

## MANAGEMENT'S REPORT

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

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

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

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



Annick Guérard  
President and Chief Executive Officer



Patrick Bui  
Chief Financial Officer

December 13, 2023

# INDEPENDENT AUDITOR'S REPORT

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

## Opinion

We have audited the consolidated financial statements of Transat A.T. Inc. and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at October 31, 2023 and 2022 and the consolidated statements of loss, the consolidated statements of comprehensive loss, the consolidated statements of changes in negative equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2023 and 2022 and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ["IFRS"].

## Basis for opinion

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

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><i>Revenue recognition</i></p> <p>As indicated in Notes 2 and 19, the Group recognizes revenue when it satisfies the performance obligation, that is, when the service is transferred to the customer and the customer obtains control of that service. The amounts received from customers for services not yet provided are included in current liabilities as Customer deposits and deferred revenues. The Group's revenues for the year ended October 31, 2023 amounted to \$3,048.4 million. As at October 31, 2023, customer deposits and deferred revenues totalled \$754.2 million.</p> <p>Group revenues are recorded using a number of IT systems and controls for processing, recording and recognizing a large volume of low-value transactions.</p> <p>We considered this issue to be a key audit matter due to the significance of revenues and the large volume of transactions that required significant audit effort to test recorded revenues.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> <li>- We tested certain controls related to IT systems used by the Group to record revenues;</li> <li>- We obtained and assessed the report certifying the effectiveness of internal controls implemented by a service organization used by the Group to record revenues, particularly for bookings;</li> <li>- We tested a sample of revenue-generating transactions for fiscal 2023 by tracing selected items to source documents;</li> <li>- We tested a sample of airline transportation services, hotel services and manual adjustments recorded close to fiscal year-end by examining the source documents and supporting documents at the time the services were rendered.</li> </ul>

#### Other information

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

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

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

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

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

#### Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*Ernst & Young LLP*<sup>1</sup>

Montréal, Canada

December 13, 2023

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

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

(in thousands of Canadian dollars)	Notes	As at October 31, 2023 \$	As at October 31, 2022 \$
<b>ASSETS</b>			
Cash and cash equivalents	14	435,647	322,535
Cash and cash equivalents in trust or otherwise reserved	4	421,002	344,284
Trade and other receivables	5	138,675	265,050
Income taxes receivable	22	598	5,537
Inventories		33,735	26,725
Prepaid expenses		38,113	26,428
Derivative financial instruments	6	38,321	11,939
Current portion of deposits	7	100,609	29,392
<b>Current assets</b>		<b>1,206,700</b>	<b>1,031,890</b>
Cash and cash equivalents reserved	4	29,750	31,273
Deposits	7	222,196	172,231
Deferred tax assets	22	1,047	953
Property, plant and equipment	9	1,083,109	1,000,151
Intangible assets	10	14,771	13,261
Investment	11	11,797	8,820
Deferred financing costs	12	—	12,552
<b>Non-current assets</b>		<b>1,362,670</b>	<b>1,239,241</b>
		<b>2,569,370</b>	<b>2,271,131</b>
<b>LIABILITIES</b>			
Trade and other payables	13	319,764	289,897
Income taxes payable		416	1,054
Customer deposits and deferred revenues		754,176	602,509
Derivative financial instruments	6	17,158	6,209
Current portion of lease liabilities	14	150,246	137,165
Current portion of liability related to warrants	15	20,816	16,799
Current portion of provision for return conditions	16	1,856	—
<b>Current liabilities</b>		<b>1,264,432</b>	<b>1,053,633</b>
Long-term debt and lease liabilities	14	1,740,350	1,614,903
Liability related to warrants	15	—	7,561
Deferred government grant	14	146,634	169,025
Provision for return conditions	16	175,976	154,772
Employee benefits liability	17	20,961	20,773
Deferred tax liabilities	22	56	644
<b>Non-current liabilities</b>		<b>2,083,977</b>	<b>1,967,678</b>
<b>NEGATIVE EQUITY</b>			
Share capital	18	223,450	221,924
Share-based payment reserve		16,329	16,092
Deficit		(1,008,452)	(984,602)
Cumulative exchange differences		(10,366)	(3,594)
		<b>(779,039)</b>	<b>(750,180)</b>
		<b>2,569,370</b>	<b>2,271,131</b>

See accompanying notes to the consolidated financial statements

On behalf of the Board,



Director



Director

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

Years ended October 31		2023	2022
(in thousands of Canadian dollars, except per share amounts)	Notes	\$	\$
<b>Revenues</b>	<b>19</b>	<b>3,048,352</b>	<b>1,642,038</b>
<b>Operating expenses</b>			
Costs of providing tourism services		707,023	355,250
Aircraft fuel		647,795	526,152
Salaries and employee benefits	19, 23	442,623	288,889
Sales and distribution costs		214,076	116,105
Airport and navigation fees		191,283	128,318
Aircraft maintenance		172,812	114,159
Aircraft rent	14	12,254	6,018
Other airline costs		272,761	162,082
Other		110,769	90,949
Share of net (income) loss of a joint venture	11	(2,758)	2,477
Depreciation and amortization	19	186,355	154,212
Restructuring costs	20	3,626	847
		<b>2,958,619</b>	<b>1,945,458</b>
<b>Operating income (loss)</b>		<b>89,733</b>	<b>(303,420)</b>
Financing costs	14	135,397	105,314
Financing income		(42,966)	(12,982)
Change in fair value of derivatives		4,434	9,685
Revaluation of liability related to warrants	15	(3,544)	(21,989)
Foreign exchange loss		23,378	92,150
Write-off of deferred financing costs	12	12,743	—
Loss on business disposal	8	341	—
Foreign exchange gain on business disposal	8	(7,275)	—
Gain on asset disposals	21	(2,511)	(3,934)
Gain on long-term debt modification	14	(5,585)	(22,191)
<b>Loss before income tax expense</b>		<b>(24,679)</b>	<b>(449,473)</b>
<b>Income taxes (recovery)</b>	<b>22</b>		
Current		528	(3,174)
Deferred		85	(975)
		<b>613</b>	<b>(4,149)</b>
<b>Net loss for the year</b>		<b>(25,292)</b>	<b>(445,324)</b>
Loss per share	18		
Basic		(0.66)	(11.77)
Diluted		(0.66)	(11.77)

See accompanying notes to the consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	2023 \$	2022 \$
<b>Net loss for the year</b>	<b>(25,292)</b>	<b>(445,324)</b>
<b>Other comprehensive income (loss)</b>		
<b>Items that will be reclassified to net loss</b>		
Foreign exchange gain on translation of financial statements of foreign subsidiaries	503	3,955
Reclassification to net loss	(7,275)	(360)
	<b>(6,772)</b>	<b>3,595</b>
<b>Items that will never be reclassified to net loss</b>		
Retirement benefits – Net actuarial gains	17	1,442
	<b>1,442</b>	<b>5,603</b>
Total other comprehensive income (loss)	<b>(5,330)</b>	<b>9,198</b>
<b>Comprehensive loss for the year</b>	<b>(30,622)</b>	<b>(436,126)</b>

See accompanying notes to the consolidated financial statements



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

(in thousands of Canadian dollars)	Share capital \$	Share-based payment reserve \$	Deficit \$	Cumulative exchange differences \$	Total negative equity \$
<b>Balance as at October 31, 2021</b>	221,012	15,948	(544,881)	(7,189)	(315,110)
Net loss for the year	—	—	(445,324)	—	(445,324)
Other comprehensive income	—	—	5,603	3,595	9,198
Comprehensive income (loss) for the year	—	—	(439,721)	3,595	(436,126)
Issued from treasury	912	—	—	—	912
Share-based payment expense	—	144	—	—	144
	912	144	—	—	1,056
<b>Balance as at October 31, 2022</b>	<b>221,924</b>	<b>16,092</b>	<b>(984,602)</b>	<b>(3,594)</b>	<b>(750,180)</b>
Net loss for the year	—	—	(25,292)	—	(25,292)
Other comprehensive income (loss)	—	—	1,442	(6,772)	(5,330)
Comprehensive loss for the year	—	—	(23,850)	(6,772)	(30,622)
Issued from treasury	1,526	—	—	—	1,526
Share-based payment expense	—	237	—	—	237
	1,526	237	—	—	1,763
<b>Balance as at October 31, 2023</b>	<b>223,450</b>	<b>16,329</b>	<b>(1,008,452)</b>	<b>(10,366)</b>	<b>(779,039)</b>

See accompanying notes to the consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	<i>Notes</i>	2023 \$	2022 \$
<b>OPERATING ACTIVITIES</b>			
Net loss for the year		(25,292)	(445,324)
Operating items not involving an outlay (receipt) of cash:			
Depreciation and amortization	9	186,355	154,212
Change in fair value of derivatives		4,434	9,685
Revaluation of liability related to warrants		(3,544)	(21,989)
Foreign exchange loss		23,378	92,150
Write-off of deferred financing costs	12	12,743	—
Loss on business disposal	8	341	—
Foreign exchange gain on business disposal	8	(7,275)	—
Gain on asset disposals	21	(2,511)	(3,934)
Gain on long-term debt modification	14	(5,585)	(22,191)
Share of net (income) loss of a joint venture	11	(2,758)	2,477
Capitalized interest on long-term debt and lease liabilities		44,563	45,902
Deferred taxes		85	(975)
Employee benefits	17	2,872	377
Share-based payment expense		237	144
		228,043	(189,466)
Net change in non-cash working capital balances related to operations		122,638	46,548
Net change in provision for return conditions		18,954	13,299
Net change in other assets and liabilities related to operations		(47,885)	(48,235)
<b>Cash flows related to operating activities</b>		<b>321,750</b>	<b>(177,854)</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment and other intangible assets		(57,568)	(32,531)
Consideration received for a business disposal	8	48,110	—
Decrease (increase) in cash and cash equivalents reserved		1,523	(545)
Capital contribution to a joint venture	11	—	(707)
<b>Cash flows related to investing activities</b>		<b>(7,935)</b>	<b>(33,783)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of lease liabilities	14	(151,389)	(108,336)
Repayment of debt	14	(52,967)	(3,344)
Transaction costs		(191)	(2,760)
Proceeds from issuance of shares	18	1,526	912
Proceeds from borrowings	14	—	213,217
<b>Cash flows related to financing activities</b>		<b>(203,021)</b>	<b>99,689</b>
Effect of exchange rate changes on cash and cash equivalents		2,318	1,288
<b>Net change in cash and cash equivalents</b>		<b>113,112</b>	<b>(110,660)</b>
Cash and cash equivalents, beginning of year		322,535	433,195
<b>Cash and cash equivalents, end of year</b>		<b>435,647</b>	<b>322,535</b>
<b>Supplementary information (as reported in operating activities)</b>			
Net income taxes recovered		(3,984)	(12,171)
Net interest paid		42,681	42,112

See accompanying notes to the consolidated financial statements

## Transat A.T. inc.

Notes to Consolidated Financial Statements

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

### Note 1 Corporate information

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

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

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2023, were approved by the Corporation’s Board of Directors on December 13, 2023.

### Note 2 Significant accounting policies

#### Basis of preparation

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

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

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

#### Basis of consolidation

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

#### Subsidiaries

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

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

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

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

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

#### **Investment in a joint venture**

A joint venture is an entity in which the parties that have joint control over the entity have rights to the net assets of the entity.

The Corporation's investment in a joint venture is accounted for using the equity method as follows:

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

#### **Foreign currency translation**

##### **Transactions and balances**

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

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

**Group companies**

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

**Cash equivalents**

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

**Inventories**

Inventories, consisting primarily of spare parts, supplies and fuel, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be indicative of net realizable value. Inventories are presented net of the provision for impairment of inventories, if applicable. The Corporation did not record a provision for impairment of inventories in 2023 and 2022.

**Leases**

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

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

The initial value of right-of-use assets is obtained through the calculation of lease liabilities. Right-of-use assets are recognized in accordance with IAS 16, *Property, Plant and Equipment*, and broken down into their major components and depreciated over the shorter of the lease term or the expected useful life.

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

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

**Property, plant and equipment**

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

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

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

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

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

#### **Right-of-use assets**

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

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

#### **Goodwill**

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

#### **Intangible assets**

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

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

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

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

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

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

Software	3–10 years
Customer lists	7–10 years

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

## Financial instruments

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

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

### **Classification of financial instruments**

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

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

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

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

#### *Amortized cost*

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

### **Derivative financial instruments and hedge accounting**

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

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

These derivative financial instruments are designated as cash flow hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. The Corporation has defined a hedging ratio of 1:1 for its hedging relationships. For the derivative financial instruments designated as cash flow hedges, changes in the fair value of the effective portion are recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive income (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 prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same consolidated statement of income (loss) account in which the hedged item is recognized.

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

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

#### **Derivative financial instruments that do not qualify for hedge accounting**

In the normal course of business, the Corporation also uses fuel-related derivatives to manage its exposure to unstable fuel prices as well as foreign currency derivatives to offset the future risks of fluctuations in foreign currencies that have not been designated for hedge accounting. These 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. When realized, at maturity of foreign currency derivatives that do not qualify for hedge accounting, any gains or losses are reclassified to the same consolidated statement of income (loss) account in which the hedged item is recognized.

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

#### **Transaction costs**

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

#### **Fair value**

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



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

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

### Impairment of financial assets classified at amortized cost

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

### Impairment of non-financial assets

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

### Intangible assets

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

### Reversal of impairment losses

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

## Provisions

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

### Provision for return conditions

Aircraft- and equipment-related leases contain obligations arising from the conditions under which the assets must be returned to the lessor on expiry of the lease [the “return conditions”]. The Corporation records a provision arising from the return conditions of leased aircraft and engines upon commencement of the lease based on the degree of use until maintenance 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.

## Employee future benefits

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

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

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

## Revenue recognition

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

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

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

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

#### **Breakdown of revenue from contracts with customers**

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

#### **Contract balances**

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

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

#### **Government grants**

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

The difference between the fair value of drawdowns under the unsecured credit facility related to travel credits and their nominal value was recognized as Deferred government grant at the time of the drawdown. The proceeds from the deferred government grant are recognized on the consolidated statement of income (loss) as a reduction of the corresponding financing costs using the effective interest method.

#### **Income Taxes**

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

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

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

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

## Share-based payment plans

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

### Equity-settled transactions

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

### Cash-settled transactions

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

### Employee share purchase plans

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

## Earnings per share

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

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

## 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.

## **Note 3 Significant accounting estimates and judgments**

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

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

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

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

The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years, that were approved by the Corporation's Board of Directors, and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

As at October 31, 2023, the Corporation determined that there were no indications that any assets may be impaired.

As at October 31, 2022, the Corporation determined that the significant declines in revenues and demand due to the COVID-19 pandemic were indications of impairment of its CGUs. Accordingly, the Corporation performed a new impairment test on its CGUs. The recoverable amount of CGUs was determined based on their value in use, applying 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 to 2026, based on the Corporation's 2022–2026 strategic plan and 2023 budget, which was consistent with management's best estimates and had been approved by the Board of Directors, and took into account current 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 could change 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 was recognized on the carrying amount of the Corporation's two CGUs, 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.

As at October 31, 2022, impairment tests of the land held in Mexico and the investment in a joint venture were performed separately from the test performed on the Corporation's CGUs.

### Provision for return conditions

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 \$51,283, 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

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

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

Due to the 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 favourable and adverse indicators to determine whether sufficient taxable income could be realized to recognize the existing deferred tax assets. There are adverse indicators related to the losses generated during the year ended October 31, 2023 and 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.

#### Note 4 Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2023, cash and cash equivalents in trust or otherwise reserved included \$379,006 [\$319,162 as at October 31, 2022] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of \$71,746, \$29,750 of which was recorded as non-current assets [\$56,395 as at October 31, 2022, \$31,273 of which was recorded as non-current assets], and pledged as collateral security against letters of credit.

#### Note 5 Trade and other receivables

	2023	2022
	\$	\$
Credit card processor receivables	46,851	196,894
Government receivables	30,381	31,179
Cash receivable from lessors	18,862	9,959
Trade receivables	11,308	9,497
Other receivables	31,273	17,521
	<b>138,675</b>	<b>265,050</b>

**Note 6 Financial instruments**

**Classification of financial instruments**

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

	Carrying amount			Total	Fair value
	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost		
	\$	\$	\$	\$	\$
<b>As at October 31, 2023</b>					
<b>Financial assets</b>					
Cash and cash equivalents	435,647	—	—	435,647	435,647
Cash and cash equivalents in trust or otherwise reserved	450,752	—	—	450,752	450,752
Trade and other receivables	—	—	108,294	108,294	108,294
Deposits with credit card processors	—	—	92,064	92,064	92,064
Deposits on leased aircraft and engines	—	—	43,711	43,711	43,711
Derivative financial instruments					
- Fuel-related derivatives	12,472	—	—	12,472	12,472
- Foreign currency derivatives	25,849	—	—	25,849	25,849
	<b>924,720</b>	<b>—</b>	<b>244,069</b>	<b>1,168,789</b>	<b>1,168,789</b>
<b>Financial liabilities</b>					
Trade and other payables	—	—	309,067	309,067	309,067
Derivative financial instruments					
- Fuel-related derivatives	3,585	—	—	3,585	3,585
- Foreign currency derivatives	13,573	—	—	13,573	13,573
Long-term debt	—	—	669,145	669,145	646,998
Liability related to warrants	20,816	—	—	20,816	20,816
	<b>37,974</b>	<b>—</b>	<b>978,212</b>	<b>1,016,186</b>	<b>994,039</b>



## Transat A.T. inc.

### Notes to Consolidated Financial Statements

	Carrying amount				
	Fair value	Fair value	Amortized cost	Total	Fair value
	through profit or loss	through other comprehensive income			
\$	\$	\$	\$	\$	
<b>As at October 31, 2022</b>					
<b>Financial assets</b>					
Cash and cash equivalents	322,535	—	—	322,535	322,535
Cash and cash equivalents in trust or otherwise reserved	375,557	—	—	375,557	375,557
Trade and other receivables	—	—	233,871	233,871	233,871
Deposits with credit card processors	—	—	20,757	20,757	20,757
Deposits on leased aircraft and engines	—	—	37,920	37,920	37,920
Derivative financial instruments					
- Fuel-related derivatives	4,339	—	—	4,339	4,339
- Foreign currency derivatives	7,600	—	—	7,600	7,600
- Prepayment option	128	—	—	128	128
	710,159	—	292,548	1,002,707	1,002,707
<b>Financial liabilities</b>					
Trade and other payables	—	—	277,319	277,319	277,319
Derivative financial instruments					
- Fuel-related derivatives	6,209	—	—	6,209	6,209
Long-term debt	—	—	664,288	664,288	654,954
Liability related to warrants	24,360	—	—	24,360	24,360
	30,569	—	941,607	972,176	962,842

### Determination of fair value of financial instruments

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

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

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

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

The fair value of the pre-payment option related to the unsecured debt - LEEFF was determined using a trinomial tree approach based on the Hull-White model [Note 14].

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

The fair value of the liability related to warrants was measured using the Black-Scholes model [Note 15].

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

	Quoted prices in active markets (Level 1) \$	Other observable inputs (Level 2) \$	Unobservable inputs (Level 3) \$	Total \$
<b>As at October 31, 2023</b>				
<b>Financial assets</b>				
Derivative financial instruments				
- Fuel-related derivatives	—	12,472	—	12,472
- Foreign currency derivatives	—	25,849	—	25,849
	—	38,321	—	38,321
<b>Financial liabilities</b>				
Derivative financial instruments				
- Fuel-related derivatives	—	3,585	—	3,585
- Foreign currency derivatives	—	13,573	—	13,573
Liability related to warrants	—	—	20,816	20,816
	—	17,158	20,816	37,974
<b>As at October 31, 2022</b>				
<b>Financial assets</b>				
Derivative financial instruments				
- Fuel-related derivatives	—	4,339	—	4,339
- Foreign currency derivatives	—	7,600	—	7,600
- Prepayment option	—	—	128	128
	—	11,939	128	12,067
<b>Financial liabilities</b>				
Derivative financial instruments				
- Fuel-related derivatives	—	6,209	—	6,209
Liability related to warrants	—	—	24,360	24,360
	—	6,209	24,360	30,569

## Management of risks arising from financial instruments

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

### Credit and counterparty risk

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

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled \$11,308 as at October 31, 2023 [\$9,497 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, receivables from and deposits with two credit card processors totalled \$46,851 and \$92,064, respectively [\$196,894 and \$20,757, respectively, as at October 31, 2022]. The credit risk for these amounts 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 \$43,711 as at October 31, 2023 [\$37,920 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 \$18,862 [\$9,959 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 \$7,033 as at October 31, 2023 [\$7,383 as at October 31, 2022]. These deposits are offset by purchases from suppliers. Risk arises from the fact that suppliers might not be able to honour their obligations to provide the required goods or 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 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with only 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.

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

The maturities of the Corporation's financial liabilities as at October 31, 2023 are summarized in the following table, excluding lease liabilities, which are disclosed in Note 14:

	Maturing in under 1 year \$	Maturing in 1 to 2 years \$	Maturing in 2 to 5 years \$	Maturing in 5 years and up \$	Total contractual cash flows \$	Total carrying amount \$
Accounts payable and accrued liabilities	309,067	—	—	—	309,067	309,067
Long-term debt	21,449	189,507	765,747	—	976,703	669,145
Derivative financial instruments	19,152	—	—	—	19,152	17,158
Liability related to warrants	20,816	—	—	—	20,816	20,816
<b>Total</b>	<b>370,484</b>	<b>189,507</b>	<b>765,747</b>	<b>—</b>	<b>1,325,738</b>	<b>1,016,186</b>

## Market risk

### Foreign exchange risk

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, lease liabilities, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as applicable. 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 derivative financial instruments related to foreign currencies based on anticipated foreign exchange rate trends, expiring in generally less than 18 months.

Expressed in Canadian dollars, the net financial assets and net financial liabilities of the Corporation and its subsidiaries denominated in currencies other than their financial statement measurement currency as at October 31, 2023, based on their financial statement measurement currency, are summarized in the following table:

Net assets (liabilities)	U.S. dollar \$	Euro \$	Pound sterling \$	Canadian dollar \$	Other currencies \$	Total \$
<b>2023</b>						
<b>Financial statement measurement currency of the group's companies</b>						
U.S. dollar	—	—	—	8	(646)	(638)
Pound sterling	160	13	—	1,912	—	2,085
Canadian dollar	(1,186,052)	(13,886)	9,717	—	1,252	(1,188,969)
Other currencies	296	11	—	—	733	1,040
<b>Total</b>	<b>(1,185,596)</b>	<b>(13,862)</b>	<b>9,717</b>	<b>1,920</b>	<b>1,339</b>	<b>(1,186,482)</b>

For the year ended October 31, 2023, a 1% appreciation in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a \$9,214 decrease in the Corporation's net loss for the year, whereas other comprehensive loss would have increased by \$1,432. Conversely, a 1% depreciation in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a \$10,308 increase in the Corporation's net loss for the year, whereas other comprehensive loss would have decreased by \$1,432. Taking the U.S. dollar individually for the sensitivity analysis, the impact on the Corporation's net loss for the year would have resulted in a decrease of \$9,362 had the Canadian dollar strengthened or a increase of \$10,456 had it weakened. Also, for sensitivity analysis purposes, the impact of any other single currency on the Corporation's net loss would not be material.

As at October 31, 2023, 38% of estimated requirements for fiscal 2024 were covered by foreign exchange derivatives [31% of the estimated requirements for fiscal 2023 were covered by foreign exchange derivatives as at October 31, 2022].

### **Risk of fluctuations in fuel prices**

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could, in turn, adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes certain types of fuel-related derivative financial instruments, expiring in generally less than 12 months.

For the year ended October 31, 2023, a 10% increase in fuel prices, assuming that all other variables had remained the same, would have resulted in a \$11,695 decrease in the Corporation's net loss. A 10% decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a \$4,947 decrease in the Corporation's net loss.

As at October 31, 2023, 35% of estimated requirements for fiscal 2024 were covered by fuel-related derivatives [24% of the estimated requirements for fiscal 2023 were covered by fuel-related derivatives as at October 31, 2022].

### **Interest rate risk**

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

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

For the year ended October 31, 2023, a 25-basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a \$ 1,641 increase or decrease in the Corporation's net loss.

### **Capital risk management**

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

The Corporation manages its capitalization in accordance with changes in economic conditions. In order to maintain or adjust its capitalization, the Corporation may elect to declare dividends to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issue new shares. The Corporation uses non-IFRS financial ratios to evaluate its capitalization. These ratios are described in the following paragraphs.

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

Since October 31, 2021, the Corporation monitors its capitalization using the total net debt/total capitalization ratio, with a long-term target of less than 50%. This ratio is calculated by dividing total net debt by total capitalization, which is the sum of total net debt and market capitalization. Total net debt is equal to the aggregate of long-term debt, lease obligations, liability related to warrants and deferred government grant less deferred financing costs and cash and cash equivalents (not held in trust or otherwise reserved). Although commonly used, this measure does not reflect the fair value of leases, as it does not take into account current rates for similar obligations with similar terms and risks. The calculation of the total net debt/total capitalization is summarized as follows:

	2023	2022
	\$	\$
<b>Total net debt</b>		
Long-term debt	669,145	664,160
Deferred government grant	146,634	169,025
Liability related to warrants	20,816	24,360
Deferred financing costs	—	(12,552)
Lease liabilities	1,221,451	1,087,908
Cash and cash equivalents	(435,647)	(322,535)
	<b>1,622,399</b>	<b>1,610,366</b>
Number of outstanding shares (in thousands)	38,489	38,012
Closing share price	3.01	2.60
<b>Market capitalization</b>	<b>115,852</b>	<b>98,831</b>
Total net debt	1,622,399	1,610,366
<b>Total capitalization</b>	<b>1,738,251</b>	<b>1,709,197</b>
<b>Total net debt/Total capitalization ratio</b>	<b>93.3%</b>	<b>94.2%</b>

The Corporation's credit facilities are subject to certain covenants including a ratio related to adjusted operating results and a minimum level of cash and cash equivalents. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

## Note 7 Deposits

	2023	2022
	\$	\$
Maintenance deposits with lessors	179,997	135,563
Deposits with credit card processors	92,064	20,757
Deposits on leased aircraft and engines	43,711	37,920
Deposits with suppliers	7,033	7,383
	<b>322,805</b>	<b>201,623</b>
Less current portion	100,609	29,392
	<b>222,196</b>	<b>172,231</b>

## Transat A.T. inc.

Notes to Consolidated Financial Statements

### Note 8 Business disposal

On August 31, 2023, the Corporation finalized the agreement for the sale and purchase of its wholly owned subsidiary Laminama, S.A. de C.V. ["Laminama"], whose main asset is land located in Puerto Morelos, Mexico, initially announced on July 10, to Finest Holding, B.V., a luxury hotel and resort group. The sale price, paid in cash upon closing of the transaction, was firm and amounted to US\$38,000 [\$51,357]. The subsidiary had net assets of \$48,451 as at August 31, 2023. The Corporation recorded a loss on business disposal of \$341, net of \$3,247 in transaction costs, and a foreign exchange gain on business disposal of \$7,275 following the reclassification to the statement of loss of Cumulative exchange differences related to Laminama's assets and liabilities.

As Laminama's operations do not represent a separate significant line of business for the Corporation, Laminama's results are included in the Corporation's results from continuing operations in the consolidated statements of loss and comprehensive loss for the year ended October 31, 2023.

Assets and liabilities disposed of in connection with Laminama are detailed as follows:

	2023
	\$
Current assets	(2,425)
Land and other non-current assets [Note 9]	(46,766)
Current liabilities	740
<b>Net assets disposed of</b>	<b>(48,451)</b>
Cash consideration received	51,357
Cash-settled transaction costs	(3,247)
<b>Cash flows from the disposal of Laminama</b>	<b>48,110</b>

### Note 9 Property, plant and equipment

	Leasehold improvements Fleet \$	Aircraft equipment \$	Office furniture and equipment \$	Land, building and leasehold improvements \$	Right of use Fleet \$	Right of use Real estate and other \$	Total \$
<b>Cost</b>							
<b>Balance as at</b>							
<b>October 31, 2022</b>	105,911	142,270	46,843	63,209	1,415,370	111,449	1,885,052
Additions	1,179	19,683	4,143	397	281,821	4,027	311,250
Reclassification	—	—	(4,990)	4,990	—	—	—
Disposals	(1,599)	(34)	(24)	(46,757)	(20,332)	—	(68,746)
Write-offs	—	(45)	(6,456)	(4)	(1,976)	(1,686)	(10,167)
Impairment	—	—	—	(4,592)	—	—	(4,592)
Exchange difference	—	—	(10)	(497)	—	42	(465)
<b>Balance as at</b>							
<b>October 31, 2023</b>	105,491	161,874	39,506	16,746	1,674,883	113,832	2,112,332
<b>Accumulated depreciation</b>							
<b>Balance as at</b>							
<b>October 31, 2022</b>	63,648	86,376	32,842	11,534	618,142	72,359	884,901
Depreciation	8,251	8,368	3,505	703	150,472	5,141	176,440
Disposals	(1,599)	(2)	(15)	—	(20,332)	—	(21,948)
Write-offs	—	(45)	(6,456)	(4)	(1,976)	(1,686)	(10,167)
Exchange difference	—	—	(9)	(13)	—	19	(3)
<b>Balance as at</b>							
<b>October 31, 2023</b>	70,300	94,697	29,867	12,220	746,306	75,833	1,029,223
<b>Net book value as at</b>							
<b>October 31, 2023</b>	35,191	67,177	9,639	4,526	928,577	37,999	1,083,109

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

### Property, plant and equipment related to the fleet

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

As at October 31, 2022, the Corporation early returned to the lessor a leased Airbus A330. This return resulted in disposals of property, plant and equipment and accumulated depreciation balances of \$21,457. In addition, the Corporation took delivery of two Airbus A321LRs. The Corporation recognized an asset impairment charge of \$783 for the impairment of rotatable Boeing 737 spare parts.



## Transat A.T. inc.

### Notes to Consolidated Financial Statements

#### Land, building and leasehold improvements

Given the agreement for the sale and purchase of its Laminama subsidiary entered into during the quarter ended July 31, 2023 [Note 8] and prior to classifying Laminama's assets as held for sale during that quarter, the Corporation measured the recoverable amount of its non-current assets and compared it with their carrying amount. The recoverable amount of non-current assets held for sale was measured by allocating a selling price based on the fair value of assets and liabilities held for sale, less costs to sell. As the recoverable amount of the land in Mexico was less than its carrying amount, the Corporation recorded an impairment loss of \$4,592. The closing of the sale and purchase agreement resulted in disposals of property, plant and equipment and accumulated depreciation balances of \$46,781 and \$15 respectively.

On May 20, 2021, due to the change in strategic objectives and the decline in liquidity as a result of the COVID-19 pandemic, the Corporation's Board of Directors approved the discontinuation of the hotel division's operations. As at October 31, 2022, the land in Mexico did not meet the required criteria to be presented as an asset held for sale. Given the above-mentioned factors and the uncertainty surrounding future use of the land in Mexico, assessments of its recoverable amount compared with its carrying amount were made as at October 31, 2022. The recoverable amount of the land was determined based on fair value less costs to sell. Fair value less costs to sell was estimated using level 3 input data, according to valuations prepared by an independent, external valuator as at October 13, 2022. As at October 31, 2022, the recoverable amount of the land in Mexico was equal to its carrying amount and accordingly, no impairment charge was required.

#### Note 10 Intangible assets

	Software	Trademarks	Customer lists	Total
	\$	\$	\$	\$
<b>Cost</b>				
<b>Balance as at October 31, 2022</b>	<b>158,720</b>	<b>20,265</b>	<b>12,594</b>	<b>191,579</b>
Additions	6,699	—	—	6,699
Disposals	(26)	—	—	(26)
Write-offs	(2,919)	—	—	(2,919)
Exchange difference	227	113	—	340
<b>Balance as at October 31, 2023</b>	<b>162,701</b>	<b>20,378</b>	<b>12,594</b>	<b>195,673</b>
<b>Accumulated amortization and impairment</b>				
<b>Balance as at October 31, 2022</b>	<b>147,531</b>	<b>18,193</b>	<b>12,594</b>	<b>178,318</b>
Amortization	5,323	—	—	5,323
Disposals	(26)	—	—	(26)
Write-offs	(2,919)	—	—	(2,919)
Exchange difference	206	—	—	206
<b>Balance as at October 31, 2023</b>	<b>150,115</b>	<b>18,193</b>	<b>12,594</b>	<b>180,902</b>
<b>Net book value as at October 31, 2023</b>	<b>12,586</b>	<b>2,185</b>	<b>—</b>	<b>14,771</b>

**Transat A.T. inc.**

## Notes to Consolidated Financial Statements

	Software	Trademarks	Customer lists	Total
	\$	\$	\$	\$
<b>Cost</b>				
<b>Balance as at October 31, 2021</b>	156,279	20,391	12,594	189,264
Additions	3,697	—	—	3,697
Disposals	(110)	—	—	(110)
Write-offs and impairment	(979)	—	—	(979)
Exchange difference	(167)	(126)	—	(293)
<b>Balance as at October 31, 2022</b>	<b>158,720</b>	<b>20,265</b>	<b>12,594</b>	<b>191,579</b>
<b>Accumulated amortization and impairment</b>				
<b>Balance as at October 31, 2021</b>	141,713	18,193	12,509	172,415
Amortization	6,997	—	85	7,082
Disposals	(65)	—	—	(65)
Write-offs and impairment	(979)	—	—	(979)
Exchange difference	(135)	—	—	(135)
<b>Balance as at October 31, 2022</b>	<b>147,531</b>	<b>18,193</b>	<b>12,594</b>	<b>178,318</b>
<b>Net book value as at October 31, 2022</b>	<b>11,189</b>	<b>2,072</b>	<b>—</b>	<b>13,261</b>

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

#### Note 11 Investment

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

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

	2023	2022
	\$	\$
Opening balance	8,820	9,476
Capital contribution	—	707
Share of net income (loss)	2,758	(2,477)
Translation adjustment	219	1,114
<b>Closing balance</b>	<b>11,797</b>	<b>8,820</b>

The investment was translated at the USD/CAD closing rate of 1.3882 as at October 31, 2023 [1.3641 as at October 31, 2022].

The following table shows the condensed financial information regarding Desarrollo Transimar as at October 31, 2023 and 2022:

	2023	2022
	\$	\$
<b>Statement of financial position:</b>		
Current assets	10,356	8,127
Non-current assets	87,960	87,330
Current liabilities	6,736	4,768
Non-current liabilities	67,986	73,049
<b>Net assets</b>	<b>23,594</b>	<b>17,640</b>
<b>Carrying amount of investment</b>	<b>11,797</b>	<b>8,820</b>
<b>Statement of comprehensive income (loss):</b>		
Revenues	20,251	14,296
Net income (loss) and comprehensive income (loss)	5,515	(4,954)
<b>Share of net income (loss)</b>	<b>2,758</b>	<b>(2,477)</b>

#### Note 12 Deferred financing costs

	2023	2022
	\$	\$
Deferred financing costs	—	12,552
	—	12,552

Deferred financing costs consist 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 LEEFF unsecured financing facility [Note 14] as well as related costs. These amendments allowed the Corporation to, among other things, borrow additional liquidity of \$100,000, available until October 29, 2023. Since the Corporation did not borrow any additional liquidity, the \$12,743 balance of deferred financing costs was recorded as deferred financing cost write-off.

## Transat A.T. inc.

Notes to Consolidated Financial Statements

### Note 13 Trade and other payables

	2023	2022
	\$	\$
Trade payables	185,188	195,088
Salaries and employee benefits payable	89,867	59,351
Accrued expenses	34,012	22,880
Government remittances	10,697	12,578
	319,764	289,897

### Note 14 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at October 31, 2023 and October 31, 2022. The current portion of lease liabilities included deferred rent payments related to aircraft leases of \$34,011 [\$32,148 as at October 31, 2022]:

	Final maturity	Weighted average effective interest rate %	2023	2022
			\$	\$
<b>Long-term debt</b>				
Secured debt - LEEFF	2025	9.94	51,858	77,215
Unsecured debt - LEEFF	2026	13.27	317,222	284,757
Unsecured credit facility - Travel credits	2028	14.00	205,178	182,520
Revolving credit facility	2025	9.89	49,593	49,644
Subordinated credit facility	2025	15.17	45,294	70,024
<b>Long-term debt</b>		13.11	669,145	664,160
<b>Lease liabilities</b>				
Fleet	2024-2035	6.31	1,178,764	1,044,951
Real estate and other	2024-2037	5.58	42,687	42,957
<b>Lease liabilities</b>		6.28	1,221,451	1,087,908
<b>Total long-term debt and lease liabilities</b>		8.70	1,890,596	1,752,068
Current portion of lease liabilities			(150,246)	(137,165)
<b>Long-term debt and lease liabilities</b>			1,740,350	1,614,903

### Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allowed it to borrow \$743,300 through the Large Employer Emergency Financing Facility (LEEFF). On July 29, 2022, the Corporation renegotiated its agreement with the Government of Canada in order to borrow additional funds of \$100,000. These additional funds were available until October 29, 2023 and were undrawn by the Corporation. The amended agreement also granted the Corporation access to an additional credit facility of \$50,000, subject to certain conditions, until July 29, 2023, including obtaining additional third-party financing. The Corporation made no drawdowns from 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 \$78,000 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 \$20,000, 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 of \$25,600, bringing the principal payable to \$52,400. As at October 31, 2023, the credit facility was fully drawn, and the carrying amount stood at \$51,858 [\$77,215 as at October 31, 2022].

The Corporation concluded that the modifications related to extending the maturity dates renegotiated on April 28, 2023 and July 29, 2022 were non-substantial as defined in IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded related to this amendment. In addition, the additional liquidity granted under the agreement amended on July 29, 2022 has been treated as a new tranche of existing long-term debt.

**Unsecured debt - LEEFF**

An amount of \$312,000, 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 in order to be able to borrow additional liquidity of \$80,000, which was available until October 29, 2023 and undrawn, and to modify the interest rates. 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.

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

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

The additional liquidity granted under the agreement related to the LEEFF unsecured financing amended on July 29, 2022 was treated as a new tranche of existing long-term debt.

In addition, on October 31, 2023, given the terms of its agreement compared with current market conditions, the Corporation revised its initial estimates of future repayments related to the unsecured debt - LEEFF. The Corporation now expects to repay its credit facility at expiry on April 26, 2026. As a result, the carrying amount of the unsecured debt - LEEFF has been adjusted downward to reflect the revised amount of future cash flows discounted using the original effective rate. The adjustment of \$5,585 was recorded as a gain on long-term debt modification and was calculated as follows:

	\$
Financial liability carrying amount before the adjustment as at October 31, 2023	322,807
Financial liability carrying amount after the adjustment as at October 31, 2023	317,222
<b>Gain on long-term debt modification</b>	<b>(5,585)</b>

As at October 31, 2023, the credit facility was fully drawn and its carrying amount stood at \$317,222 [\$284,757 as at October 31, 2022]. The credit facility includes a prepayment option, which is an embedded derivative, the fair value of which is recorded as a deduction from the carrying amount of the credit facility. This embedded derivative is separated from the host contract and designated at fair value through profit or loss, with changes in its fair value recorded in the consolidated statement of loss under Change in fair value of derivatives. As at October 31, 2023, the fair value of the prepayment option was nil [\$128 as at October 31, 2022] and was determined using a trinomial tree approach based on the Hull-White model.

As part of the financing package, the Corporation issued a total of 17,687,500 warrants [Note 15] in connection with the unsecured financing – LEEFF, of which 4,687,500 were forfeited on October 29, 2023, since the Corporation did not draw down the available additional liquidity of \$80,000, bringing the total number of warrants to 13,000,000.

### **Unsecured credit facility related to travel credits**

On March 9, 2022, the Corporation renegotiated its agreement with the Government of Canada under the unsecured credit facility related to travel credits in order to borrow additional funds up to a maximum of \$43,300, bringing its total to \$353,300. 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 the rate of 1.22%. In the event the secured debt – LEEFF and the unsecured debt – LEEFF have not been repaid, this credit facility could become immediately due and payable upon default under the LEEFF financing, including in the event of a change in control, and in the absence of a waiver by the lenders to enforce such due and payable obligations or in the event of a change of control without the consent of the lenders.

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

As at 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 \$205,178 [\$182,520 as at October 31, 2022], and an amount of \$146,634 [\$169,025 as at October 31, 2022] was also recognized as deferred government grant related to these drawdowns. During the year ended October 31, 2023, an amount of \$16,646 [\$18,864 during the year ended October 31, 2022] was recognized as proceeds from government grants as a reduction of financing costs.

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

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

### **Other credit facilities**

#### **Revolving credit facility**

On April 28, 2023 and July 29, 2022, the Corporation renegotiated its \$50,000 revolving term credit agreement for its operations, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024) 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.

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

The Corporation concluded that the modifications related to extending the maturity dates renegotiated on April 28, 2023 and July 29, 2022 were non-substantial as defined in IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded related to these amendments.

#### **Subordinated credit facility**

On April 28, 2023 and July 29, 2022, the Corporation renegotiated its subordinated credit facility for its operations, at the original principal amount of \$70,000, mainly to extend the maturity date to April 29, 2025 (previously April 29, 2024) and April 29, 2024 (previously April 29, 2023), respectively. This facility becomes immediately due and payable in the event of a change of control. The facility 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 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 \$27,367, \$3,367 of which was capitalized interest, bringing the principal balance payable to \$46,000. As at October 31, 2023 and October 31, 2022, the credit facility was fully drawn.

The Corporation concluded that the modifications related to extending the maturity dates renegotiated on April 28, 2023 and July 29, 2022 were non-substantial as defined in IFRS 9, *Financial Instruments*. As this floating-rate financial liability was initially recorded at an amount equal to the principal to be repaid at maturity, a new estimate of future payments did not have an effect on the carrying amount of the liability. No adjustment has been recorded related to this amendment.

#### **Revolving credit facility agreement – Letters of credit**

The Corporation has a \$74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at October 31, 2023, \$69,855 had been drawn down under the facility [\$55,935 as at October 31, 2022], \$29,750 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure the obligations under senior executive defined benefit pension agreements will be drawn.

## Financing costs

Interest expense for the years ended October 31, 2023 and 2022, is detailed as follows:

	2023	2022
	\$	\$
Interest expense on long-term debt	65,914	50,377
Interest expense on lease liabilities	62,437	47,660
Accretion on provision for return conditions	5,341	2,973
Other interest	1,705	4,304
<b>Financing costs</b>	<b>135,397</b>	<b>105,314</b>

## Transat A.T. inc.

Notes to Consolidated Financial Statements

### Rent expense

Rent expense for the years ended October 31, 2023 and 2022, is detailed as follows:

	2023 \$	2022 \$
Variable lease payments	6,288	6,018
Short-term leases	5,966	—
<b>Aircraft rent</b>	<b>12,254</b>	<b>6,018</b>
Variable lease payments	894	1,059
Short-term leases	6,077	3,483
Low value leases	357	351
	<b>19,582</b>	<b>10,911</b>

### Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities:

	2023			2022		
	Cash flows \$	Non-cash changes \$	Total \$	Cash flows \$	Non-cash changes \$	Total \$
<b>Opening balance</b>			<b>1,087,908</b>			956,358
Repayments	(151,389)	—	(151,389)	(108,336)	—	(108,336)
New lease liabilities (new contracts and amendments)	—	259,945	259,945	—	145,656	145,656
Interest portion of deferred rent payments	—	3,634	3,634	—	12,162	12,162
Offset of rent payments and lease terminations	—	(2,474)	(2,474)	—	(9,842)	(9,842)
Exchange difference	—	23,827	23,827	—	91,910	91,910
<b>Closing balance</b>	<b>(151,389)</b>	<b>284,932</b>	<b>1,221,451</b>	<b>(108,336)</b>	<b>239,886</b>	<b>1,087,908</b>

### Maturity analysis

Repayment of principal and interest on long-term debt and lease liabilities as at October 31, 2023 is detailed as follows. Interest on long-term debt only includes interest payable as at October 31, 2023. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.3882 as at October 31, 2023:

Year ending October 31	2024	2025	2026	2027	2028	2029 and up	Total
	\$	\$	\$	\$	\$	\$	
<b>Long-term debt obligations</b>	—	146,745	317,222	—	205,178	—	<b>669,145</b>
Fleet	212,139	207,302	184,644	171,382	156,478	588,614	<b>1,520,559</b>
Real estate and other	5,835	5,982	4,100	5,652	5,046	30,215	<b>56,830</b>
<b>Lease liabilities</b>	<b>217,974</b>	<b>213,284</b>	<b>188,744</b>	<b>177,034</b>	<b>161,524</b>	<b>618,829</b>	<b>1,577,389</b>
<b>Total</b>	<b>217,974</b>	<b>360,029</b>	<b>505,966</b>	<b>177,034</b>	<b>366,702</b>	<b>618,829</b>	<b>2,246,534</b>

Note 9 provides the information required for right-of-use assets and depreciation. Note 24 details the information required with respect to leases of aircraft that will be delivered in the coming years.

### Note 15 Liability related to warrants

In the context of the initial financing arrangement related to the unsecured facility – LEEFF [Note 14], on April 29, 2021, the Corporation issued a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of \$4.50 per share, exercisable over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt – LEEFF.



## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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On July 29, 2022, as part of the amendments to the financing package related to the LEEFF unsecured financing, the Corporation issued an additional 4,687,500 warrants to purchase an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of \$3.20 per share over a 10-year period, representing 18.75% of the additional commitment available under the LEEFF unsecured financing. On October 29, 2023, these 4,687,500 warrants were forfeited, since the Corporation did not draw down the additional \$80,000 of the unsecured, non-revolving credit facility (Unsecured debt - LEEFF), which was available until that date.

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

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

As at 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.

Moreover, the parties may, by mutual agreement, exercise the 9,622,339 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,622,339 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

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

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

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

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

## Transat A.T. inc.

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The change in the liability related to warrants for the years ended October 31 is detailed as follows:

	2023	2022
	\$	\$
<b>Opening balance</b>	<b>24,360</b>	36,557
Issuance	—	9,792
Revaluation of liability related to cancelled warrants	(8,881)	—
Revaluation of liability related to warrants	5,337	(21,989)
<b>Closing balance</b>	<b>20,816</b>	24,360
Current liability	20,816	16,799
Non-current liability	—	7,561
<b>Closing balance</b>	<b>20,816</b>	24,360

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at October 31, 2023, the primary unobservable input used in the model was expected volatility, which was estimated at 55.6%. A 5.0% increase in the expected volatility used in the pricing model would result in a total increase of \$919 in the liability related to warrants as at October 31, 2023.

### Note 16 Provision for return conditions

The provision for return conditions relates to contractual obligations to return leased aircraft and engines at the end of the leases under predetermined maintenance conditions. The change in the provision for return conditions for the years ended October 31 is detailed as follows:

	2023	2022
	\$	\$
<b>Opening balance</b>	<b>154,772</b>	126,244
Additional provisions	35,090	49,858
Changes in estimates	(17,371)	(15,276)
Utilization of provision	—	(6,163)
Unused amounts reversed	—	(2,864)
Accretion	5,341	2,973
<b>Closing balance</b>	<b>177,832</b>	154,772
Current provisions	1,856	—
Non-current provisions	175,976	154,772
<b>Closing balance</b>	<b>177,832</b>	154,772

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

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

### Note 17 Employee future benefits

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

#### Defined benefit arrangements and post-employment benefits

The defined benefit pension arrangements offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a \$29,750 letter of credit to the trustee [Note 4]. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

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## Notes to Consolidated Financial Statements

The following table provides a reconciliation of changes in the defined benefit obligation as at October 31, 2023 and 2022:

	2023	2022
	\$	\$
Present value of obligations, beginning of year	20,773	27,120
Current service cost	682	1,108
Cost of plan amendments	1,041	(1,579)
Interest cost	1,149	848
Benefits paid	(1,242)	(1,120)
Experience losses (gains)	(215)	286
Actuarial gain	(1,227)	(5,890)
<b>Present value of obligations, end of year</b>	<b>20,961</b>	<b>20,773</b>

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

	2023	2022
	\$	\$
Current service cost	682	1,108
Cost of plan amendments	1,041	(1,579)
Interest cost	1,149	848
<b>Total retirement benefit expense</b>	<b>2,872</b>	<b>377</b>

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2023:

	\$
1 year or less	1,247
1 to 5 years	5,840
5 to 10 years	7,261
10 to 15 years	7,928
15 to 20 years	7,140
	<b>29,416</b>

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.1 years as at October 31, 2023.

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

	2023	2022
	%	%
<b>Retirement benefit obligation</b>		
Discount rate	5.75	5.25
Rate of increase in eligible earnings	2.75	2.75
<b>Retirement benefit expense</b>		
Discount rate	5.25	3.25
Rate of increase in eligible earnings	2.75	2.75

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

	Retirement benefit expense for the year ended October 31, 2023	Retirement benefit obligation as at October 31, 2023
Increase (decrease)	\$	\$
Discount rate	22	(584)
Rate of increase in eligible earnings	3	41

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

	2023	2022
	\$	\$
Plan assets at fair value	—	—
Accrued benefit obligation	20,961	20,773
<b>Retirement benefit deficit</b>	<b>20,961</b>	<b>20,773</b>

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

Gains (losses)	\$
<b>October 31, 2021</b>	(15,851)
Actuarial gains	5,603
<b>October 31, 2022</b>	(10,248)
Actuarial gains	1,442
<b>October 31, 2023</b>	<b>(8,806)</b>

## Defined contribution pension plans

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

Contributions to defined contribution pension plans, which correspond to the cost recognized, amounted to \$15,916 for the year ended October 31, 2023 [\$12,584 for the year ended October 31, 2022].

## Note 18 Equity

### Authorized share capital

#### Class A Variable Voting Shares

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

- first, if applicable, there will be a reduction in the voting rights of any non-Canadian individual (including a non-Canadian authorized to provide an air service) whose votes total more than 25% of the votes cast, so that such non-Canadian holder may never hold more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast at a meeting;

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### Notes to Consolidated Financial Statements

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

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

### Class B Voting Shares

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

### Preferred shares

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

### Issued and outstanding share capital

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

	Number of shares	\$
<b>Balance as at October 31, 2021</b>	37,747,090	221,012
Issued from treasury	265,054	912
<b>Balance as at October 31, 2022</b>	38,012,144	221,924
Issued from treasury	477,214	1,526
<b>Balance as at October 31, 2023</b>	<b>38,489,358</b>	<b>223,450</b>

As at October 31, 2023, the number of Class A Shares and Class B Shares stood at 2,717,825 and 35,771,533, respectively [1,428,479 and 36,583,665 as at October 31, 2022].

### Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 1,461,451 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the vesting conditions, if any, are determined at each grant. The options granted are exercisable over a seven-year period. Under the plan, in the event of a change of control, all outstanding stock options vest.

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

The following tables summarize all outstanding options:

	2023		2022	
	Number of options	Weighted average price (\$)	Number of options	Weighted average price (\$)
Beginning of year	480,847	6.13	1,108,262	7.55
Granted	50,000	3.39	150,000	4.18
Cancelled	(55,255)	10.02	(672,898)	7.77
Expired	(49,688)	6.01	(104,517)	7.86
<b>End of year</b>	<b>425,904</b>	<b>5.32</b>	<b>480,847</b>	<b>6.13</b>
<b>Options exercisable, end of year</b>	<b>75,904</b>	<b>10.24</b>	<b>180,847</b>	<b>9.01</b>

Range of exercise price \$	Outstanding options			Options exercisable	
	Number of options outstanding as at October 31, 2023	Weighted average remaining life	Weighted average price \$	Number of options exercisable as at October 31, 2023	Weighted average price \$
3.39 to 4.61	350,000	5.4	4.25	—	—
8.97 to 10.94	75,904	0.4	10.24	75,904	10.24
	425,904	4.5	5.32	75,904	10.24

### Compensation expense related to stock option plan

During the year ended October 31, 2023, the Corporation granted 50,000 stock options [150,000 in 2022] to its key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant were as follows:

	2023	2022
Risk-free interest rate	3.65%	3.09%
Expected life	4 years	4 years
Expected volatility	65.2%	64.7%
Dividend yield	0.0%	0.0%
Weighted average fair value at date of grant	\$1.77	\$2.15

During the year ended October 31, 2023, the Corporation recorded a compensation expense of \$237 [\$144 in 2022] for its stock option plan.

### Performance share unit plan

Performance share units [“PSUs”] are usually awarded in connection with the performance share unit plan for senior executives. Under this plan, each eligible senior executive receives a portion of his or her compensation in the form of PSUs. PSUs consist of a number equal to a percentage of the participant’s basic salary, divided by the fair market value of Class B Shares as at the award date. Once vested, PSUs entitle participants to receive an equivalent number of shares or a cash payment, at the option of the Corporation; 100% of the PSUs vest in mid-January three years following their award, subject to the achievement of the performance criteria established at the time of the award. Under the plan, in the event of a change of control, all outstanding PSUs vest.

During the years ended October 31, 2023 and 2022, the Corporation did not grant any PSUs to its key executives and employees. As at October 31, 2023 and 2022, no PSUs had been awarded. During the years ended October 31, 2023 and 2022, the Corporation did not recognize any compensation expense for its Performance share unit plan.

## Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2023, the Corporation was authorized to issue up to 1,228,522 shares. The plan allows eligible employees to purchase shares up to an overall limit of 10% of their annual salary in effect at the time of enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the shares during the five trading days prior to the issue of the shares, less 10%.

During fiscal 2023, the Corporation issued 477,214 shares [265,054 shares in 2022] under the share purchase plan.

## Stock ownership incentive and capital accumulation plan

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

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

During the year ended October 31, 2023, the Corporation recognized compensation expense of \$179 [\$127 in 2022] for its stock ownership incentive and capital accumulation plan.

## Permanent stock ownership incentive plan

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

During the year ended October 31, 2023, the Corporation recognized compensation expense of \$229 [\$184 in 2022] for its permanent stock ownership incentive plan.

## Deferred share unit plan

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

As at October 31, 2023, the number of DSUs awarded amounted to 333,176 [360,439 as at October 31, 2022]. During the year ended October 31, 2023, the Corporation recorded a compensation expense of \$781 [compensation expense reversal of \$94 in 2022] for its deferred share unit plan.

## Restricted share unit plan

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

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

As at October 31, 2023 and 2022, no RSUs had been awarded. During the year ended October 31, 2023, the Corporation recorded no compensation expense [no compensation expense in 2022] for its restricted share unit plan.

### Warrants

No warrants were exercised during the years ended October 31, 2023 and 2022. Accordingly, the Corporation issued no shares related to the exercise of warrants [Note 15].

### Loss per share

Basic and diluted loss per share was calculated as follows:

	2023	2022
(in thousands of dollars, except per share data)	\$	\$
<b>NUMERATOR</b>		
Net loss used in computing basic loss per share	(25,292)	(445,324)
Effect of deemed conversion of warrants	(3,544)	(21,989)
Less anti-dilutive impact	3,544	21,989
Net loss used in computing diluted loss per share	(25,292)	(445,324)
<b>DENOMINATOR</b>		
Adjusted weighted average number of outstanding shares	38,278	37,838
<b>Effect of potential dilutive securities</b>		
Stock options	4	—
Warrants	—	—
Less anti-dilutive impact	(4)	—
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,278	37,838
<b>Loss per share</b>		
Basic	(0.66)	(11.77)
Diluted	(0.66)	(11.77)

For the year ended October 31, 2023, a total of 375,904 outstanding stock options and the 9,622,339 vested warrants that can be exercised through the issuance of shares were excluded from the calculation since their exercise price exceeded the average share price for the period [480,847 stock options and 9,503,036 warrants for the year ended October 31, 2022].

### Note 19 Additional disclosure on revenue and expenses

#### Breakdown of revenue from contracts with customers

Revenue from contracts with customers is broken down as follows:

	2023	2022
	\$	\$
<b>Customers</b>		
Americas	1,767,714	870,660
Transatlantic	1,253,429	752,419
<b>Other</b>	<b>27,209</b>	<b>18,959</b>
<b>Total revenues</b>	<b>3,048,352</b>	<b>1,642,038</b>



## Transat A.T. inc.

### Notes to Consolidated Financial Statements

#### Contract balances

Contract balances with customers are detailed as follows:

	2023	2022
	\$	\$
Credit card processor receivables [Note 5]	46,851	196,894
Trade accounts receivable [Note 5]	11,308	9,497
Contract costs, included in Prepaid expenses	16,391	11,973
Customer deposits and deferred revenues	754,176	602,509

#### Salaries and employee benefits

	2023	2022
	\$	\$
Salaries and other employee benefits	439,514	288,368
Long-term employee benefits [Note 17]	2,872	377
Share-based payment expense	237	144
	442,623	288,889

From March 15, 2020 to May 7, 2022, the Corporation took advantage of wage subsidies for businesses affected by COVID-19 for its Canadian workforce. The Corporation determined it met the employer eligibility criteria and claimed the Tourism and Hospitality Recovery Program ("THRP") and the Hardest-Hit Business Recovery Program ("HHBRP") subsidies from October 24, 2021 to May 7, 2022. During the year ended October 31, 2022, an amount of \$24,403 was recorded under these programs.

#### Depreciation and amortization

	2023	2022
	\$	\$
Property, plant and equipment	181,032	147,130
Intangible assets subject to amortization	5,323	7,082
	186,355	154,212

#### Note 20 Restructuring costs

	2023	2022
	\$	\$
<b>Restructuring costs</b>		
Severance	2,994	847
Staff relocation costs	632	—
	3,626	847

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

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

The change in the provision for employee termination benefits for the year ended October 31, which was included in Trade and other payables, is as follows:

	2023	2022
	\$	\$
<b>Opening balance</b>	<b>2,015</b>	5,220
Additional provisions	3,551	847
Utilization of provision	(3,858)	(4,052)
Unused amounts reversed	(557)	—
<b>Closing balance</b>	<b>1,151</b>	2,015

## Note 21 Gain on asset disposals

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

During the year ended October 31, 2023, the gain on asset disposals of \$2,511 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 gain on asset disposals of \$3,934 was mainly due to the early return of an Airbus A330 to the lessor. This lease termination led to the recognition of a \$4,085 gain, which resulted from the reversal of lease liabilities of \$3,976 and other assets and liabilities totalling \$109. The carrying amount of the right-of-use assets for this aircraft lease was fully impaired during the year ended October 31, 2021.

## Note 22 Income taxes

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

Consolidated statements of loss	2023	2022
	\$	\$
<b>Current</b>		
Current income taxes	616	1,078
Adjustment to taxes (recoverable) payable for prior years	(88)	(4,252)
	528	(3,174)
<b>Deferred</b>		
Relating to temporary differences	60	1,195
Adjustment to deferred taxes for prior years	25	114
Recognition of previously unrecognized temporary difference	—	(2,284)
	85	(975)
<b>Income tax expense (recovery)</b>	<b>613</b>	(4,149)

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

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

	2023		2022	
	%	\$	%	\$
Income taxes at the statutory rate	26.5	(6,540)	26.5	(119,110)
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	7.3	(1,808)	0.3	(1,258)
Non-deductible (non-taxable) items	(27.4)	6,755	—	(107)
Unrecognized losses for the current year	(10.1)	2,493	(27.2)	122,061
Recognition of previously unrecognized temporary difference			0.5	(2,284)
Adjustments for prior years	0.3	(63)	0.9	(4,138)
Effect of tax rate changes	0.3	(86)	0.0	—
Other	0.6	(138)	(0.1)	687
	(2.5)	613	0.9	(4,149)

The applicable statutory income tax rate was 26.5% for the year ended October 31, 2023 [26.5% for the year ended October 31, 2022].

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components and changes in temporary differences in deferred tax assets and liabilities for fiscal 2023 and 2022 were as follows:

	2023				
	Balance, beginning of year	Recognized in net loss	Business disposal	Exchange differences	Balance, end of year
	\$	\$	\$	\$	\$
Non-capital losses carried forward	5,536	(551)	—	—	4,985
Capital losses	—	5,689	—	—	5,689
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	(237,331)	(32,638)	635	117	(269,217)
Intangible assets, excluding software	82	(163)	—	15	(66)
Lease liabilities	242,258	31,838	—	—	274,096
Derivative financial instruments	(177)	(2,119)	—	—	(2,296)
Other financial assets and other assets	(10,339)	(2,160)	—	—	(12,499)
Provisions	280	19	—	—	299
<b>Deferred tax</b>	<b>309</b>	<b>(85)</b>	<b>635</b>	<b>132</b>	<b>991</b>

	2022				
	Balance, beginning of year	Recognized in net loss	Recognized in other comprehensive income (loss)	Exchange differences	Balance, end of year
	\$	\$	\$	\$	\$
Non-capital losses carried forward	5,009	527	—	—	5,536
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	(229,762)	(7,516)	—	(53)	(237,331)
Intangible assets, excluding software	111	(29)	—	—	82
Lease liabilities	227,832	14,426	—	—	242,258
Derivative financial instruments	—	(177)	—	—	(177)
Other financial assets and other assets	(3,836)	(6,503)	—	—	(10,339)
Provisions	33	247	—	—	280
<b>Deferred tax</b>	<b>(613)</b>	<b>975</b>	<b>—</b>	<b>(53)</b>	<b>309</b>

## Transat A.T. inc.

### Notes to Consolidated Financial Statements

The net deferred tax assets are detailed below:

	2023	2022
	\$	\$
Deferred tax assets	1,047	953
Deferred tax liabilities	(56)	(644)
<b>Net deferred tax assets</b>	<b>991</b>	<b>309</b>

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

	Unrecognized	Recognized
	\$	\$
Year of expiry		
2024 - 2028	2,348	—
2029 - 2033	—	2,259
2034 - 2038	790	—
2039 - 2043	1,065,762	15,292
With no expiry	982	729
	<b>1,069,882</b>	<b>18,280</b>

As at October 31, 2023, non-capital losses carried forward and other unrecognized temporary differences were as follows:

	Canada				Total
	Federal	Québec	Mexico	Other	
	\$	\$	\$	\$	\$
Non-capital losses carried forward	1,066,552	1,069,783	933	2,397	1,069,882
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	16,174	15,005	—	50	16,224
Intangible assets, excluding software	2,692	2,692	—	—	2,692
Lease liabilities	186,986	186,986	—	1	186,987
Provisions	11,059	11,058	—	—	11,059
Employee benefits	20,961	20,961	—	—	20,961
	<b>1,304,424</b>	<b>1,306,485</b>	<b>933</b>	<b>2,448</b>	<b>1,307,805</b>

The Corporation recognized a deferred tax liability of \$7,600 on retained earnings of one of its foreign subsidiaries. The Corporation recognized no other deferred tax liability on retained earnings of its foreign subsidiaries and its joint venture as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad.

In previous fiscal years, the tax authorities had questioned the deductibility of tax losses the Corporation reported on its ABCP (Asset-Backed Commercial Paper) investments. In relation to this situation, in 2015, the Corporation paid a total of \$15,100 to the tax authorities and objected to the notices of assessment received. During the year ended October 31, 2022, the Corporation and the tax authorities came to an agreement on the tax treatment of the deductibility of ABCP-related tax losses. As a result, under this settlement agreement, in addition to recovering the \$15,100 paid in 2015, the Corporation recorded an additional income tax recovery of \$5,347 and interest of \$2,129. As at October 31, 2022, the income tax receivable balance included an amount of \$4,884 related to this settlement agreement while the accounts receivable balance included an amount of \$1,862 related to accrued interest receivable. During the year ended October 31, 2023, the Corporation collected all the receivables related to this settlement agreement.

## Transat A.T. inc.

Notes to Consolidated Financial Statements

### Note 23 Related party transactions and balances

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

	Country of incorporation	Interest (%)	
		2023	2022
Air Transat A.T. inc.	Canada	100.0	100.0
Transat Tours Canada inc.	Canada	100.0	100.0
Transat Distribution Canada inc.	Canada	100.0	100.0
11061987 Florida Inc.	United States	—	100.0
Transat Holidays USA Inc.	United States	100.0	100.0
The Airline Seat Company Ltd.	United Kingdom	100.0	100.0
Air Consultants France S.A.S.	France	100.0	100.0
Caribbean Transportation Inc.	Barbados	100.0	100.0
CTI Logistics Inc.	Barbados	100.0	100.0
Sun Excursions Caribbean Inc.	Barbados	100.0	100.0
Propiedades Profesionales Dominicanas Carhel S.R.L.	Dominican Republic	100.0	100.0
Servicios y Transportes Punta Cana S.R.L.	Dominican Republic	100.0	100.0
TTDR Travel Company S.A.S.	Dominican Republic	100.0	100.0
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	100.0	100.0
Turissimo Jamaica Ltd.	Jamaica	100.0	100.0
Laminama S.A. de C.V. [Note 8]	Mexico	—	100.0
Promociones Residencial Morelos S.A. de C.V.	Mexico	100.0	100.0
Promotora Turística Regional S.A. de C.V.	Mexico	100.0	100.0
Trafictours de Mexico S.A. de C.V.	Mexico	100.0	100.0
Desarrollo Transimar S.A. de C.V.	Mexico	50.0	50.0

On February 28, 2023, 11061987 Florida Inc. was wound up.

### Compensation of key senior executives

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

	2023	2022
	\$	\$
Salaries and other employee benefits	9,020	5,627
Long-term employee benefits	1,723	(471)

## Note 24 Commitments and contingencies

### Leases and other commitments

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

Year ending October 31	2024	2025	2026	2027	2028	2029 and up	Total
	\$	\$	\$	\$	\$	\$	\$
Leases (aircraft and other)	17,857	36,440	55,839	67,629	70,581	600,974	849,320
Purchase obligations	28,865	12,089	5,931	5,821	1,701	—	54,407
	<b>46,722</b>	<b>48,529</b>	<b>61,770</b>	<b>73,450</b>	<b>72,282</b>	<b>600,974</b>	<b>903,727</b>

### Litigation

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

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

### Other

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

## **Note 25**      **Guarantees**

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

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

Notes 4, 14, 17 and 24 to the consolidated financial statements provide information about some of these agreements. The following constitutes additional disclosure.

### **Leases**

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

### **Collateral security contracts**

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, as required by regulatory agencies, for the performance of the obligations included in mandates of its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2023, the total amount of these guarantees unsecured by deposits totalled \$797. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2023, no amounts had been accrued with respect to the above-mentioned agreements.

## **Note 26**      **Segment disclosures**

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

