TRANSAT A.T INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2020

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Ticker symbol
TSX: TRZ

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2020, compared with the quarter ended July 31, 2019, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2019 and the accompanying notes and the 2019 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2019 Annual Report. The risks and uncertainties set out the MD&A of the 2019 Annual Report are herein incorporated by reference and an update of the risks and uncertainties is included in the "Risks and uncertainties" section of this MD&A. The information contained herein is dated as of September 9, 2020. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2020 and the Annual Information Form for the year ended October 31, 2019.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation, including those regarding its results, its financial position, the impacts of the coronavirus ("COVID-19") pandemic, its outlook for the future and planned measures, including in particular the gradual resumption of certain flights and actions to improve its cash flows. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "would," the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements.

Due to the global COVID-19 pandemic, Transat suspended its airline operations on April 1, 2020. Starting July 23, 2020, the Corporation operated its first commercial flights after four months of inactivity and rolled out a reduced summer program.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations we fly to, and the need for quarantine, and security and physical distancing measures as well as the resulting economic slowdown are creating significant demand uncertainty for the remaining part of fiscal 2020 and at least for fiscal 2021. For the moment, Transat cannot predict all the impacts of COVID-19 on its operations and results, or when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position.

The forward-looking statements may therefore differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties sections of the MD&A included in our 2019 Annual Report and this MD&A.

This MD&A also contains certain forward-looking statements about the Corporation concerning a transaction involving the acquisition of all the shares of the Corporation by Air Canada [the "transaction with Air Canada"]. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of transaction with Air Canada remains subject to certain customary closing conditions, including regulatory approvals, particularly those of authorities in Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada. On March 27, 2020, as part of this assessment process, the Commissioner of Competition released the report provided to Transport Canada summarizing his assessment of the impacts on competition. On May 1, 2020, Transport Canada in turn provided its assessment report to the Minister of Transport. On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada. This extension is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval, which is currently complicated by the COVID 19 pandemic and the impact it is having on the international commercial aviation market. On September 1, 2020, with retroactive effect to August 20, 2020, the European Commission ended the suspension of the deadline decided on June 9, 2020 and set a new provisional deadline of December 11, 2020 for its decision. Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of approvals from regulatory authorities, especially regarding the appropriate package of remedies aimed at obtaining those approvals.

Moreover, owing to the pandemic and the continued restrictions on non-essential travel, the Corporation is actively looking to obtain additional sources of financing. The covenants undertaken under the arrangement agreement with Air Canada restrict and govern the Corporation's capacity to obtain additional sources of financing and could require Air Canada's prior consent. Although the agreement provides that Air Canada's consent may not be unreasonably withheld, there is no certainty that Air Canada will consent to the obtaining of additional sources of financing by the Corporation. If the required approvals are obtained and the conditions are met, it is now expected that the arrangement will be completed during the fourth quarter of the 2020 calendar year.

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

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

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position.
- The outlook whereby Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is expected that the transaction with Air Canada will be completed during the fourth quarter of the 2020 calendar year.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.
- The outlook whereby travel credits will be used by customers and not reimbursed in cash.
- The outlook whereby the Corporation will be able to favourably negotiate concessions and deferrals with its aircraft lessors, owners of premises, suppliers, credit card processors and the extension of the temporary suspension of the application of certain financial ratios granted by the lenders of its revolving term credit facility.

In making these statements, the Corporation has assumed, among other things, that travel and border restrictions imposed by government authorities will be relaxed to allow for a resumption of operations of the type and scale expected, that the standards and measures imposed by government and airport authorities to ensure the health and safety of personnel and travellers will be consistent with those announced or currently anticipated, that travellers will continue to travel despite the new health measures and other constraints imposed as a result of the pandemic, that credit facilities and other terms of credit extended by its business partners will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31		Nine-month periods ended July 31	
	2020	2019 Restated[1]	2020	2019 Restated[1]
	$	$	$	$
Operating income (loss)	**(132,013)**	1,728	**(186,630)**	(50,660)
Special items	**(1,109)**	13,731	**570**	13,731
Depreciation and amortization	**53,181**	46,639	**154,620**	132,000
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	—	**—**	(167)
Adjusted operating income (loss)	**(79,941)**	62,098	**(31,440)**	94,904
Income (loss) before income tax expense	**(45,850)**	463	**(247,666)**	(69,924)
Special items	**(1,109)**	13,731	**570**	13,731
Change in fair value of fuel-related derivatives and other derivatives	**(67,682)**	8,819	**32,169**	9,110
Loss (gain) on asset disposals	**170**	(8)	**170**	(8)
Foreign exchange loss (gain)	**(28,496)**	(12,292)	**7,447**	(1,139)
Asset impairment	**2,384**	—	**2,384**	—
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	—	**—**	(167)
Adjusted pre-tax income (loss)	**(140,583)**	10,713	**(204,926)**	(48,397)
Net income (loss) attributable to shareholders	**(45,115)**	(1,505)	**(258,468)**	(55,396)
Special items	**(1,109)**	13,731	**570**	13,731
Change in fair value of fuel-related derivatives and other derivatives	**(67,682)**	8,819	**32,169**	9,110
Loss (gain) on asset disposals	**170**	(8)	**170**	(8)
Foreign exchange loss (gain)	**(28,496)**	(12,292)	**7,447**	(1,139)
Asset impairment	**2,384**	—	**2,384**	—
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	—	**—**	(167)
Tax impact	**—**	(2,577)	**16,785**	(5,592)
Adjusted net income (loss)	**(139,848)**	6,168	**(198,943)**	(39,461)
Adjusted net income (loss)	**(139,848)**	6,168	**(198,943)**	(39,461)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,728	**37,747**	37,648
Adjusted net income (loss) per share	**(3.70)**	0.16	**(5.27)**	(1.05)

	As at July 31, 2020	As at October 31, 2019 Restated[1]
	$	$
Long-term debt	**49,979**	—
Lease liabilities	**909,154**	665,929
Total debt	**959,133**	665,929
Total debt	**959,133**	665,929
Cash and cash equivalents	**(576,431)**	(564,844)
Total net debt (Cash and cash equivalents, net of total debt)	**382,702**	101,085

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of Canadian dollars, except per share amounts)	2020 $	2019 Restated[2] $	Difference $	Difference %	2020 $	2019 Restated[2] $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**9,546**	698,916	(689,370)	(98.6)	**1,273,643**	2,243,895	(970,252)	(43.2)
Operating income (loss)	**(132,013)**	1,728	(133,741)	(7,739.6)	**(186,630)**	(50,660)	(135,970)	(268.4)
Net income (loss) attributable to shareholders	**(45,115)**	(1,505)	(43,610)	(2,897.7)	**(258,468)**	(55,396)	(203,072)	(366.6)
Basic earnings (loss) per share	**(1.20)**	(0.04)	(1.16)	(2,900.0)	**(6.85)**	(1.47)	(5.38)	(366.0)
Diluted earnings (loss) per share	**(1.20)**	(0.04)	(1.16)	(2,900.0)	**(6.85)**	(1.47)	(5.38)	(366.0)
Adjusted operating income (loss)[1]	**(79,941)**	62,098	(142,039)	(228.7)	**(31,440)**	94,904	(126,344)	(133.1)
Adjusted net income (loss)[1]	**(139,848)**	6,168	(146,016)	(2,367.3)	**(198,943)**	(39,461)	(159,482)	(404.2)
Adjusted net income (loss) per share[1]	**(3.70)**	0.16	(3.86)	(2,412.5)	**(5.27)**	(1.05)	(4.22)	(401.9)
Consolidated Statements of Cash Flows								
Operating activities	**(145,389)**	6,127	(151,516)	(2,472.9)	**77,412**	307,605	(230,193)	(74.8)
Investing activities	**(1,771)**	(41,610)	39,839	95.7	**(68,039)**	(118,929)	50,890	42.8
Financing activities	**(9,960)**	(30,544)	20,584	67.4	**187**	(57,243)	57,430	100.3
Effect of exchange rate changes on cash and cash equivalents	**(128)**	(6,452)	6,324	98.0	**2,027**	(1,244)	3,271	262.9
Net change in cash and cash equivalents	**(157,248)**	(72,479)	(84,769)	(117.0)	**11,587**	130,189	(118,602)	(91.1)

	As at July 31, 2020 $	As at October 31, 2019 Restated[2] $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**576,431**	564,844	11,587	2.1
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**336,628**	352,771	(16,143)	(4.6)
	913,059	917,615	(4,556)	(0.5)
Total assets	**2,413,356**	2,324,490	88,866	3.8
Debt (current and non-current)	**49,979**	—	49,979	—
Total debt[1]	**959,133**	665,929	293,204	44.0
Total net debt (Cash and cash equivalents, net of total debt)[1]	**382,702**	101,085	281,617	278.6

1 See non-IFRS financial measures

2 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

OVERVIEW

IMPACT OF THE COVID-19 PANDEMIC

Since February 24, 2020, owing to the COVID-19 pandemic across the world, the Corporation's bookings have declined sharply compared with the corresponding period of 2019. As a result, Transat suspended its airline operations on April 1, 2020. Starting July 23, 2020, the Corporation operated its first commercial flights after four months of inactivity and rolled out a reduced summer program.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations we fly to, and the need for quarantine, and security and physical distancing measures as well as the resulting economic slowdown are creating significant demand uncertainty for the remaining part of fiscal 2020 and at least for fiscal 2021. For the moment, Transat cannot predict all the impacts of COVID-19 on its operations and results, or when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position.

Preserving cash is a priority for the Corporation; the Corporation has taken the following actions with respect to the COVID-19 pandemic and other opportunities are being evaluated to achieve this objective:

AIRLINE AND COMMERCIAL OPERATIONS

- On July 23, 2020, the Corporation partially resumed airline operations after four months of inactivity. Effective August 2, 2020, the entire reduced summer program consisting of 23 routes to some 17 destinations was implemented.
- Transat is committed to providing a simple and safe travel experience at every step. To this end, it has launched its Traveller Care program regarding health measures, which are regularly updated in compliance with recommendations issued by regulatory authorities. It has also assembled a new comprehensive practical guide full of tips to help travellers prepare for their trips and travel with peace of mind.

COST REDUCTION MEASURES

- In March, the Corporation decided to early retire all of its Airbus A310s from the fleet.
- Senior executives and the Board of Directors agreed to a voluntary reduction in their compensation from 10% to 20%.
- Since March, the Corporation has been renegotiating with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments.
- The Corporation has also been negotiating with its suppliers to benefit from cost reductions and changes in payment terms, and has implemented measures to reduce expenses and investments.
- As of the end of March, the Corporation proceeded with the gradual temporary layoff of a large part of its personnel, reaching approximately 85% at the height of the crisis. Following the resumption of airline operations, the Corporation was able to recall approximately 1,000 employees while about two thirds of the workforce remain temporarily laid off.
- As of March 15, 2020, the Corporation made use of the Canada Emergency Wage Subsidy ("CEWS") for its Canadian workforce, which enabled it to finance part of the salaries of its staff still at work and to propose employees temporarily laid off to receive a part of their salary equivalent to the amount of the grant received, with no work required. Subject to meeting the eligibility criteria, the Corporation intends to continue making use of the CEWS at least until September 26, 2020 and possibly thereafter.

FINANCING AND CASH FLOWS

- In March, as a precautionary measure, the Corporation drew down on its $50.0 million revolving credit facility agreement for operating purposes. It is now in advanced discussions to set up additional financing. As at July 31, 2020, cash and cash equivalents totalled $576.4 million.

- In order to protect its cash position and allow recovery after the restrictions have been lifted, the Corporation granted its customers a fully transferable travel credit valid without expiry date for flights cancelled due to the exceptional situation and, in particular, to the travel restrictions imposed by governments.

CORE BUSINESS

Transat is a leading integrated international tourism company specializing in holiday travel, which operates and markets its services in the Americas and Europe. It develops and markets holiday travel services in packages, including air travel and hotel stays, and air-only formats. Transat operates under the Transat and Air Transat brands mainly in Canada, France, the United Kingdom and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. It offers destination services in Mexico, the Dominican Republic and Jamaica. Recently, Transat started setting up a division with a mission to own and operate hotels in the Caribbean and Mexico and to market them, particularly in the United States, in Europe and in Canada.

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our range of operations and mission to include the hotel business.

DEFINITIVE ARRANGEMENT AGREEMENT

On August 23, 2019, Transat's shareholders approved the arrangement agreement with Air Canada, under which it is provided that Air Canada will acquire all issued and outstanding shares of Transat for a cash consideration of $18.00 per share [the "arrangement"]. The arrangement remains subject to certain customary closing conditions, including regulatory approvals, particularly those of authorities in Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada. On March 27, 2020, as part of this assessment process, the Commissioner of Competition released the report provided to Transport Canada summarizing his assessment of the impacts on competition. On May 1, 2020, Transport Canada in turn provided its assessment report to the Minister of Transport. On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada. This extension is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval, which is currently complicated by the COVID 19 pandemic and the impact it is having on the international commercial aviation market. On September 1, 2020, with retroactive effect to August 20, 2020, the European Commission ended the suspension of the deadline decided on June 9, 2020 and set a new provisional deadline of December 11, 2020 for its decision.

While the Corporation remains firmly committed to completing the transaction with Air Canada, certain factors beyond its control and related to the COVID-19 pandemic could influence the outcome of the proposed arrangement. The market conditions of the global industry have been completely transformed. Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of approvals from regulatory authorities, especially regarding the appropriate package of remedies aimed at obtaining those approvals.

Moreover, owing to the pandemic and the continued restrictions on non-essential travel, the Corporation is actively looking to obtain additional sources of financing. The covenants undertaken under the arrangement agreement with Air Canada restrict and govern the Corporation's capacity to obtain additional sources of financing and could require Air Canada's prior consent. Although the agreement provides that Air Canada's consent may not be unreasonably withheld, there is no certainty that Air Canada will consent to the obtaining of additional sources of financing by the Corporation.

If the required approvals are obtained and the conditions are met, it is now expected that the arrangement will be completed during the fourth quarter of the 2020 calendar year. Under the arrangement agreement, the deadline for obtaining the regulatory approvals cannot be extended beyond December 27, 2020. This date, initially set for June 27, 2020, may be deferred, to the extent that the regulatory approvals are not obtained, for three one-month periods upon notification by one of the parties, and subsequently for three additional one-month periods under certain conditions. The Corporation has successively informed Air Canada of its decision to activate the first three initial one-month periods, which defers, for now, the June 27 deadline to September 27, 2020.

The hotel development strategy and related objectives are affected by the arrangement as the Corporation has agreed to limit its commitments and expenses related to the execution of its hotel strategy in the period leading up to the closing of the arrangement.

The management information circular dated July 19, 2019 contains additional information regarding the arrangement.

CONSOLIDATED OPERATIONS

	Quarters ended July 31				Nine-month periods ended July 31			
	2020	2019 Restated[(1)]	Difference	Difference	2020	2019 Restated[(1)]	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**9,546**	698,916	(689,370)	(98.6)	**1,273,643**	2,243,895	(970,252)	(43.2)
Operating expenses								
Costs of providing tourism services	**3,338**	111,772	(108,434)	(97.0)	**435,475**	714,710	(279,235)	(39.1)
Aircraft fuel	**28,256**	158,049	(129,793)	(82.1)	**224,377**	369,529	(145,152)	(39.3)
Salaries and employee benefits	**22,798**	105,826	(83,028)	(78.5)	**204,447**	309,569	(105,122)	(34.0)
Aircraft maintenance	**11,709**	66,697	(54,988)	(82.4)	**95,893**	160,977	(65,084)	(40.4)
Sales and distribution costs	**2,538**	44,432	(41,894)	(94.3)	**95,731**	169,249	(73,518)	(43.4)
Airport and navigation fees	**2,214**	50,310	(48,096)	(95.6)	**71,290**	127,433	(56,143)	(44.1)
Aircraft rent	**202**	2,031	(1,829)	(90.1)	**24,436**	46,170	(21,734)	(47.1)
Other airline costs	**3,376**	73,292	(69,916)	(95.4)	**95,472**	179,813	(84,341)	(46.9)
Other	**14,262**	24,050	(9,788)	(40.7)	**57,422**	70,942	(13,520)	(19.1)
Share of net loss (income) of a joint venture	**794**	359	435	(121.2)	**540**	432	108	(25.0)
Depreciation and amortization	**53,181**	46,639	6,542	14.0	**154,620**	132,000	22,620	17.1
Special items	**(1,109)**	13,731	(14,840)	(108.1)	**570**	13,731	(13,161)	(95.8)
	141,559	697,188	(555,629)	(79.7)	**1,460,273**	2,294,555	(834,282)	(36.4)
Operating income (loss)	**(132,013)**	1,728	(133,741)	(7,739.6)	**(186,630)**	(50,660)	(135,970)	(268.4)
Financing costs	**11,772**	10,215	1,557	15.2	**33,104**	27,610	5,494	19.9
Financing income	**(1,927)**	(5,469)	3,542	(64.8)	**(11,854)**	(16,309)	4,455	(27.3)
Change in fair value of fuel-related derivatives and other derivatives	**(67,682)**	8,819	(76,501)	(867.5)	**32,169**	9,110	23,059	253.1
Loss (gain) on asset disposals	**170**	(8)	178	2,225.0	**170**	(8)	178	2,225.0
Foreign exchange loss (gain)	**(28,496)**	(12,292)	(16,204)	(131.8)	**7,447**	(1,139)	8,586	753.8
Income (loss) before income tax expense	**(45,850)**	463	(46,313)	(10,002.8)	**(247,666)**	(69,924)	(177,742)	(254.2)
Income taxes (recovery)								
Current	**47**	(1,141)	1,188	104.1	**(5,880)**	(84)	(5,796)	(6,900.0)
Deferred	**(176)**	2,801	(2,977)	(106.3)	**16,609**	(17,304)	33,913	196.0
	(129)	1,660	(1,789)	(107.8)	**10,729**	(17,388)	28,117	161.7
Net income (loss) for the period	**(45,721)**	(1,197)	(44,524)	(3,719.6)	**(258,395)**	(52,536)	(205,859)	(391.8)
Net income (loss) attributable to:								
Shareholders	**(45,115)**	(1,505)	(43,610)	(2,897.7)	**(258,468)**	(55,396)	(203,072)	(366.6)
Non-controlling interests	**(606)**	308	(914)	(296.8)	**73**	2,860	(2,787)	(97.4)
	(45,721)	(1,197)	(44,524)	(3,719.6)	**(258,395)**	(52,536)	(205,859)	(391.8)

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

RESTATEMENT OF COMPARATIVE FIGURES

IFRS 16, *Leases*, was adopted retrospectively on November 1, 2019 with restatement for each prior reporting period presented. Accordingly, the consolidated statement of income (loss) for the period ended July 31, 2019 has been restated. Aircraft maintenance costs, aircraft rent, rent included in other costs, depreciation and amortization, financing costs and foreign exchange effect for the quarter ended July 31, 2019 were restated to reflect the new accounting policies. The main changes related to the adoption of IFRS 16 are described in note 3 to the interim condensed consolidated financial statements for the period ended July 31, 2020.

REVENUES

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

Compared with 2019, our revenues were down $689.4 million (98.6%) for the quarter ended July 31, 2020 and $970.3 million (43.2%) for the nine-month period. Starting in mid-March, restrictions on international travel and government-imposed quarantine measures made travel sales very difficult. The flights operated during the last two weeks of March were mainly intended for the repatriation of the Corporation's customers to Canada or their country of origin, resulting in very significant costs. Thereafter, the Corporation suspended all of its flights as of April 1 and therefore had no more sales from that date, until the partial resumption of airline operations on July 23, 2020. For the quarter and nine-month period, these factors caused the fall in revenues. For the nine-month period, the decline in revenues was partially offset by an increase in the number of travellers across our programs up to the beginning of March 2020 as a result of our decision to increase capacity.

OPERATING EXPENSES

Total operating expenses were down $555.6 million (79.7%) for the quarter and $834.3 million (36.4%) for the nine-month period, compared with 2019. These decreases are attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2019, these costs were down $108.4 million (97.0%) for the quarter and $279.2 million (39.1%) for the nine-month period. These decreases resulted primarily from a sharp decline in the number of packages sold compared with 2019 due to the COVID-19 pandemic. For the nine-month period, the decrease was accentuated by lower hotel room costs.

AIRCRAFT FUEL

Aircraft fuel expense was down $129.8 million (82.1%) for the quarter and $145.2 million (39.3%) for the nine-month period. These decreases were mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic. For the quarter, the aircraft fuel expense was mainly related to the unfavourable settlement of fuel-related derivative contracts. For the nine-month period, the decrease was accentuated by the decline in fuel price indices compared with 2019, partially offset by the unfavourable settlement of fuel-related derivative contracts.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were down $83.0 million (78.5%) for the quarter and $105.1 million (34.0%) for the nine-month period compared with 2019. The decreases resulted mainly from significant temporary layoffs. In addition, from March 15 to July 31, 2020, the Corporation made use of the CEWS for its Canadian workforce; amounts of $11.4 million and $23.6 million were recognized during the quarter and nine-month period related to the active employees.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were down $41.9 million (94.3%) for the quarter and $73.5 million (43.4%) for the nine-month period, compared with 2019. These decreases resulted from the significant decline in revenues due to the COVID-19 pandemic as of the beginning of March 2020.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. Compared with 2019, these costs were down $55.0 million (82.4%) for the quarter and $65.1 million (40.4%) for the nine-month period. These decreases were attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic. For the nine-month period, the decrease also resulted from a lower number of aircraft in our seasonal fleet compared with 2019, as well as the early retirement of all our Airbus A310s.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were down $48.1 million (95.6%) for the quarter and $56.1 million (44.1%) for the nine-month period, compared with 2019. These decreases were caused by the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic.

AIRCRAFT RENT

Aircraft rent was down $1.8 million (90.1%) for the quarter and $21.7 million (47.1%) for the nine-month period. These decreases were due to the reduction in the number of aircraft in our seasonal fleet compared with 2019.

OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew, catering costs and other costs related to the airline. Other airline costs were down $69.9 million (95.4%) for the quarter and $84.3 million (46.9%) for the nine-month period, compared with 2019. These decreases were caused by the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic.

OTHER

Other expenses were down $9.8 million (40.7%) for the quarter and $13.5 million (19.1%) for the nine-month period, compared with 2019. These decreases resulted from the cost reduction measures implemented by the Corporation in connection with the COVID-19 pandemic.

SHARE OF NET INCOME (LOSS) OF A JOINT VENTURE

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net loss for the third quarter totalled $0.8 million, compared with $0.4 million for the corresponding quarter of 2019. For the nine-month period, our share of net loss totalled $0.5 million, compared with $0.4 million for 2019. The operations of our hotel joint venture were suspended from the end of March 2020 until July 9, 2020 due to the COVID-19 pandemic.

DEPRECIATION, AMORTIZATION AND ASSET IMPAIRMENT

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was up $6.5 million (14.0%) for the third quarter and $22.6 million (17.1%) for the nine-month period, compared with 2019. The increases were mainly attributable to right-of-use assets related to the fleet, following the commissioning of two Airbus A321neoLRs in 2019 and four in 2020, and three Airbus A321ceos in 2020, as well as recent maintenance costs capitalized under aircraft engines.

During the quarter ended July 31, 2020, the Corporation recognized $2.4 million impairment loss in respect of trademarks. This impairment resulted from a decrease in revenues and expected profitability from the trademarks due to the COVID-19 pandemic.

SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items. For the quarter and nine-month period ended July 31, 2020, professional fees of $2.0 million and $4.9 million and compensation expense reversals of $3.1 million and $4.4 million, respectively, were recorded in connection with the transaction with Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. For the quarter and nine-month period ended July 31, 2020, the compensation expense reversal was attributable to the significant decline in share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and which also reduces the vesting period. The share closing price of $5.35 as at July 31, 2020 was used to calculate expenses related to the stock-based compensation plans, when applicable.

Total arrangement costs incurred up to July 31, 2020 in connection with the transaction with Air Canada were $15.2 million compared to the estimate of $12.0 million as planned in the Management Proxy Circular of July 19, 2019. The arrangement costs will be greater than those initially estimated. The increase in costs is partially due to the transaction price set at $18.00 per share, compared to $13.00 per share when the circular was published, as well as expenses higher than those initially planned to meet the requirements of regulatory approvals necessary for the completion of the transaction, including those of Canada and the European Union. The arrangement costs include legal and accounting fees and financial advisory fees, some of which are conditional on the closing of the transaction.

OPERATING RESULTS

Given the above, we recorded an operating loss of $132.0 million for the third quarter, compared with an operating income of $1.7 million (0.2%) in 2019. For the nine-month period, we recorded an operating loss of $186.6 million (14.7%), compared with $50.7 million (2.3%) in 2019. The decline in operating results was attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic. Despite the absence of revenues during this period and the cost reduction measures implemented to deal with the COVID-19 pandemic, the Corporation was obliged to maintain certain fixed costs during the suspension of airline operations; as a result, the fall in revenues was more pronounced than the decrease in operating expenses. The decline in operating results was accentuated by the unfavourable settlement of fuel-related derivative contracts. Up to the beginning of March 2020, the profitability of the sun destinations program, our main program for the winter season, had sharply improved compared with 2019.

For the quarter, the Corporation recorded an adjusted operating loss of $79.9 million (837.4%), compared with an adjusted operating income of $62.1 million (8.9%) in 2019. For the nine-month period, the Corporation recorded an adjusted operating loss of $31.4 million (2.5%), compared with an adjusted operating income of $94.9 million (4.2%) in 2019. Up to the beginning of March 2020, before the COVID-19 pandemic adversely impacted our results, our adjusted operating income was up $63.3 million compared with 2019 due to an improvement in the profitability of the sun destinations program, our main program during the winter season.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, as well as financial expenses. Financing costs were up $1.6 million (15.2%) for the third quarter and $5.5 million (19.9%) for the nine-month period, compared with 2019. These increases resulted mainly from interest on the aircraft lease obligation following the commissioning of two Airbus A321neoLRs in 2019 and four in 2020, as well as interest on long-term debt due to the drawdown of our $50.0 million revolving term credit facility agreement in March 2020.

FINANCING INCOME

Financing income was down $3.5 million (64.8%) during the third quarter and $4.5 million (27.3%) for the nine-month period, compared with 2019, as a result of decreases in cash and cash equivalents and interest rates compared with 2019.

CHANGE IN FAIR VALUE OF FUEL-RELATED DERIVATIVES AND OTHER DERIVATIVES

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives increased $67.7 million, compared with an $8.8 million decrease in 2019. For the nine-month period, the fair value of fuel-related derivatives and other derivatives decreased $32.2 million, compared with $9.1 million in 2019. During the second quarter, the COVID-19 pandemic caused oil prices to plunge with the price of a barrel of oil falling to an all-time low. Since April 30, 2020, the price per barrel has risen, but remains significantly lower than at the beginning of the year. Decreases in the fair value of fuel-related and other derivatives resulted from the decline in fuel price indices compared with 2019.

LOSS (GAIN) ON ASSET DISPOSALS

The loss (gain) on asset disposals relates to asset disposals and lease terminations. During the quarter ended July 31, 2020, the $0.2 million loss resulted from the termination of certain real estate leases.

FOREIGN EXCHANGE LOSS (GAIN)

During the quarter, we recognized a foreign exchange gain of $28.5 million, compared with $12.3 million in 2019. For the nine-month period, we recognized a foreign exchange loss of $7.4 million, compared with a foreign exchange gain of $1.1 million in 2019. During the quarter, foreign exchange losses resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar. For the nine-month period, foreign exchange losses resulted mainly from the unfavourable exchange effect on lease liabilities related to aircraft, following the weakening of the dollar against the U.S. dollar compared with as at October 31, 2019.

INCOME TAXES

Income tax recovery for the third quarter totalled $0.1 million, compared with an income tax expense of $1.7 million for the corresponding quarter of last year. For the nine-month period, income tax expense amounted to $10.7 million, compared with an income tax recovery of $17.4 million in 2019. Excluding the loss on asset disposals and the share of net income (loss) of a joint venture, the effective tax rate was 0.3% for the quarter and 4.3% for the nine-month period, compared with 203.9% and 25.0%, respectively, for the corresponding periods of 2019.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances whose recognition could no longer be justified under IFRS due to the unfavourable impact of the COVID-19 pandemic on our results and the high level of uncertainty related to demand for the remaining part of fiscal 2020 and at least for fiscal 2021. Accordingly, during the quarter ended July 31, 2020, deferred tax assets were not recognized. For the nine-month period, the change in tax rates resulted primarily from the reduction in the carrying amount of deferred tax assets recognized in previous years and the non-recognition of deferred tax assets in fiscal 2020.

NET LOSS

Considering the items discussed in the Consolidated Operations section, the Corporation reported a net loss of $45.7 million for the quarter ended July 31, 2020, compared with $1.2 million in 2019. For the nine-month period ended July 31, 2020, we reported a net loss of $258.4 million, compared with $52.5 million in 2019.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS AND ADJUSTED NET LOSS

Net loss attributable to shareholders amounted to $45.1 million or $1.20 per share (basic and diluted) compared with $1.5 million or $0.04 per share (basic and diluted) for the corresponding quarter of last year. Net loss attributable to shareholders amounted to $258.5 million or $6.85 per share (basic and diluted) compared with $55.4 million or $1.47 per share (basic and diluted) for the corresponding nine-month period of last year. For the third quarter of 2020, the weighted average number of outstanding shares used to compute earnings per share was 37,747,000 (basic and diluted), compared with 37,728,000 (basic and diluted) for the corresponding quarter of 2019. For the first nine months of fiscal 2020, the weighted average number of outstanding shares used to compute earnings per share was 37,747,000 (basic and diluted), compared with 37,648,000 (basic and diluted) for the corresponding period of 2019.

For the quarter and nine-month period ended July 31, 2020, adjusted net loss was $139.8 million ($3.70 per share) and $198.9 million ($5.27 per share), respectively, compared with an adjusted net income of $6.2 million ($0.16 per share) and an adjusted net loss of $39.5 million ($1.05 per share), for the corresponding periods of 2019.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the quarterly financial information shown in the table below for 2019. However, the analysis of the quarterly financial information for 2019 compared with 2018 was carried out on the results before restatement to ensure comparability.

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues increased compared with the corresponding quarters, with the exception of the second part of winter (Q2). For the first part of winter (Q1), the higher revenues were mainly attributable to the 10.8% increase in the number of travellers in the sun destinations program, our main program for the winter season. For the second part of winter (Q2) and the first part of summer (Q3), the decline in results was attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic. For the second part of summer 2019 (Q4), growth in revenues was driven primarily by higher average selling prices and load factors across all our programs, as well as growth in ancillary revenues.

In terms of operating results, for the first part of winter (Q1), the decrease in our operating loss was primarily due to higher profitability of the sun destinations program, our main program for the winter season. For the second part of winter (Q2) and the first part of summer (Q3), the increase in our operating loss was mainly attributable to the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic as a result of which the decline in revenues was greater than the decrease in operating expenses. For the second part of summer 2019 (Q4), the increase in operating income arose primarily from higher average selling prices across all our programs, and growth in ancillary revenues, partially offset by the costs associated with the transaction with Air Canada and higher aircraft maintenance costs. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information

(in thousands of dollars, except per share data)	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	Q1-2020	Q2-2020	Q3-2020
		Restated[2]						
	$	$	$	$	$	$	$	$
Revenues	668,843	647,566	897,413	698,916	693,235	692,799	571,298	9,546
Operating income (loss)	6,851	(48,620)	(3,768)	1,728	37,072	(25,066)	(29,551)	(132,013)
Net income (loss)	6,784	(51,970)	631	(1,197)	22,820	(32,962)	(179,712)	(45,721)
Net income (loss) attributable to shareholders	6,754	(52,952)	(939)	(1,505)	23,049	(33,805)	(179,548)	(45,115)
Basic earnings (loss) per share	0.18	(1.41)	(0.02)	(0.04)	0.61	(0.90)	(4.76)	(1.20)
Diluted earnings (loss) per share	0.18	(1.41)	(0.02)	(0.04)	0.62	(0.90)	(4.76)	(1.20)
Adjusted operating income (loss)[1]	31,474	(7,550)	40,356	62,098	97,537	27,393	21,108	(79,941)
Adjusted net income (loss)[1]	13,659	(39,208)	(6,421)	6,166	29,991	(20,303)	(38,792)	(139,848)
Adjusted net income (loss) per share[1]	0.36	(1.04)	(0.17)	0.16	0.79	(0.54)	(1.03)	(3.70)

1 See Non-IFRS Financial Measures section.

2 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2020, cash and cash equivalents totalled $576.4 million, compared with $564.8 million as at October 31, 2019. Cash and cash equivalents in trust or otherwise reserved amounted to $336.6 million as at the end of the third quarter of 2020, compared with $352.8 million as at October 31, 2019. The Corporation's statement of financial position showed a negative working capital of $74.8 million, for a ratio of 0.93, compared with a positive working capital of $131.8 million and a ratio of 1.13 as at October 31, 2019.

Total assets increased by $88.9 million (3.8%) from $2,324.5 million as at October 31, 2019 to $2,413.4 million as at July 31, 2020. This increase is explained in the financial position table provided below. Equity decreased by $247.1 million, from $557.5 million as at October 31, 2019 to $310.3 million as at July 31, 2020. This decrease resulted from the $258.5 million net loss attributable to shareholders, partially offset by an $8.6 million unrealized gain on cash flow hedges and a $2.7 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2020	**2019 Restated[(1)]**	**Difference**	**2020**	**2019 Restated[(1)]**	**Difference**
(in thousands of dollars)	**$**	$	$	**$**	$	$
Cash flows related to operating activities	**(145,389)**	6,127	(151,516)	**77,412**	307,605	(230,193)
Cash flows related to investing activities	**(1,771)**	(41,610)	39,839	**(68,039)**	(118,929)	50,890
Cash flows related to financing activities	**(9,960)**	(30,544)	20,584	**187**	(57,243)	57,430
Effect of exchange rate changes on cash	**(128)**	(6,452)	6,324	**2,027**	(1,244)	3,271
Net change in cash and cash equivalents	**(157,248)**	(72,479)	(84,769)	**11,587**	130,189	(118,602)

[1] The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

OPERATING ACTIVITIES

Operating activities used cash flows of $145.4 million during the third quarter, compared with generated cash flows of $6.1 million in 2019. This $151.5 million decrease resulted from the $133.6 million deterioration in our net loss before operating items not involving an outlay (receipt) of cash, combined with a $12.8 million decrease in the net change in the provision for return conditions, and a $3.9 million decrease in the net change in non-cash working capital balances related to operations.

For the nine-month period, cash flows from operating activities decreased by $230.2 million, from $307.6 million in 2019 to $77.4 million in 2020. The decrease resulted from the $119.0 million decrease in our net loss before operating items not requiring an outlay (receipt) of cash, combined with the $107.7 million decrease in the net change in non-cash operating working capital balances and the $5.0 million decrease in the net change in other operating assets and liabilities.

For the quarter and nine-month period, the deterioration in cash related to operating activities resulted primarily from the suspension of our airline operations from April 1 to July 22, 2020 due to the COVID-19 pandemic.

INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $1.8 million for the third quarter, down $39.8 million from $41.6 million in 2019. Additions to property, plant and equipment and intangible assets amounted to $1.8 million during the quarter, compared with $40.7 million in 2019. The $38.9 million decrease resulted from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic. In 2019, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $15.8 million.

For the nine-month period, cash flows used in investing activities amounted to $68.0 million, down $50.9 million from $118.9 million in 2019. Additions to property, plant and equipment and intangible assets amounted to $62.0 million during the nine-month period, compared with $119.1 million in 2019. The $57.1 million decrease resulted mainly from the investment reduction measures implemented by the Corporation in connection with the COVID-19 pandemic, as well as lower maintenance and leasehold improvements capitalized on aircraft than in 2019. In 2020, the Corporation purchased a spare engine for an Airbus A321neoLR in the amount of $16.6 million. In 2019, the Corporation acquired a spare engine for an Airbus A321neoLR in the amount of $15.8 million and second lot of land in Puerto Morelos, Mexico, for an amount of $15.8 million adjacent to the first lot acquired in 2018. In 2020, our cash and cash equivalents reserved balance increased by $5.0 million.

FINANCING ACTIVITIES

Cash flows used in financing activities were down $20.6 million from $30.5 million for the third quarter of 2019 to $10.0 million in 2020. Since March, the Corporation has been renegotiating with aircraft lessors, as well as other lessors, to defer a number of monthly lease payments that became due during the second and third quarters. The decline in cash flows related to financing activities resulted from these deferrals.

For the nine-month period, financing activities generated cash flows of $0.2 million, compared with cash flows used of $57.2 million in 2019. In March 2020, the Corporation drew down $50.0 million under its revolving term credit facility agreement. Repayments of lease obligations decreased by $7.3 million in 2020 related to deferrals of payments obtained on aircraft and other leases. The decline was partially offset by the increase in payments on lease liabilities following the commissioning of two Airbus A321neoLRs in 2019 and four in 2020, and three Airbus A321ceos in the first quarter of 2020. During the nine-month period ended July 31, 2019, the Corporation received $17.6 million in lease incentives.

CONSOLIDATED FINANCIAL POSITION

	July 31, 2020 $	October 31, 2019 Restated(1) $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**576,431**	564,844	11,587	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**336,628**	352,771	(16,143)	Lower business volume due to the COVID-19 pandemic, partially offset by the issuance of travel credits
Trade and other receivables	**115,321**	137,944	(22,623)	Collection of cash security deposits receivable from lessors and lower business volume due to the COVID-19 pandemic, partially offset by the wage subsidy receivable
Income taxes receivable	**18,942**	16,523	2,419	Increase in income taxes recoverable given losses carried back
Inventories	**13,054**	15,847	(2,793)	Decrease in fuel inventory
Prepaid expenses	**38,361**	74,489	(36,128)	Decrease in prepayments to hotel operators due to the COVID-19 pandemic and the seasonal nature of operations
Deposits	**187,588**	183,902	3,686	Increase in deposits for aircraft maintenance
Deferred tax assets	**—**	28,148	(28,148)	Write-down of deferred tax assets
Property, plant and equipment	**1,077,369**	891,445	185,924	New aircraft and real estate leases, partially offset by depreciation
Intangible assets	**29,130**	36,852	(7,722)	Amortization for the period, partially offset by additions
Derivative financial instruments	**2,969**	4,870	(1,901)	Maturing of foreign exchange derivatives during the period
Investment	**17,306**	16,533	773	Capital contribution, partially offset by the share of net loss of a joint venture
Other assets	**257**	322	(65)	No significant difference
Liabilities				
Trade and other payables	**253,773**	311,065	(57,292)	Decrease in business volume due to the COVID-19 pandemic
Long-term debt and lease liabilities	**959,133**	665,929	293,204	New aircraft and real estate leases and drawdown of the credit facility, partially offset by principal repayments
Provision for return conditions	**170,898**	155,120	15,778	Increase related to the passage of time and and increase in the number of leased aircraft
Income taxes payable	**322**	4,244	(3,922)	Increase in income taxes recoverable given lossed carried back
Derivative financial instruments	**30,652**	12,081	18,571	Unfavourable change in fuel prices related to contracted derivatives
Customer deposits and deferred revenues	**638,116**	561,404	76,712	Increase in travel credits offset by a decrease in reservations
Other liabilities	**48,833**	47,444	1,389	Increase in the defined benefit obligations
Deferred tax liabilities	**1,287**	9,752	(8,465)	Increase in deferred non-capital losses
Equity				
Share capital	**221,012**	221,012	—	No difference
Share-based payment reserve	**15,948**	15,948	—	No difference
Retained earnings	**78,592**	336,993	(258,401)	Net loss
Unrealized gain (loss) on cash flow hedges	**(559)**	(9,176)	8,617	Reclassification of net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(4,651)**	(7,326)	2,675	Foreign exchange gain on translation of financial statements of foreign subsidiaries

1 The Corporation adopted IFRS 16, *Leases*, on November 1, 2019, and restated the 2019 figures. See Changes in Accounting Policies section.

FINANCING

As at September 9, 2020, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50.0 million revolving term credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100.0 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. Under the terms of the agreement, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders and $50.0 million was drawn down under the credit facility.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $870.4 million as at July 31, 2020 ($1,286.4 million as at October 31, 2019) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at July 31, 2020** **$**	**As at October 31, 2019** **$**
Guarantees		
Irrevocable letters of credit	**22,825**	25,375
Collateral security contracts	**470**	472
Operating leases		
Obligations under operating leases	**847,096**	1,260,579
	870,391	1,286,426

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2020, $60.3 million had been drawn down under the facility, including $56.3 million to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at July 31, 2020, an amount of $22.8 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £3.3 million ($5.8 million), which has been fully drawn down.

As at July 31, 2020, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $416.0 million compared with October 31, 2019. This decrease resulted primarily from the addition of four Airbus A321neo LRs to our fleet in 2020, the revision of rents to be paid and the payments made in connection with our seasonal fleet during the period, partially offset by the weakening of the dollar against the U.S. dollar.

We believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.

DEBT LEVELS

The Corporation's total debt, which corresponds to the balance of long-term debt and lease liabilities, stood at $959.1 million as at July 31, 2020, up $293.2 million from October 31, 2019. This increase was due to the addition of aircraft to our fleet during the past nine months and drawdown on our $50.0 million revolving term credit facility agreement in March 2020.

Total net debt increased by $281.6 million, from $101.1 million as at October 31, 2019 to $382.7 million as at July 31, 2020. The increase in total net debt resulted primarily from an increase in total debt.

OUTSTANDING SHARES

As at July 31, 2020, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at September 4, 2020, there were 37,747,090 total voting shares outstanding.

STOCK OPTIONS

As at September 4, 2020, there were a total of 1,746,570 stock options outstanding, 1,522,170 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), five Boeing 737-800s (189 seats), four Airbus A321ceos (199 seats) and six Airbus A321neoLRs (199 seats). During the quarter ended April 30, 2020, the Corporation decided to early retire all of its Airbus A310s from the fleet;

During winter 2020, the Corporation also had seasonal rentals for eight Airbus A321ceos (190 seats) and five Boeing 737-800s (189 seats).

During the quarter ended July 31, 2020, the Corporation took delivery of three Airbus A321neoLRs, which are central to the transformation of its fleet.

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the items mentioned in note 25 to the consolidated financial statements for the year ended October 31, 2019 and the paragraph hereunder. The Corporation has directors' and officers' liability insurance and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits specifically involving directors and officers, not the Corporation. In addition, the Corporation holds professional liability and general civil liability insurance for all lawsuits related to any non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

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

CHANGES IN ACCOUNTING POLICIES

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2019. There have been no significant changes to the Corporation's accounting policies since that date, except for the adoption of IFRS 16, *Leases*, and IFRIC 23, *Uncertainty over Income Tax Treatments*.

IFRS 16, *LEASES*

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

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

IFRS 16 was applied retrospectively on November 1, 2019 with an adjustment to the opening consolidated statement of financial position as at November 1, 2018 and the consolidated statement of income (loss) for the quarter and nine-month period ended on July 31, 2019. The accounting policies and the main changes related to the adoption of IFRS 16 are explained in notes 2 and 3, respectively to the interim condensed consolidated financial statements for the quarter ended July 31, 2020.

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

IFRIC 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS*

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

RISKS AND UNCERTAINTIES

This update on the Corporation's risks and uncertainties should be read in conjunction with the Risks and Uncertainties section in the MD&A of the Annual Report of the Corporation for the fiscal year ended October 31, 2019, which is available on the Corporation's website as well as on the www.sedar.com website.

COVID-19-RELATED RISKS

This section provides an overview of the specific risks to which Transat and its subsidiaries have been and/or will be exposed as a result of the COVID-19 pandemic. Since government authorities imposed various restrictions on cross-border travel, the Corporation's airline operations were suspended from April 1 to July 22, 2020 and its tour operator's activities have been reduced to a minimum. This resulted in a significant reduction in cash flows from operations despite the mitigation measures taken by the Corporation. This situation is likely to continue until a normal recovery in consumer travel demand, which is not anticipated for a number of months or even years.

The crisis surrounding the COVID-19 pandemic is rapidly evolving and is affecting the entire global tourism industry as well as the air transportation sector. The extent of the potential impact of COVID-19 on the Corporation and its operations will depend on the evolution of the pandemic, which is still highly uncertain and cannot be accurately predicted, including the spread of the virus, the duration of the outbreak, its impact on the discretionary spending of our customers, government travel and border restrictions, and the effectiveness of measures taken by the governments of various countries to manage the pandemic. The outlook for travel demand to destinations served by the Corporation for the remaining part of 2020 and early 2021 remains very difficult to determine given the restrictions imposed by governments and concerns about cross-border travel related to the COVID-19 virus. The Corporation is monitoring the situation very closely and continues to take appropriate measures as the COVID-19 pandemic evolves.

The potential negative impacts of the COVID-19 pandemic include but are not limited to:

- Significant reduction or even elimination of demand for the Corporation's products and services, both for its flights offered on Air Transat and for its vacation packages, resulting from, among other things, government travel and border restrictions, travellers' concerns about COVID-19, new constraints imposed on travellers at airports and on flights due to COVID-19 such as mask wearing and temperature screening, lower discretionary consumer spending, job losses or salary reductions resulting from a decline in economic activity, service disruptions resulting from COVID-19 and changes in consumer travel patterns, which could have a material adverse effect on cash flows from operations;

- Disruptions in operations related to the inability of the Corporation's employees, its subcontractors or other business partners to work in a normal manner as a result of COVID-19 restrictions, including quarantines;

- Refund of customer deposits pursuant to legislative and regulatory enforcement actions or litigation, including class action lawsuits, seeking refunds for cancelled airline tickets and trips subject to travel credit offers and any resulting material adverse impact on the Corporation's cash position;

- Impact of new laws, new regulations and other government interventions resulting from the COVID-19 pandemic, including travel-related measures requiring physical distancing that could result in additional costs to the Corporation, a lower load factor and increases in the price of the Corporation's products and services that could adversely affect demand for such products and services;

- Negative impact on global credit and capital markets that could limit the Corporation's ability to refinance or renew its obligations and other agreements that are maturing at pre-pandemic or otherwise reasonable terms and conditions;

- The Corporation's inability to meet the financial ratios required under its credit facilities and commitments made to its credit card processors or obtain an extension of the suspension of their application, resulting in more onerous credit terms or repayment obligations that could adversely affect its cash flows;

- Tighter credit conditions proposed by the Corporation's business partners to manage their own cash flows;

- Write-down of assets as well non-recurring expenses resulting from adjustments to the Corporation's cost structure;

- Significant volatility in fuel prices and exchange rates and the resulting negative impact on the value of the Corporation's derivative contracts used to manage fuel-price and foreign exchange risk;

- Given the large number of early terminations completed to date, and the decision to pay only legal indemnities, the Corporation is more exposed to a risk of legal action by these employees;

- Amounts that may be withheld by credit card processors would delay the availability of these funds for the Corporation, creating additional adverse pressure on the Corporation's cash flows;

- Inability to reach an agreement with the regulatory authorities in terms of solutions or remedies to the concerns raised regarding competition as part of the regulatory approval process for the arrangement with Air Canada given the current widespread context where a large number of travel industry players have announced capacity reductions and requested financial assistance measures, which could adversely affect the ability to obtain the regulatory approvals necessary for the arrangement.

Among other things, following the suspension of all its flights from April 1 and despite a small-scale resumption of certain flights as of July 23, 2020, the Corporation, like many other air transportation and travel players affected by government travel and border restrictions resulting from COVID-19, decided to offer travel credits to affected consumers. These measures were rejected by many consumers, who would have preferred to receive refunds. In some jurisdictions, such as Europe and the United States, governments have adopted measures to force airlines to refund airline tickets and travel for affected consumers who request so. As a result, the Corporation reimbursed consumers who booked on a web platform in certain European countries, and only for the flight segment departing from Europe, representing a minimal portion of the Corporation's customer deposits. The majority of the Corporation's customer deposits were made by Canadian consumers in connection with flight and travel reservations for the upcoming fall and winter seasons. If the Corporation is unable to offer the flights or trips covered by these reservations, it could face refund requests for a significant portion of its customer deposits, which would have a material adverse effect on its liquidity position. Canadian government authorities have not adopted similar measures, but if they do, substantially all of the Corporation's customer deposits could be subject to such claims, which would have an equivalent impact on the Corporation's liquidity. During the nine-month period ended July 31, 2020, the Corporation was the subject of certain class actions in connection with the reimbursement of customer deposits for flights cancelled in connection with the COVID-19 pandemic. Some of these class actions could entail significant costs which will remain uncertain until one or more events occur or not. To date, the outcome of these class actions is impossible to predict with certainty and the financial effect that could result from it cannot be reliably estimated. Most of the amounts that may have to be paid in connection with class actions are included in Customer deposits and deferred revenue. If the Corporation had to pay an amount related to class actions, the unfavourable effect of the settlement would be recognized in the consolidated statement of income and could have a very unfavourable effect on cash.

In addition, in the normal course of business, the Corporation is facing a number of short-term maturities related to lease obligations mainly in connection with its fleet, service contracts with credit card processors, as well as its $50.0 million guarantee facility. These agreements will have to be renewed or replaced under market conditions prevailing at the time of their expiry, which could result in more onerous borrowing and operating terms and conditions for the Corporation or an inability to renew or replace such instruments. Since March, the Corporation has been negotiating with its aircraft lessors as well as with the owners of the premises it occupies to defer a certain number of monthly rent payments. In addition, the Corporation is negotiating with its suppliers to obtain cost reductions and changes to its payment terms, and has implemented measures to reduce expenses and investments. The Corporation has obtained a temporary suspension of the application of certain financial ratios from lenders under its $50.0 million revolving term credit facility. The Corporation has also been subject to tighter credit conditions by some credit card processors. The Corporation cannot guarantee that it will be able to favourably negotiate concessions and deferrals with its aircraft lessors, owners of premises, suppliers, lenders and other partners or, if applicable, that it will be able to extend the maintenance of such measures.

If the suspension of operations is extended, the lack of operating revenues resulting therefrom could also jeopardize the Corporation's ability to meet its financial ratios under its credit facilities and agreements with its credit card processors or obtain an extension of the suspension of their application, leading to more onerous and restrictive credit terms or repayment obligations if it cannot come to an agreement on adjustments to existing agreements. Such repayment obligations could have a material adverse effect on the Corporation's financial position. Furthermore, the exercise of the option by its holder after October 31, 2020, the non-controlling interest in Trafictours Canada could also affect the Corporation's cash.

The COVID-19 pandemic started adversely impacting the Corporation as early as March 2020, resulting in a significant reduction in cash flows from operations. The Corporation also had to continue to absorb fixed costs such as those related to employee salaries and benefits, leasing and maintenance of its fleet of aircraft, engines and other equipment, leasing of office and airport space and financing costs. Although the Corporation has implemented certain measures to mitigate these impacts, as described in greater detail in this MD&A, the situation will affect its liquidity position until it is able to resume operations at a sufficient level. The Corporation may have to take supplementary measures, including borrowing in addition to its existing facilities. The Corporation may have difficulty in accessing sources of financing or reasonable terms and conditions of financing due to, among other things, the significant reduction in its operations, the outlook for the airline and travel industry, market conditions, the Corporation's current debt level and the availability of assets to secure borrowings. Similarly to the vast majority of air carriers and other travel industry players in the normal course of their operations following the impacts of COVID-19, the Corporation continues to review different financing options to increase its cash position in order to deal with possible disruption resulting from COVID-19, including obtaining financing from private and government financial institutions and the Large Employer Emergency Financing Facility (LEEFF). The Corporation cannot guarantee it will have access to such sources of financing or acceptable financing terms, or that such supplementary measures will enable it to mitigate the risks arising from the COVID-19 pandemic, including those mentioned above.

The completion of the arrangement with Air Canada remains subject to certain customary closing conditions, including regulatory approvals, particularly those of authorities in Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada. On March 27, 2020, as part of this assessment process, the Commissioner of Competition released the report provided to Transport Canada summarizing his assessment of the impacts on competition. On May 1, 2020, Transport Canada in turn provided its assessment report to the Minister of Transport.

On May 25, 2020, the European Commission decided to open an in-depth ("Phase II") investigation to assess the transaction with Air Canada. This extension is part of the European Commission's normal process of assessing the impact of transactions submitted for its approval, which is currently complicated by the COVID 19 pandemic and the impact it is having on the international commercial aviation market. On September 1, 2020, with retroactive effect to August 20, 2020, the European Commission ended the suspension of the deadline decided on June 9, 2020 and set a new provisional deadline of December 11, 2020 for its decision.

While the Corporation remains firmly committed to completing the transaction with Air Canada, certain factors beyond its control and related to the COVID-19 pandemic could influence the outcome of the proposed arrangement. The market conditions of the global industry have been completely transformed. Among other things, the vast majority of North American, European and international air carriers have requested financial assistance measures, but have had to implement reductions in capacity (as the Corporation did). This context could impact the obtaining of approvals from regulatory authorities, especially regarding the appropriate package of remedies aimed at obtaining those approvals.

Moreover, owing to the pandemic and the continued restrictions on non-essential travel, the Corporation is actively looking to obtain additional sources of financing. The covenants undertaken under the arrangement agreement with Air Canada restrict and govern the Corporation's capacity to obtain additional sources of financing and could require Air Canada's prior consent. Although the agreement provides that Air Canada's consent may not be unreasonably withheld, there is no certainty that Air Canada will consent to the obtaining of additional sources of financing by the Corporation.

If the required approvals are obtained and the conditions are met, it is now expected that the arrangement will be completed during the fourth quarter of the 2020 calendar year. Under the arrangement agreement, the deadline for obtaining the regulatory approvals cannot be extended beyond December 27, 2020. This date, initially set for June 27, 2020, may be deferred, to the extent that the regulatory approvals are not obtained, for three one-month periods upon notification by one of the parties, and subsequently for three additional one-month periods under certain conditions. The Corporation has successively informed Air Canada of its decision to activate the first three initial one-month periods, which defers, for now, the June 27 deadline to September 27, 2020.

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

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2020 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which, in accordance with the COSO 2013 internal control framework, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2020 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Impact of the coronavirus on outlook – In the current situation, it is impossible for the moment to predict the impact of the COVID-19 pandemic on future bookings, the partial resumption of flight operations and financial results.

The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash and continues to monitor the situation daily to adjust these measures as it evolves. Please see the Risks and Uncertainties section of the Corporation's MD&A for the third quarter of fiscal 2020 (and that of October 31, 2019) for a more detailed discussion of the main risks and uncertainties facing the Corporation.

Consequently, for now the Corporation is not providing an outlook for summer 2020 or winter 2021.

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

(in thousands of Canadian dollars)	Notes	As at July 31, 2020	As at October 31, 2019 Restated *[note 3]* $	As at November 1, 2018 Restated *[note 3]* $
ASSETS				
Cash and cash equivalents		**576,431**	564,844	593,654
Cash and cash equivalents in trust or otherwise reserved	*4*	**280,360**	301,547	287,735
Trade and other receivables		**115,321**	137,944	133,626
Income taxes receivable		**3,842**	1,423	11,405
Inventories		**13,054**	15,847	14,464
Prepaid expenses		**38,361**	74,489	63,706
Derivative financial instruments		**2,969**	4,870	20,413
Current portion of deposits	*5*	**7,127**	17,765	20,250
Current assets		**1,037,465**	1,118,729	1,145,253
Cash and cash equivalents reserved	*4*	**56,268**	51,224	51,184
Deposits	*5*	**180,461**	166,137	166,026
Income taxes receivable		**15,100**	15,100	15,100
Deferred tax assets		**—**	28,148	16,105
Property, plant and equipment	*6*	**1,077,369**	891,445	721,504
Intangible assets	*7*	**29,130**	36,852	42,689
Derivative financial instruments		**—**	—	84
Investment	*8*	**17,306**	16,533	16,084
Other assets		**257**	322	186
Non-current assets		**1,375,891**	1,205,761	1,028,962
		2,413,356	2,324,490	2,174,215
LIABILITIES				
Trade and other payables		**253,773**	311,065	312,273
Income taxes payable		**322**	4,244	1,117
Customer deposits and deferred revenues		**638,116**	561,404	517,352
Derivative financial instruments		**30,652**	10,431	2,766
Current portion of lease liabilities	*9*	**172,590**	99,814	71,250
Current portion of provision for return conditions	*10*	**16,838**	—	—
Current liabilities		**1,112,291**	986,958	904,758
Long-term debt and lease liabilities	*9*	**786,543**	566,115	493,920
Provision for return conditions	*10*	**154,060**	155,120	128,528
Other liabilities	*11*	**48,833**	47,444	41,128
Derivative financial instruments		**—**	1,650	679
Deferred tax liabilities		**1,287**	9,752	11,739
Non-current liabilities		**990,723**	780,081	675,994
EQUITY				
Share capital	*12*	**221,012**	221,012	219,684
Share-based payment reserve		**15,948**	15,948	18,017
Retained earnings		**78,592**	336,993	362,590
Unrealized gain on cash flow hedges		**(559)**	(9,176)	1,971
Cumulative exchange differences		**(4,651)**	(7,326)	(8,799)
		310,342	557,451	593,463
		2,413,356	2,324,490	2,174,215

See accompanying notes to unaudited interim condensed consolidated financial statements

NOTICE
The Corporation's independent auditors have not performed a review of the accompanying interim condensed consolidated financial statements.

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

(in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended July 31 2020 $	Quarters ended July 31 2019 Restated [note 3] $	Nine-month periods ended July 31 2020 $	Nine-month periods ended July 31 2019 Restated [note 3] $
Revenues		**9,546**	698,916	**1,273,643**	2,243,895
Operating expenses					
Costs of providing tourism services		**3,338**	111,772	**435,475**	714,710
Aircraft fuel		**28,256**	158,049	**224,377**	369,529
Salaries and employee benefits	13	**22,798**	105,826	**204,447**	309,569
Aircraft maintenance		**11,709**	66,697	**95,893**	160,977
Sales and distribution costs		**2,538**	44,432	**95,731**	169,249
Airport and navigation fees		**2,214**	50,310	**71,290**	127,433
Aircraft rent		**202**	2,031	**24,436**	46,170
Other airline costs		**3,376**	73,292	**95,472**	179,813
Other		**14,262**	24,050	**57,422**	70,942
Share of net loss (income) of a joint venture		**794**	359	**540**	432
Depreciation and amortization	7	**53,181**	46,639	**154,620**	132,000
Special items	14	**(1,109)**	13,731	**570**	13,731
		141,559	697,188	**1,460,273**	2,294,555
Operating income (loss)		**(132,013)**	1,728	**(186,630)**	(50,660)
Financing costs		**11,772**	10,215	**33,104**	27,610
Financing income		**(1,927)**	(5,469)	**(11,854)**	(16,309)
Change in fair value of fuel-related derivatives and other derivatives		**(67,682)**	8,819	**32,169**	9,110
Loss (gain) on asset disposals		**170**	(8)	**170**	(8)
Foreign exchange loss (gain)		**(28,496)**	(12,292)	**7,447**	(1,139)
Income (loss) before income tax expense		**(45,850)**	463	**(247,666)**	(69,924)
Income taxes (recovery)					
Current		**47**	(1,141)	**(5,880)**	(84)
Deferred		**(176)**	2,801	**16,609**	(17,304)
		(129)	1,660	**10,729**	(17,388)
Net income (loss) for the period		**(45,721)**	(1,197)	**(258,395)**	(52,536)
Net income (loss) attributable to:					
Shareholders		**(45,115)**	(1,505)	**(258,468)**	(55,396)
Non-controlling interests		**(606)**	308	**73**	2,860
		(45,721)	(1,197)	**(258,395)**	(52,536)
Earnings (loss) per share	12				
Basic		**(1.20)**	(0.04)	**(6.85)**	(1.47)
Diluted		**(1.20)**	(0.04)	**(6.85)**	(1.47)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2020	**2019**	**2020**	**2019**
		Restated		**Restated**
		[note 3]		*[note 3]*
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**
Net income (loss) for the period	**(45,721)**	(1,197)	**(258,395)**	(52,536)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	**235**	(8,792)	**(1,284)**	(21,736)
Reclassification to net income (loss)	**(3)**	2,667	**12,925**	11,416
Deferred taxes	**—**	1,645	**(3,024)**	2,753
	232	(4,480)	**8,617**	(7,567)
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	**(2,070)**	(5,233)	**2,675**	(1,454)
Total other comprehensive income (loss)	**(1,838)**	(9,713)	**11,292**	(9,021)
Comprehensive income (loss) for the period	**(47,559)**	(10,910)	**(247,103)**	(61,557)
Comprehensive income (loss) for the period attributable to:				
Shareholders	**(45,263)**	(10,290)	**(247,991)**	(64,417)
Non-controlling interests	**(2,296)**	(620)	**888**	2,860
	(47,559)	(10,910)	**(247,103)**	(61,557)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings Restated *[note 3]*	Unrealized gain (loss) on cash flow hedges Restated *[note 3]*	Cumulative exchange differences Restated *[note 3]*	Total Restated *[note 3]*	Non-controlling interests	Total equity Restated *[note 3]*
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2018	219,684	18,017	362,590	1,971	(8,799)	593,463	—	593,463
Net income for the period	—	—	(55,396)	—	—	(55,396)	2,860	(52,536)
Other comprehensive income (loss)	—	—	—	(7,567)	(1,454)	(9,021)	—	(9,021)
Comprehensive income (loss) for the period	—	—	(55,396)	(7,567)	(1,454)	(64,417)	2,860	(61,557)
Issued from treasury	940	—	—	—	—	940	—	940
Exercise of options	388	(120)	—	—	—	268	—	268
Vesting of PSUs	—	(19)	—	—	—	(19)	—	(19)
Share-based payment expense	—	1,612	—	—	—	1,612	—	1,612
Reclassification of PSUs as financial liabilities	—	(3,542)	—	—	—	(3,542)	—	(3,542)
Dividends	—	—	—	—	—	—	(2,196)	(2,196)
Fair value changes of non-controlling interest	—	—	7,085	—	—	7,085	(7,085)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	6,421	6,421
	1,328	(2,069)	7,085	—	—	6,344	(2,860)	3,484
Balance as at July 31, 2019	221,012	15,948	314,279	(5,596)	(10,253)	535,390	—	535,390
Net income for the period	—	—	23,049	—	—	23,049	(229)	22,820
Other comprehensive income (loss)	—	—	(3,406)	(3,580)	2,926	(4,060)	1	(4,059)
Comprehensive income (loss) for the period	—	—	19,643	(3,580)	2,926	18,989	(228)	18,761
Dividends	—	—	—	—	—	—	(696)	(696)
Fair value changes of non-controlling interest	—	—	3,071	—	—	3,071	(3,071)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	3,996	3,996
Reclassification of non-controlling interest exchange difference	—	—	—	—	1	1	(1)	—
	—	—	3,071	—	1	3,072	228	3,300
Balance as at October 31, 2019	221,012	15,948	336,993	(9,176)	(7,326)	557,451	—	557,451
Net income (loss) for the period	—	—	(258,468)	—	—	(258,468)	73	(258,395)
Other comprehensive income (loss)	—	—	—	8,617	1,860	10,477	815	11,292
Comprehensive income (loss) for the period	—	—	(258,468)	8,617	1,860	(247,991)	888	(247,103)
Dividends	—	—	—	—	—	—	(849)	(849)
Fair value changes of non-controlling interest	—	—	67	—	—	67	(67)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	843	843
Reclassification of non-controlling interest exchange difference	—	—	—	—	815	815	(815)	—
	—	—	67	—	815	882	(888)	(6)
Balance as at July 31, 2020	**221,012**	**15,948**	**78,592**	**(559)**	**(4,651)**	**310,342**	**—**	**310,342**

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars)	Quarters ended July 31 2020 $	2019 Restated *[note 3]* $	Nine-month periods ended July 31 2020 $	2019 Restated *[note 3]* $
OPERATING ACTIVITIES				
Net income (loss) for the period	**(45,721)**	(1,197)	**(258,395)**	(52,536)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	**53,181**	46,639	**154,620**	132,000
Change in fair value of fuel-related derivatives and other derivatives	**(67,682)**	8,819	**32,169**	9,110
Loss (gain) on asset disposals	**170**	(8)	**170**	(8)
Foreign exchange loss (gain)	**(28,496)**	(12,292)	**7,447**	(1,139)
Share of net loss (income) of a joint venture	**794**	359	**540**	432
Deferred taxes	**(176)**	2,801	**16,609**	(17,304)
Employee benefits	**754**	736	**2,261**	2,218
Share-based payment expense	**—**	555	**—**	1,612
	(87,176)	46,412	**(44,579)**	74,385
Net change in non-cash working capital balances related to operations	**(54,044)**	(50,109)	**122,878**	230,591
Net change in provision for overhaul of leased aircraft	**(4,796)**	7,974	**13,297**	11,766
Net change in other assets and liabilities related to operations	**627**	1,850	**(14,184)**	(9,137)
Cash flows related to operating activities	**(145,389)**	6,127	**77,412**	307,605
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	**(1,771)**	(40,704)	**(61,952)**	(119,083)
Increase in cash and cash equivalents reserved	**—**	—	**(5,044)**	(40)
Consideration received on business disposals, net of cash disposed of	**—**	784	**—**	1,884
Dividend received from an associate	**—**	(1,690)	**(1,043)**	(1,690)
Cash flows related to investing activities	**(1,771)**	(41,610)	**(68,039)**	(118,929)
FINANCING ACTIVITIES				
Proceeds from borrowings	**6**	—	**49,979**	—
Proceeds from issuance of shares	**—**	467	**—**	1,208
Repayment of lease liabilities	**(9,966)**	(29,616)	**(48,943)**	(56,255)
Dividends paid by a subsidiary to a non-controlling shareholder	**—**	(1,395)	**(849)**	(2,196)
Cash flows related to financing activities	**(9,960)**	(30,544)	**187**	(57,243)
Effect of exchange rate changes on cash and cash equivalents	**(128)**	(6,452)	**2,027**	(1,244)
Net change in cash and cash equivalents	**(157,248)**	(72,479)	**11,587**	130,189
Cash and cash equivalents, beginning of period	**733,679**	796,322	**564,844**	593,654
Cash and cash equivalents, end of period	**576,431**	723,843	**576,431**	723,843
Supplementary information (as reported in operating activities)				
Net income taxes paid (recovered)	**(86)**	(14,980)	**986**	(12,674)
Interest paid	**241**	246	**561**	681

See accompanying notes to unaudited interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2020 were approved by the Corporation's Board of Directors on September 9, 2020.

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

Owing to the global COVID-19 pandemic, Transat suspended its airline operations on April 1, 2020. Starting July 23, 2020, the Corporation operated its first commercial flights after four months of inactivity and rolled out a reduced summer program.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations we fly to, and the need for quarantine, and security and physical distancing measures as well as the resulting economic slowdown create significant demand uncertainty for the remaining part of fiscal 2020 and at least for fiscal 2021. For the moment, Transat cannot predict all the impacts of COVID-19 on its operations and results, or when the situation will improve. The Corporation has implemented a series of operational, commercial and financial measures, including cost reduction, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position.

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements with the exception of the adoption of IFRS 16, *Leases*, and IFRIC 23, *Uncertainty over Income Tax Treatments*, for which the effects are described in note 3. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2019.

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

LEASES

The Corporation is party to leases, primarily for aircraft, aircraft engines, real estate and automotive equipment. Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as leases. At the commencement date of the lease, the Corporation recognizes a right-of-use asset and a lease liability at the present value of future lease payments, using the Corporation’s incremental borrowing rate. The Corporation has elected to separate lease and non-lease components of lease agreements.

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

The initial value of right-of-use assets is obtained through the calculation of lease liabilities. Right-of-use assets are recognized in accordance with IAS 16, *Property, Plant and Equipment*, and depreciated over the term of the lease. For the permanent fleet, on initial recognition, right-of-use assets are broken down and eligible maintenance costs are capitalized and depreciated over the shorter of the lease term or expected useful life. Subsequently, eligible maintenance costs over the lease term are capitalized and depreciated over the shorter of the lease term or expected useful life.

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). 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.

PROVISION FOR RETURN CONDITIONS

Aircraft- and equipment-related leases contain obligations arising from the conditions under which the assets must be returned to the lessor on expiry of the lease [the “return conditions”]. The Corporation records a provision arising from the return conditions of leased aircraft and engines upon commencement of the lease based on the degree of use until maintenance to meet the return condition or until expiry of the lease. The provision is adjusted to reflect any change in the related maintenance expenses anticipated and the significant accounting estimates and judgments used. 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.

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.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

IMPACT OF COVID-19 PANDEMIC ON SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

DISCOUNT RATE OF LEASE LIABILITIES

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

PROVISION FOR RETURN CONDITIONS

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

Note 3 CHANGES IN ACCOUNTING POLICIES

IFRS 16, *LEASES*

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

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

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

FLEET

As at July 31, 2020, the Corporation operated 35 aircraft under leases [31 and 27 as at October 31, 2019 and 2018, respectively] for which right-of-use assets and lease liabilities will be recognized upon application of IFRS 16; these aircraft are part of the permanent fleet. During the winter season, the Corporation also has aircraft under leases for a period of approximately six months; these aircraft are part of the seasonal fleet. The Corporation has elected to apply the provisions of IFRS 16 for the seasonal fleet to continue to recognize the expenses associated with these leases under Aircraft rent on a straight-line basis over the lease term.

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

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

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

REAL ESTATE AND OTHER LEASES

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

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

PROVISION FOR RETURN CONDITIONS

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

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

COVID-19 RELATED RENT CONCESSIONS, AMENDMENT TO IFRS 16

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

CONSOLIDATED STATEMENT OF INCOME (LOSS) PRESENTATION

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

IMPACT ON PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated statements of financial position

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

Consolidated statements of financial position

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

Consolidated statements of income Quarter ended July 31 (in thousands of Canadian dollars, except per share amounts)	2019 $	Fleet $	Real estate and other $	Presentation $	2019 After adjustments $
Revenues	698,916	—	—	—	698,916
Operating expenses					
Aircraft maintenance	76,579	(9,882)	—	—	66,697
Airport and navigation fees	46,070	—	—	4,240	50,310
Aircraft rent	30,186	(28,155)	—	—	2,031
Other airline costs	75,603	1,929	—	(4,240)	73,292
Other	28,216	—	(4,166)	—	24,050
Depreciation and amortization	15,710	28,217	2,712	—	46,639
	706,533	(7,891)	(1,454)	—	697,188
Operating income (loss)	(7,617)	7,891	1,454	—	1,728
Financing costs	397	8,950	868	—	10,215
Foreign exchange (gain) loss	900	(13,191)	(1)	—	(12,292)
Income (loss) before income tax expense	(12,256)	12,132	587	—	463
Income taxes (recovery)					
Deferred	(385)	3,039	147	—	2,801
	(1,526)	3,039	147	—	1,660
Net income (loss) for the period	(10,730)	9,093	440	—	(1,197)
Net income (loss) attributable to:					
Shareholders	(11,043)	9,093	445	—	(1,505)
Non-controlling interests	313	—	(5)	—	308
	(10,730)	9,093	440	—	(1,197)
Earnings (loss) per share					
Basic	(0.29)	0.24	0.01	—	(0.04)
Diluted	(0.29)	0.24	0.01	—	(0.04)

Consolidated statements of comprehensive income (loss) Nine-month period ended July 31 (in thousands of Canadian dollars, except per share amounts)	2019 $	Fleet $	Real estate and other $	Presentation $	2019 After adjustments $
Revenues	2,243,895	—	—	—	2,243,895
Operating expenses					
Aircraft maintenance	198,981	(38,004)	—	—	160,977
Airport and navigation fees	113,575	—	—	13,858	127,433
Aircraft rent	109,885	(63,715)	—	—	46,170
Other airline costs	188,942	4,729	—	(13,858)	179,813
Other	81,714	—	(10,772)	—	70,942
Depreciation and amortization	46,852	77,688	7,460	—	132,000
	2,317,169	(19,302)	(3,312)	—	2,294,555
Operating income (loss)	(73,274)	19,302	3,312	—	(50,660)
Financing costs	1,181	24,253	2,176	—	27,610
Foreign exchange (gain) loss	22	(1,171)	10	—	(1,139)
	(67,270)	(3,780)	1,126	—	(69,924)
Income taxes (recovery)					
Deferred	(16,593)	(994)	283	—	(17,304)
	(16,677)	(994)	283	—	(17,388)
Net income (loss) for the period	(50,593)	(2,786)	843	—	(52,536)
Net income (loss) attributable to:					
Shareholders	(53,475)	(2,786)	865	—	(55,396)
Non-controlling interests	2,882	—	(22)	—	2,860
	(50,593)	(2,786)	843	—	(52,536)
Earnings (loss) per share					
Basic	(1.42)	(0.07)	0.02	—	(1.47)
Diluted	(1.42)	(0.07)	0.02	—	(1.47)

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

Consolidated Statements of Cash Flows Quarter ended July 31 (in thousands of Canadian dollars)	2019 $	Fleet $	Real estate and other $	2019 After adjustments $
OPERATING ACTIVITIES				
Net income (loss) for the period	(10,730)	9,093	440	(1,197)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	15,710	28,217	2,712	46,639
Foreign exchange loss (gain)	900	(13,191)	(1)	(12,292)
Deferred taxes	(385)	3,039	147	2,801
	15,956	27,158	3,298	46,412
Net change in non-cash working capital balances related to operations	(52,142)	1,481	552	(50,109)
Net change in provision for overhaul of leased aircraft	5,595	(5,595)	—	—
Net change in provision for return conditions	—	7,974	—	7,974
Net change in other assets and liabilities related to operations	(5,623)	7,462	11	1,850
Cash flows related to operating activities	(36,214)	38,480	3,861	6,127
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	(27,979)	(12,725)	—	(40,704)
Cash flows related to investing activities	(28,885)	(12,725)	—	(41,610)
FINANCING ACTIVITIES				
Repayment of lease liabilities	—	(25,755)	(3,861)	(29,616)
Cash flows related to financing activities	(928)	(25,755)	(3,861)	(30,544)
Effect of exchange rate changes on cash and cash equivalents	(6,452)	—	—	(6,452)
Net change in cash and cash equivalents	(72,479)	—	—	(72,479)
Cash and cash equivalents, beginning of period	796,322	—	—	796,322
Cash and cash equivalents, end of period	723,843	—	—	723,843

Consolidated Statements of Cash Flows Nine-month period ended July 31 (in thousands of Canadian dollars)	2019 $	Fleet $	Real estate and other $	2019 After adjustments $
OPERATING ACTIVITIES				
Net income (loss) for the period	(50,593)	(2,786)	843	(52,536)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	46,852	77,688	7,460	132,000
Foreign exchange loss (gain)	22	(1,171)	10	(1,139)
Deferred taxes	(16,593)	(994)	283	(17,304)
	(6,948)	72,737	8,596	74,385
Net change in non-cash working capital balances related to operations	219,687	8,854	2,050	230,591
Net change in provision for overhaul of leased aircraft	4,612	(4,612)	—	—
Net change in provision for return conditions	—	11,766	—	11,766
Net change in other assets and liabilities related to operations	(7,715)	(903)	(519)	(9,137)
Cash flows related to operating activities	209,636	87,842	10,127	307,605
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	(77,369)	(41,714)	—	(119,083)
Cash flows related to investing activities	(77,215)	(41,714)	—	(118,929)
FINANCING ACTIVITIES				
Repayment of lease liabilities	—	(46,128)	(10,127)	(56,255)
Cash flows related to financing activities	(988)	(46,128)	(10,127)	(57,243)
Effect of exchange rate changes on cash and cash equivalents	(1,244)	—	—	(1,244)
Net change in cash and cash equivalents	130,189	—	—	130,189
Cash and cash equivalents, beginning of period	593,654	—	—	593,654
Cash and cash equivalents, end of period	723,843	—	—	723,843

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

IFRIC 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS*

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

Note 4 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2020, cash and cash equivalents in trust or otherwise reserved included $270,394 [$292,134 as at October 31, 2019] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $66,234, $56,268 of which was recorded as non-current assets [$60,637 as at October 31, 2019, $51,224 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 5 DEPOSITS

	As at July 31, 2020	As at October 31, 2019 Restated *[note 3]*
	$	$
Deposits for maintenance to lessors	**134,464**	124,911
Deposits on leased aircraft and engines	**43,235**	38,415
Deposits with suppliers	**9,889**	20,576
	187,588	183,902
Less current portion	**7,127**	17,765
	180,461	166,137

Note 6 PROPERTY, PLANT AND EQUIPMENT

	Fleet	Aircraft equipment	Office furniture and equipment	Land, building and leasehold improvements	Right-of-use Fleet	Right-of-use Real estate and other	Total
	$	$	$	$	$	$	$
Cost							
Balance as at October 31, 2019	**328,737**	**125,102**	**60,037**	**115,558**	**1,344,885**	**130,256**	**2,104,575**
Additions	**5,274**	**25,486**	**4,536**	**1,279**	**266,784**	**24,420**	**327,779**
Write-offs	**(138,558)**	**(7,833)**	**(258)**	**(248)**	**—**	**(2,656)**	**(149,553)**
Exchange difference	**—**	**—**	**28**	**1,301**	**—**	**261**	**1,590**
Balance as at July 31, 2020	**195,453**	**142,755**	**64,343**	**117,890**	**1,611,669**	**152,281**	**2,284,391**
Accumulated depreciation							
Balance as at October 31, 2019	**250,001**	**74,717**	**40,388**	**29,167**	**741,597**	**77,260**	**1,213,130**
Depreciation	**14,560**	**8,821**	**3,843**	**1,801**	**107,264**	**7,191**	**143,480**
Write-offs	**(138,558)**	**(7,833)**	**(258)**	**(248)**	**—**	**(2,656)**	**(149,553)**
Exchange difference	**—**	**—**	**56**	**49**	**(16)**	**(124)**	**(35)**
Balance as at July 31, 2020	**126,003**	**75,705**	**44,029**	**30,769**	**848,845**	**81,671**	**1,207,022**
Net book value as at July 31, 2020	**69,450**	**67,050**	**20,314**	**87,121**	**762,824**	**70,610**	**1,077,369**

	Fleet	Aircraft equipment	Office furniture and equipment	Land, building and leasehold improvements	Right-of-use Fleet Restated *[note 3]*	Right-of-use Real estate and other Restated *[note 3]*	Total Restated *[note 3]*
	$	$	$	$	$	$	$
Cost							
Balance as at October 31, 2018	339,093	118,679	53,102	96,123	1,152,517	105,460	1,864,974
Additions	24,807	27,730	10,634	19,926	229,595	24,999	337,691
Write-offs	(35,163)	(21,307)	(3,601)	(352)	(37,227)	(136)	(97,786)
Exchange difference	—	—	(98)	(139)	—	(67)	(304)
Balance as at October 31, 2019	328,737	125,102	60,037	115,558	1,344,885	130,256	2,104,575
Accumulated depreciation							
Balance as at October 31, 2018	251,348	88,238	38,335	27,598	670,770	67,181	1,143,470
Depreciation	33,816	7,786	5,711	1,930	108,054	10,189	167,486
Write-offs	(35,163)	(21,307)	(3,601)	(352)	(37,227)	(136)	(97,786)
Exchange difference	—	—	(57)	(9)	—	26	(40)
Balance as at October 31, 2019	250,001	74,717	40,388	29,167	741,597	77,260	1,213,130
Net book value as at October 31, 2019	78,736	50,385	19,649	86,391	603,288	52,996	891,445

Note 7 IMPAIRMENT TEST ON NON-DEPRECIABLE INTANGIBLE ASSETS

The Corporation performed its annual impairment test as at July 31, 2020 to determine whether the carrying amount of trademarks was higher than their recoverable amount.

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

Due to the COVID-19 pandemic occurring worldwide, the global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen, both in Canada and at certain destinations we fly to, and the need for quarantine, and security and physical distancing measures as well as the resulting economic slowdown are creating significant demand uncertainty for the remaining part of fiscal 2020 and at least for fiscal 2021. For the moment, Transat cannot predict all the impacts of COVID-19 on its operations and results, or when the situation will improve. In spite of the measures implemented, until the Corporation is able to resume operations at a sufficient level, the situation will affect its cash position.

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

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

As at July 31, 2020, after-tax discount rates used for impairment testing for trademarks ranged from 12.5% to 17.0% [from 10.0% to 18.0% as at April 30, 2019].

On July 31, 2020, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all other variables had remained the same, would have required a $275 additional impairment charge.

On July 31, 2020, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would have required a $275 additional impairment charge.

Note 8 INVESTMENT

The change in the Corporation's 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2019	**16,533**
Capital contribution	**1,043**
Share of net loss	**(540)**
Translation adjustment	**270**
Balance as at July 31, 2020	**17,306**

The investment was translated at the USD/CAD closing rate of 1.3383 as at July 31, 2020 [1.3142 as at October 31, 2019].

Note 9 LONG-TERM DEBT AND LEASE LIABILITIES

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. Under the terms of the agreement, the Corporation benefited from a temporary suspension of the application of certain financial ratios and conditions by its lenders and $50,000 was drawn down under this credit facility.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2020, $60,332 had been drawn down under the facility [$55,848 as at October 31, 2019], $56,268 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The following table details the maturities and discount rates related to long-term debt and lease liabilities as at July 31, 2020 and October 31, 2019:

	Final Maturity	Weighted Average Interest Rate	As at July 31, 2020	As at October 31, 2019 Restated *[note 3]*
		%	$	$
Long-term debt	2022	4.01	**49,979**	—
Lease liabilities				
Fleet	2020-2031	5.73	**824,719**	602,449
Real estate and other	2020-2037	5.56	**84,435**	63,480
Lease liabilities		5.71	**909,154**	665,929
Total long-term debt and lease liabilities		5.63	**959,133**	665,929
Current portion of lease liabilities			**(172,590)**	(99,814)
Long-term debt and lease liabilities			**786,543**	566,115

Interest expense for the periods ended July 31, 2020 and 2019 is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2020	2019 Restated *[note 3]*	2020	2019 Restated *[note 3]*
	$	$	$	$
Interest on lease liabilities	**10,379**	8,977	**29,289**	23,912
Accretion on provision for return conditions	**613**	757	**1,839**	2,535
Interest on long-term debt	**446**	—	**714**	—
Other interest	**334**	481	**1,262**	1,163
Financing costs	**11,772**	10,215	**33,104**	27,610

Rent expense for the periods ended July 31, 2020 and 2019 is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2020	2019 Restated *[note 3]*	2020	2019 Restated *[note 3]*
	$	$	$	$
Variable lease payments	**—**	1,007	**4,810**	8,836
Short-term leases	**202**	1,024	**19,626**	37,334
Aircraft rent	**202**	2,031	**24,436**	46,170
Variable lease payments	**—**	2,143	**1,870**	5,257
Short-term leases	**475**	816	**3,062**	2,998
Low value leases	**131**	45	**441**	151
	808	5,035	**29,809**	54,576

CASH FLOWS RELATED TO LEASE LIABILITIES

The following table details cash flows related to repayment of lease liabilities for the quarter and nine-month period ended July 31, 2020:

	Cash flows	Non-cash changes	Total
	$	$	$
Balance as at October 31, 2019			**665,929**
Repayments	(48,943)	—	**(48,943)**
New lease liabilities (new contracts and amendments)	—	271,449	**271,449**
Interests on deferred payments	—	11,062	**11,062**
Exchange difference	—	9,657	**9,657**
Balance as at July 31, 2020	**(48,943)**	**292,168**	**909,154**

MATURITIES OF LEASE LIABILITIES

Repayment of principal and interest on lease liabilities as at July 31, 2020 is detailed as follows. Lease liabilities denominated in U.S. dollars are translated at the USD/CAD closing rate of 1.3383 as at July 31, 2020:

Year ended October 31	2020	2021	2022	2023	2024	2025 and up	Total
	$	$	$	$	$	$	$
Fleet	39,215	201,264	132,769	121,128	100,322	431,213	**1,025,911**
Real estate and other	3,642	15,523	9,802	8,823	8,146	72,231	**118,167**
Lease liabilities	**42,857**	**216,787**	**142,571**	**129,951**	**108,468**	**503,444**	**1,144,078**

Note 6 provides the information required for right-of-use assets and depreciation. Note 15 details the information required with respect to leases of aircraft that will be delivered in the coming years.

Note 10 PROVISION FOR RETURN CONDITIONS

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

	As at July 31, 2020	As at October 31, 2019 Restated *[note 3]*
	$	$
Opening balance	**155,120**	128,528
Additional provisions	**27,381**	16,127
Change in estimate	**(12,870)**	7,085
Utilization of provision	**(572)**	—
Accretion	**1,839**	3,380
Closing balance	**170,898**	155,120
Current provisions	**16,838**	—
Non-current provisions	**154,060**	155,120
Closing balance	**170,898**	155,120

Note 11 OTHER LIABILITIES

	As at July 31, 2020	As at October 31, 2019 Restated *[note 3]*
	$	$
Employee benefits	**48,450**	46,986
Deferred lease incentives	**383**	458
	48,833	47,444

Note 12 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	$
Balance as at October 31, 2018	37,545,335	219,684
Issued from treasury	169,862	940
Exercise of options	31,893	388
Balance as at July 31, 2019	37,747,090	221,012
Balance as at October 31, 2019	37,747,090	221,012
Balance as at July 31, 2020	**37,747,090**	**221,012**

As at July 31, 2020, the number of Class A Shares and Class B Shares stood at 5,392,725 and 32,354,365, respectively [4,243,821 and 33,503,269, respectively, as at October 31, 2019].

STOCK OPTION PLAN

	Number of options	Weighted average price ($)
Balance as at October 31, 2019	1,748,570	10.15
Cancelled	(2,000)	19.24
Balance as at July 31, 2020	**1,746,570**	**10.14**
Options exercisable as at July 31, 2020	**1,522,170**	**10.07**

LOSS PER SHARE

Basic and diluted loss per share were calculated as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2020	**2019 Restated** *[note 3]*	**2020**	**2019 Restated** *[note 3]*
(in thousands of dollars, except per share data)	**$**	**$**	**$**	**$**
NUMERATOR				
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	**(45,115)**	(1,505)	**(258,468)**	(55,396)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**37,747**	37,728	**37,747**	37,648
Effect of dilutive securities				
Stock options	**—**	—	**—**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,747**	37,728	**37,747**	37,648
Earnings (loss) per share				
Basic	**(1.20)**	(0.04)	**(6.85)**	(1.47)
Diluted	**(1.20)**	(0.04)	**(6.85)**	(1.47)

Given the losses recorded for the quarter and nine-month period ended July 31, 2020, all 1,746,570 outstanding stock options [1,748,570 for the quarter and nine-month period ended July 31, 2019] were excluded from the calculation due to their anti-dilutive effect.

Note 13 ADDITIONAL DISCLOSURE ON REVENUE AND EXPENSES

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Customers				
Transatlantic	**5,343**	495,258	**147,780**	653,256
Americas	**1,638**	194,582	**1,090,678**	1,542,659
Other	**2,565**	9,076	**35,185**	47,980
Total revenues	**9,546**	698,916	**1,273,643**	2,243,895

GOVERNMENT GRANTS

During the quarter and nine-month period ended July 31, 2020, the Corporation recognized deductions of $54,000 and $66,200 from Salaries and other employee benefits related to the Canada Emergency Wage Subsidy ("CEWS") program, including $11,400 and $23,600, respectively for active employees. As at July 31, 2020, an amount of $25,900 was included in Trade and other receivables.

Note 14 SPECIAL ITEMS

Special items generally include restructuring charges and other significant unusual items. For the quarter and nine-month period ended July 31, 2020, professional fees of $1,970 and $4,939 and compensation expense reversals of $3,079 and $4,369, respectively, were recorded in connection with the transaction with Air Canada. The compensation expenses are mainly related to the stock-based compensation plans which include a change of control clause and to adjustments related to stock-based compensation plan provisions. For the quarter and nine-month period ended July 31, 2020, the compensation expense reversal was attributable to the significant decline in share price. Compensation expenses recorded as special items result from Air Canada's offer, which makes it likely that the change of control criteria included in some of the Corporation's stock-based compensation plans will be met, and which also reduces the vesting period.

Note 15 COMMITMENTS AND CONTINGENCIES

LEASES AND OTHER COMMITMENTS

As at July 31, 2020, the Corporation was party to agreements to lease 11 Airbus A321neos for delivery from 2020 to 2023. The Corporation also had purchase obligations under various contracts with suppliers, in particular related to hotel rooms and information technology service contracts entered into in the normal course of business. The following table presents the minimum payments due under leases for aircraft to be delivered over the next few years as well as the purchase obligations:

Year ended October 31	2020	2021	2022	2023	2024	2025 and up	Total
	$	$	$	$	$	$	$
Leases (aircraft)	556	26,121	47,552	64,119	70,591	638,156	**847,096**
Purchase obligations	1,193	4,751	4,607	3,185	2,645	5,621	**22,003**
	1,749	**30,872**	**52,160**	**67,304**	**73,236**	**643,778**	**869,099**

LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation’s financial position, subject to the items mentioned in note 25 to the consolidated financial statements for the year ended October 31, 2019 and the paragraph hereunder. The Corporation has directors’ and officers’ liability insurance and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits specifically involving directors and officers, not the Corporation. In addition, the Corporation holds professional liability and general civil liability insurance for all lawsuits related to any non-bodily or bodily injuries sustained. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

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

Note 16 GUARANTEES

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

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

Notes 7, 9, 17, 24 and 25 to the consolidated financial statements for the year ended October 31, 2019 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. These leases expire at various dates through 2037. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance coverage in such circumstances.

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2020, the total amount of these guarantees unsecured by deposits amounted to $470. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2020, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

In addition, the Corporation has a guarantee facility that is renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50,000. As at July 31, 2020, an amount of $22,825 had been drawn down under the facility.

Note 17 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 mainly in the Americas. Revenues and non-current assets outside the Americas are not material. Therefore, the consolidated statements of income (loss) and consolidated statements of financial position include all the required information.

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