adjustments given the anticipated shortage for this type of labour. Recent agreements reached in both the United States and Canada could contribute to pilot departures. The Corporation may be forced to open its collective agreements with pilots, which would have the effect of considerably increasing labour costs for this pool of specialized labour. If pilot demands are not met, the Corporation runs the risk of seeing a massive departure of its pilots, and consequently may have to suspend airline operations.

KEY SUPPLIES AND SUPPLIER RISKS

Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. Any significant interruption in the flow of goods and services from these suppliers, which may be outside our control, could have a significant adverse impact on our business, financial position and operating results.

Our dependence, among others, on Airbus, Rolls-Royce, Pratt & Whitney, CFM, STS Aviation, Kelowna Flightcraft Aerospace, Lufthansa Technik, Sabena Technic and A.J. Walter means that we could be adversely affected by problems connected with Airbus aircraft, and the Rolls-Royce and Pratt & Whitney engines we use, including defective material or parts, mechanical problems or negative perceptions among travellers.

The recent problem with the manufacture of Pratt & Whitney engines on the Airbus 320 raises concerns for the Corporation, which owns this type of aircraft. This problem affects all airlines that also operate this type of aircraft with the same engine, which will lead to numerous and lengthy inspection and maintenance operations over the next three years, enough to ground some aircraft. In particular, these problems will result in the grounding of three of the fifteen A321LRs currently in operation. This situation could have an impact on the Corporation's ability to operate, which may jeopardize its flight operations.

The Corporation also relies on certain suppliers for its information system security and maintenance. See the Technological Risks section.

We are also dependent on a large number of hotels. In general, these suppliers can terminate or modify existing agreements with us on relatively short notice. The potential inability to replace these agreements, to find similar suppliers, or to renegotiate agreements at reduced rates could have an adverse effect on our business, financial position and operating results.

Furthermore, any decline in the quality of travel products or services provided by these suppliers, or any perception by travellers of such a decline, could adversely affect our reputation. Any loss of contracts, changes to our pricing agreements including widespread increases in these prices resulting from current economic factors, access restrictions to travel suppliers' products and services or negative shifts in public opinion regarding certain travel suppliers resulting in lower demand for their products and services could have a significant effect on our results.

ESG RISKS

The market and travellers are increasingly requiring that a listed corporation, such as Transat, be recognized as a socially responsible organization and that it adheres to environmental, social and governance ("ESG") criteria, i.e., factors that have an impact on the environment, that are related to the social involvement of the Corporation and that are related to the way the Corporation runs its business and governs itself.

In this respect, over the years, the Corporation has adopted multiple measures related to these factors, especially its agreement with the SAF+ Consortium to build fuel-efficient aircraft, its new fleet of more efficient, energy-saving Airbus A321LR aircraft, its involvement with communities in Canada and at destination, its approach to managing human resources, in particular, DEI (Diversity, Equity, Inclusion), corporate governance, its Travelife certification program and many others. Despite these initiatives, it is possible that, in the eyes of current and future clients, certain organizations, institutions or shareholders, the Corporation may not fully meet the definition of a socially responsible organization, which could also tarnish the Corporation's reputation.

COMPETITION RISKS

Transat operates in an industry in which competition has always been intense. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources, and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. The Corporation could thus be unable to compete successfully against existing or potential competitors, and increased competition could have a material adverse effect on its operations, prospects, revenues and profit margin.

In addition, traveller needs dictate how our industry evolves. In recent years, travellers have demanded higher value, better product selection and personalized service, all at competitive prices. Widespread adoption of the Internet makes it easier for travellers to access information on travel products and services directly from suppliers, thus bypassing not only tour operators such as Transat, but also retail travel agents through whom we generate a portion of our revenues. Since our available seat capacity and person-nights are also influenced by market forces, our business model is called into question in some respects. The Corporation's inability to rapidly meet those expectations in a proactive manner could adversely impact its competitive positioning while reducing profitability of its products.

Further, given that we rely to some extent on retail travel agencies for access to travellers and revenues, any consumer shift away from travel agencies and toward direct purchases from travel suppliers could impact the Corporation.

These competitive pressures could adversely impact our revenues and margins since we would likely have to match competitors' prices. The Corporation's performance in all of the countries in which it operates will depend on its continued ability to offer quality products at competitive prices.

ECONOMIC AND GENERAL RISKS

The holiday travel industry is sensitive to global, national, regional and local economic conditions. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services.

We must not forget the whiff of the Covid pandemic. While the Corporation resumed its airline operations in 2022, there is still a risk that cross-border travel restrictions will be imposed again by domestic government authorities and/or the countries that the Corporation serves. This would once again lead to a significant decrease in cash flows from operations despite the mitigation actions taken by the Corporation.

All these factors are creating feelings of anxiety among the Corporation's customers, affecting demand for leisure travel. As a result, revenues might not be sufficient to cover the fixed expenses related to the resumption of operations and bring about profitability in the medium term.

Seasonal planning of flight and person-night capacity is another risk in the tourism industry. For the Corporation, it entails forecasting traveller demand in advance and anticipating trends in future preferred destinations. This is all the more difficult during times of economic troubles. Poor planning for those needs could unfavourably impact our business, financial situation and operating results.

In addition to the foregoing factors, our operating results could also be adversely affected by factors beyond Transat's control, including the following: socio-political instability in Eastern Europe, namely the war in Ukraine, the Israel-Palestine conflict, extreme weather conditions, climate-related or geological disasters, terrorism whether actual or apprehended, new epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perceptions of destination-based service and airline safety, demographic trends, disruptions to air traffic control systems, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel reservations.

REPUTATION RISKS

All the risks discussed in this section have an impact on the Corporation's reputation. If mitigation measures are not sufficient, the arising of a risk can harm the Corporation's reputation. In addition, the ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics and a supplier code of conduct, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control, such as a cyberattack or a class action suit, will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

AVIATION RISKS

To carry on business or extend its outreach, the Corporation requires access to aircraft that are largely operated by its subsidiary Air Transat. This fleet consists primarily of aircraft leased for several years, sometimes under renewable leases, with varying renewal dates and conditions. If the Corporation were unable to renew its leases for long-term or seasonal leasing, secure timely access to appropriate aircraft under adequate conditions or retire certain aircraft as anticipated, such an outcome could adversely affect the Corporation.

Our focus on two types of Airbus aircraft (A321 and A330) could result in significant downtime for part of our fleet if mechanical problems arise or if the regulator releases any mandatory inspection or maintenance directives applicable to our types of aircraft. The Pratt & Whitney engine issue, discussed above in the key supplies risk section, is currently affecting the Corporation.

If our operations are disrupted due to aircraft unavailability, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

An incident involving one of our aircraft during our operations could give rise to repair costs or major replacement costs for the damaged aircraft, service interruption, and claims. Consequently, such an event could have an unfavourable impact on the Corporation's reputation.

The Corporation also requires access to airport facilities in its source markets and multiple destinations. In particular, the Corporation must have access to takeoff and landing slots and gates under conditions that allow it to be competitive. Accordingly, any difficulty in securing such access or disruptions in airport operations caused, for instance, by labour conflicts or other factors could adversely affect our business.

With the privatization of airports and air navigation authorities in Canada, airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees, particularly since some of these airports are located in U.S. border towns and are not subject to such fees. If these user and navigation fees were to increase again substantially, our business, financial position and operating results could be adversely affected, which would result in certain routes being conceded to our U.S. competitors.

TECHNOLOGICAL RISKS

Transat relies heavily on various information and telecommunication technologies to operate its business, increase its revenues and reduce its operating expenses. Our business depends on our ability to manage reservation systems, including handling high telephone call volumes on a daily basis, monitor product profitability and inventory, adjust prices quickly, access and protect information, distribute our products to retail travel agents and other travel intermediaries, and stave off information system intrusions. Rapid changes in these technologies and growing demand for web-based or mobile reservations could require higher-than-anticipated capital expenditures to improve customer service, which could impact our operating results.

In addition to the cyber attacks discussed previously, these technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunication systems failures, power failures, computer viruses, computer hacking, unauthorized or fraudulent users, and other operational and security issues. Furthermore, the exploitation of system vulnerabilities is increasingly sophisticated and frequent and requires constant management of and developments in the measures taken. While Transat continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly or in a timely manner. Any systems failures or outages could materially and adversely affect the Corporation's operations and its customer relationships and could have an adverse effect on the Corporation's reputation, its operating results and financial position.

Furthermore, several of those information technology systems depend on third-party providers, such as Softvoyage, Datalex and Radixx. Those suppliers sell more external solutions (through partnerships or cloud services) requiring additional control measures. If these providers were to become incapable of maintaining or improving efficient technology solutions in a profitable and timely manner, the Corporation would be unable to react effectively to information security attacks, obtain new systems to meet growth in its customer base or support new products offered by the Corporation. Consequently, such situations could generate additional expenses, which would unfavourably impact the Corporation's financial position.

REGULATORY RISKS

The industry in which Transat operates is subject to extensive Canadian and foreign government regulations. These relate to, among other things, security, safety, consumer rights, permits, licensing, intellectual property rights, privacy, competition, pricing and the environment. Consequently, Transat's future results may vary depending on the actions of government authorities with jurisdiction over our operations. These actions include the granting and timing of certain government approvals or licences; the adoption of regulations impacting customer service standards (such as new passenger security standards); the adoption of more stringent noise restrictions or curfews; and the adoption of provincial regulations impacting the operations of retail and wholesale travel agencies. In addition, the adoption of new or different regulatory frameworks or amendments to existing legislation or regulations and tax policy changes could affect our operations, particularly as regards hotel room taxes, car rental taxes, airline taxes and airport fees.

With a view to combatting climate change, the Corporation is subject to various regulations, including the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"). Under CORSIA, any increase in emissions above the applicable base year level must be offset by the Corporation through the purchase of offset credits or the use of sustainable aviation fuels. While the Corporation does not anticipate having to purchase offsets before 2024 due to the lower number of flights attributable to the pandemic, the costing of this obligation will depend on the participating countries, growth in eligible routes and the type of eligible carbon offsets.

The Corporation is also subject to Canada's *Clean Fuel Regulations*, which are an important part of Canada's climate plan to reduce emissions, accelerate the use of clean technologies and fuels, and support long-term, sustainable jobs in a diversified economy. In addition, to meet its commitments under the Paris Agreement, the Government of Canada has set a minimum price for carbon under the *Greenhouse Gas Pollution Pricing Act*. The federal minimum price initially set at $20 per ton of CO_2 equivalent in 2019, increased to $40 in 2021, and to $50 in 2022, increasing by $15 per year thereafter, to reach $170 in 2030. It should be noted that only domestic aviation is subject to this act.

The Corporation is also subject to the EU Emissions Trading Scheme ("EU-ETS") and to the UK Emissions Trading Scheme ("UK-ETS"). This regulation for aviation system only includes intra-EEA (European Economic Association) flights under the EU-ETS and intra-UK flights under the UK-ETS.

The costs associated with these regulations are not currently considered material to the Corporation but as various climate-related regulations are continually being adjusted, obligations could change significantly in the future. As a result, these changes could have a material impact on our costs and the Corporation's margin would be adversely impacted.

Finally, in the course of our business in the air carrier and travel industry, the Corporation is exposed to claims and legal proceedings, including class action suits. Litigation and claims could adversely affect our business and operating results.

INSURANCE COVERAGE RISKS

We hold and maintain full force insurance policies for amounts conforming to industry standards. Our liability insurance for our tour operator and travel agency activities covers the liability for bodily harm or property damage suffered by travellers or third parties. In the context of our activities as a tour operator, we use reasonable efforts to ensure that our service providers also have insurance covering bodily harm or property damage suffered by travellers. Furthermore, in collaboration with an insurer, we established a voluntary professional liability insurance (errors and omissions) plan for our franchisees.

We also hold and maintain in full force insurance policies for amounts in accordance with airline industry standards and in compliance with applicable statutory requirements and the covenants of our aircraft lease agreements. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US$1.25 billion with the exception of war risk bodily injury/property damage to third parties excluding passengers where the limit is US$250 million for any single event in the aggregate. In this latter regard, additional insurance is carried and maintained for war risk bodily injury/property damage to third parties excluding passengers covering the excess of US$250 million up to the limit of US$1.0 billion for any single event in the aggregate.

In addition, the Corporation has directors' and officers' liability insurance and professional liability insurance to pay the amounts the Corporation may be required to disburse in connection with lawsuits specifically involving directors and officers, not the Corporation.

However, there can be no assurance of all risks being covered in this manner or our ability to secure coverage providing favourable levels and conditions at an acceptable cost.

Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

11. CONTROLS AND PROCEDURES

The implementation of the Canadian Securities Administrators National Instrument 52-109 represents a continuous improvement process, which has prompted the Corporation to formalize existing processes and control measures and introduce new ones. Transat has chosen to make this a corporate-wide project, which will result in operational improvements and better management.

In accordance with this instrument, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures [“DC&P”] and the design and effectiveness of internal control over financial reporting [“ICFR”].

The President and Chief Executive Officer and the Chief Financial Officer have designed DC&P or caused them to be designed under their supervision to provide reasonable assurance that material information relating to the Corporation has been made known to them and that information required to be disclosed in the Corporation’s filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

Also, the President and Chief Executive Officer and the Chief Financial Officer have designed ICFR or have caused it to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for financial reporting purposes in accordance with IFRS.

EVALUATION OF DC&P AND ICFR

An evaluation of the design and operating effectiveness of DC&P and ICFR was carried out under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances. Among other things, the evaluation took into consideration the Corporate Disclosure Policy, the code of professional ethics, the sub-certification process and the operation of the Corporation’s Disclosure Committee.

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2023.

Lastly, no significant changes in ICFR occurred during the quarter ended October 31, 2023 that materially affected the Corporation’s ICFR.

12. OUTLOOK

To date, load factors for the winter season are 1.3 percentage points lower than in fiscal 2023, while airline unit revenues, expressed in yield, remain 2.4% higher. Current demand and pricing conditions should allow the Corporation to cope with a cost environment that remains volatile and subject to inflationary pressures.

Considering the current operating environment, the Corporation is setting a fiscal 2024 adjusted EBITDA margin target range of 7.5% to 9%, which would exceed Transat's historical levels. For fiscal 2024, the Corporation intends to increase available capacity by 19% through recent and planned aircraft additions, as well as further improvements in fleet utilization. This capacity will mainly be deployed to expand frequency and annualize best performing routes and to service recently announced new destinations.

In making these forward-looking statements, the Corporation is making the following assumptions for the fiscal year: weak GDP growth in Canada, an exchange rate of C$1.33 to US$1 and an average price per gallon of jet fuel of C$4.00. It also assumes that we reach a satisfactory resolution to renew the collective bargaining agreement with flight attendants and that the Pratt & Whitney engine issue follows the planned schedule, which currently involves three grounded aircraft, and should increase to five or six aircraft by the end of the fiscal year.

MANAGEMENT'S REPORT

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.

Annick Guérard
President and Chief Executive Officer

Patrick Bui
Chief Financial Officer

December 13, 2023