TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2024

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ["MD&A"] provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended January 31, 2024, compared with the quarter ended January 31, 2023, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2023 and the accompanying notes and the 2023 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first-quarter update to the information contained in the MD&A section of our 2023 Annual Report. The risks and uncertainties set out in the MD&A of the 2023 Annual Report are herein incorporated by reference and remain substantially unchanged. Unless otherwise indicated, the information contained herein is dated as of March 13, 2024. You will find more information about us on Transat's website at www.transat.com and on SEDAR+ at www.sedarplus.ca, including the Attest Reports for the quarter ended January 31, 2024, and the Annual Information Form for the year ended October 31, 2023.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease and the lingering effects of the COVID-19 pandemic, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, maintain and grow its reputation and brand, the availability of funding in the future, the Corporation's ability to adequately mitigate the Pratt & Whitney GTF engine issues, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, cybersecurity risks, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third-party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2023 Annual Report.

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

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

- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation does not foresee the same uplift in yields that was exhibited throughout the summer season last year, it will remain proactive in managing costs under its control, while actively seeking to mitigate the structural cost increases affecting the industry.
- The outlook whereby the Corporation revised its fiscal 2024 capacity expansion plans to 13%, versus 19% previously.
- The outlook whereby the Corporation now expects its adjusted EBITDA margin for the full year 2024 to be at the lower end of the range of 7.5% to 9.0%.

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

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

	Quarters ended January 31	
(in thousands of Canadian dollars, except per share amounts)	**2024 $**	**2023 $**
Operating loss	**(52,429)**	(38,103)
Depreciation and amortization	**50,164**	41,108
Reversal of impairment of the investment in a joint venture	**(3,112)**	—
Restructuring costs	**66**	2,900
Premiums related to derivatives that matured during the period	**(3,314)**	(2,574)
Adjusted operating income (loss)	**(8,625)**	3,331
Loss before income tax expense	**(61,039)**	(56,658)
Reversal of impairment of the investment in a joint venture	**(3,112)**	—
Restructuring costs	**66**	2,900
Change in fair value of derivatives	**22,159**	9,921
Revaluation of liability related to warrants	**11,747**	10,139
Foreign exchange gain	**(42,127)**	(22,829)
Gain on disposal of an investment	**(5,784)**	—
Gain on asset disposals	**—**	(2,511)
Premiums related to derivatives that matured during the period	**(3,314)**	(2,574)
Adjusted pre-tax loss	**(81,404)**	(61,612)
Net loss	**(60,977)**	(56,610)
Reversal of impairment of the investment in a joint venture	**(3,112)**	—
Restructuring costs	**66**	2,900
Change in fair value of derivatives	**22,159**	9,921
Revaluation of liability related to warrants	**11,747**	10,139
Foreign exchange gain	**(42,127)**	(22,829)
Gain on disposal of an investment	**(5,784)**	—
Gain on asset disposals	**—**	(2,511)
Premiums related to derivatives that matured during the period	**(3,314)**	(2,574)
Adjusted net loss	**(81,342)**	(61,564)
Adjusted net loss	**(81,342)**	(61,564)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,580**	38,065
Adjusted net loss per share	**(2.11)**	(1.62)

(in thousands of dollars)	**As at January 31, 2024 $**	**As at October 31, 2023 $**
Long-term debt	**665,104**	669,145
Deferred government grant	**140,480**	146,634
Liability related to warrants	**32,563**	20,816
Lease liabilities	**1,138,407**	1,221,451
Total debt	**1,976,554**	2,058,046
Total debt	**1,976,554**	2,058,046
Cash and cash equivalents	**(453,286)**	(435,647)
Total net debt	**1,523,268**	1,622,399

3. FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
	2024	**2023**	**Difference**	**Difference**
(in thousands of Canadian dollars, except per share amounts)	**$**	**$**	**$**	**%**
Consolidated Statements of Loss				
Revenues	**785,498**	667,457	118,041	17.7
Operating loss	**(52,429)**	(38,103)	(14,326)	(37.6)
Net loss	**(60,977)**	(56,610)	(4,367)	(7.7)
Basic loss per share	**(1.58)**	(1.49)	(0.09)	(6.0)
Diluted loss per share	**(1.58)**	(1.49)	(0.09)	(6.0)
Adjusted operating income (loss)[1]	**(8,625)**	3,331	(11,956)	(358.9)
Adjusted net loss[1]	**(81,342)**	(61,564)	(19,778)	(32.1)
Adjusted net loss per share[1]	**(2.11)**	(1.62)	(0.49)	(30.2)
Consolidated Statements of Cash Flows				
Operating activities	**110,702**	195,088	(84,386)	(43.3)
Investing activities	**(28,745)**	(10,481)	(18,264)	(174.3)
Financing activities	**(63,150)**	(40,307)	(22,843)	(56.7)
Effect of exchange rate changes on cash and cash equivalents	**(1,168)**	877	(2,045)	(233.2)
Net change in cash and cash equivalents	**17,639**	145,177	(127,538)	(87.9)

	As at January 31, 2024	**As at October 31, 2023**	**Difference**	**Difference**
	$	**$**	**$**	**%**
Consolidated Statements of Financial Position				
Cash and cash equivalents	**453,286**	435,647	17,639	4.0
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**641,936**	450,752	191,184	42.4
	1,095,222	886,399	208,823	23.6
Total assets	**2,786,111**	2,569,370	216,741	8.4
Debt (current and non-current)	**665,104**	669,145	(4,041)	(0.6)
Total debt [1]	**1,976,554**	2,058,046	(81,492)	(4.0)
Total net debt [1]	**1,523,268**	1,622,399	(99,131)	(6.1)

[1] See Non-IFRS Financial Measures section

4. OVERVIEW

CORE BUSINESS

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

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

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

5. HIGHLIGHT OF THE QUARTER

DISPOSAL OF AN INVESTMENT IN A JOINT VENTURE

On January 9, 2024, the Corporation closed an agreement with its co-shareholder for the sale and purchase of its 50% interest in Desarrollo Transimar, a Mexican company operating a hotel, the Armony Luxury Resort & Spa, Marival Collection, located near Puerto Vallarta, Mexico. An amount of US$15.5 million [$20.7 million] was paid in cash upon closing of the transaction. The Corporation recorded a gain of $5.8 million on the disposal of the investment. The Corporation drew down the proceeds from this transaction to make repayments of $20.7 million on its secured credit facilities.

6. CONSOLIDATED OPERATIONS

	Quarters ended January 31			
(in thousands of dollars)	2024 $	2023 $	Difference $	Difference %
Revenues	**785,498**	667,457	118,041	17.7
Operating expenses				
Costs of providing tourism services	**269,098**	225,828	43,270	19.2
Aircraft fuel	**135,419**	137,215	(1,796)	(1.3)
Salaries and employee benefits	**123,509**	101,426	22,083	21.8
Sales and distribution costs	**61,981**	50,377	11,604	23.0
Aircraft maintenance	**57,078**	38,625	18,453	47.8
Airport and navigation fees	**46,035**	36,752	9,283	25.3
Aircraft rent	**6,787**	1,987	4,800	241.6
Other airline costs	**62,599**	45,496	17,103	37.6
Other	**28,433**	24,242	4,191	17.3
Share of net income of a joint venture	**(130)**	(396)	266	67.2
Depreciation and amortization	**50,164**	41,108	9,056	22.0
Reversal of impairment of the investment in a joint venture	**(3,112)**	—	(3,112)	100.0
Restructuring costs	**66**	2,900	(2,834)	(97.7)
	837,927	705,560	132,367	18.8
Operating loss	**(52,429)**	(38,103)	(14,326)	(37.6)
Financing costs	**35,640**	32,213	3,427	10.6
Financing income	**(13,025)**	(8,378)	(4,647)	(55.5)
Change in fair value of derivatives	**22,159**	9,921	12,238	123.4
Revaluation of liability related to warrants	**11,747**	10,139	1,608	15.9
Foreign exchange gain	**(42,127)**	(22,829)	(19,298)	(84.5)
Gain on disposal of an investment	**(5,784)**	—	(5,784)	100.0
Gain on asset disposals	**—**	(2,511)	2,511	100.0
Loss before income tax expense	**(61,039)**	(56,658)	(4,381)	(7.7)
Income taxes (recovery)				
Current	**401**	254	147	57.9
Deferred	**(463)**	(302)	(161)	(53.3)
	(62)	(48)	(14)	(29.2)
Net loss for the period	**(60,977)**	(56,610)	(4,367)	(7.7)

REVENUES

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

Compared with 2023, our revenues were up $118.0 million (17.7%) for the quarter ended January 31, 2024. This increase was attributable to the upturn in demand. For the quarter, across the entire network, the capacity offered increased by 25 % compared to 2023, while the capacity for sun routes, the main program during this period, increased by 30 %. Overall, traffic was 20% higher than for the corresponding quarter of 2023. However, this increase was reined in by persistent speculations throughout the quarter about a potential strike by our flight attendants. These speculations also had a negative impact on our airline unit revenues, which expressed in revenue per passenger-mile (or "yield") were down 3.1%. Across all our markets, the Corporation reported a load factor of 80.2% compared to 83.6% in 2023.

OPERATING EXPENSES

Total operating expenses were up $132.4 million (18.8%) for the quarter, compared with 2023. This increase was attributable to the greater capacity deployed compared with the corresponding period of 2023 as well as the costs incurred due to the Pratt & Whitney GTF engine issue, including the costs of leasing additional aircraft to make up for the capacity of the three aircraft currently grounded.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include primarily hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat as well as transfer and excursion costs. Compared with 2023, these costs increased by $43.3 million (19.2%) for the quarter. The increase resulted primarily from the 14% rise in the number of packages sold compared with 2023.

Aircraft fuel

Aircraft fuel expense was down $1.8 million (1.3%) for the quarter. The decrease was mainly attributable to an 18% drop in fuel prices compared with the corresponding period of 2023 and the strengthening of the Canadian dollar against the U.S. dollar, partially offset by the higher volume of litres consumed due to increased capacity.

Salaries and employee benefits

Salaries and employee benefits were up $22.1 million (21.8%) for the quarter, compared with 2023. The increase was mainly attributable to the higher number of employees needed to support the increased capacity.

Sales and distribution costs

Sales and distribution costs include commissions paid to travel agencies, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs were up $11.6 million, (23.0%) during the quarter, compared with 2023. This increase was mainly driven by higher business volume and advertising expenses.

Aircraft maintenance

Aircraft maintenance costs consist mainly of non-capitalizable engine and airframe maintenance expenses incurred by Air Transat for aircraft as well as in connection with the provision for return conditions. These costs were up $18.5 million (47.8%) during the quarter, compared with 2023. This increase was mainly attributable to the greater capacity deployed compared with 2023 and the increased maintenance work performed in accordance with the manufacturers' maintenance plans.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $9.3 million (25.3%) for the quarter, compared with 2023. The increase mainly resulted from the greater capacity deployed compared with 2023 and higher prices.

Aircraft rent

Aircraft rent refers to variable aircraft rent and rent under short-term leases. These costs were up $4.8 million for the quarter, compared with 2023. This increase resulted from the rental of six aircraft for the quarter, due to the Pratt & Whitney GTF engine issue and the delay in delivery of the Airbus A321LRs, compared with two aircraft leased in 2023.

Other airline costs

Other airline costs consist mainly of handling, crew, catering costs and other costs related to airline operations. Other airline costs were up $17.1 million (37.6%) for the quarter, compared with 2023. This increase mainly resulted from the greater capacity deployed compared with 2023 and the Pratt & Whitney GTF engine issue.

Other

Other costs were up $4.2 million (17.3%) for the quarter, compared with 2023. The increase resulted from higher business volume compared with 2023.

Share of net income (loss) of a joint venture

Share of net income (loss) of a joint venture represents our share of the net income (loss) of Desarrollo Transimar, our hotel joint venture. Our share of net income for the year amounted to $0.1 million for the first quarter, compared with $0.4 million for the corresponding quarter of 2023. On January 9, 2024, the Company disposed of its 50% interest in Desarrollo Transimar to its co-shareholder (see *Gain on investment disposal* section).

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment and intangible assets. Depreciation and amortization expense was up $9.1 million (22.0%) for the first quarter, compared with 2023. This increase was primarily due to the commissioning of one Airbus A330, three Airbus A321LRs and one A321ceo in 2023.

Reversal of impairment of the investment in a joint venture

Prior to the closing of the transaction for the sale of its interest in a joint venture entered into during the quarter ended January 31, 2024, the Company recorded a reversal of impairment of $3.1 million, corresponding to the cumulative impairment losses recognized in relation to its investment in a joint venture.

Restructuring costs

Restructuring costs are mainly employee termination benefits related to the closure of the Vancouver base effective June 30, 2023 as well as employee relocation costs. During the quarter ended January 31, 2024, the Corporation recorded restructuring costs of $0.1 million, compared with $2.9 million in 2023.

OPERATING RESULTS

Given the above, we reported an operating loss of $52.4 million (6.7%) during the first quarter, compared with a $38.1 million loss (5.7%) in 2023.

The deterioration in our operating loss was due to additional costs resulting from the Pratt & Whitney GTF engine issue and persistent speculations throughout the quarter about a potential strike by our flight attendants that led to a decline in airline unit revenues that was greater than the decrease in unit costs.

For the quarter, the Corporation reported an adjusted operating loss of $8.6 million (1.1%), compared with an adjusted operating income of $3.3 million (0.5%) in 2023.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on lease liabilities, long-term debt and other interest, standby fees, arrangement fees as well as financial expenses, net of proceeds from deferred government grant. Financing costs increased by $3.4 million (10.6%) for the quarter, compared with 2023. The increase resulted from the rise in lease liabilities, mainly due to the addition of seven new aircraft leases in 2023 and higher interest rates.

Financing income

Financing income was up $4.6 million (55.5%) during the quarter, compared with 2023, mainly due to higher interest rates compared with 2023 and the increase in average cash and cash equivalents balances.

Change in fair value of derivatives

The change in fair value of derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and exchange rates.

During the quarter ended January 31, 2024, the fair value of derivative financial instruments related to aircraft fuel and foreign currencies decreased by $22.0 million. The decrease was mainly attributable to the decrease in the fair value of derivative financial instruments related to foreign currencies as a result of the strengthening of the Canadian dollar against the U.S. dollar.

Revaluation of liability related to warrants

The revaluation of the liability related to warrants represents the change in fair value of warrants during the period. For the quarter ended January 31, 2024, the fair value of warrants increased by $11.7 million, mainly due to the increase in the closing share price from $3.01 to $4.22 between October 31, 2023 and January 31, 2024.

Foreign exchange gain

During the quarter, the Corporation recorded a foreign exchange gain of $42.1 million compared with a gain of $22.8 million in 2023. In 2024, the foreign exchange gain resulted mainly from the favourable exchange effect on lease liabilities related to aircraft, following the strengthening of the Canadian dollar against the U.S. dollar.

Gain on disposal of an investment

On January 9, 2024, the Company closed the agreement to sell and purchase its 50% stake in Desarrollo Transimar, a Mexican company operating a hotel, the Armony Luxury Resort & Spa for US$15.5 million, [$20.7 million]. Following this transaction, the Corporation recorded a gain on disposal of an investment of $5.8 million.

Gain on asset disposals

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

INCOME TAXES

Income tax recovery totalled $0.1 million, for the first quarter, compared with $0.0 million for the corresponding quarter of last year. The effective tax rate was 0.1% for the quarter, compared with 0.1% for the corresponding period of 2023.

During the quarter ended April 30, 2020, the Corporation stopped recognizing deferred tax assets and wrote down deferred tax asset balances related to Canadian operations whose recognition could no longer be justified under IFRS. Accordingly, during the quarter ended January 31, 2024, no deferred tax assets of Canadian subsidiaries were recognized.

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

Considering the items discussed in the Consolidated Operations section, for the first quarter of 2024, the Corporation reported a net loss of $61.0 million, or $1.58 per share (basic and diluted), compared with a net loss of $56.6 million, or $1.49 per share (basic or diluted) during the corresponding quarter of the previous year. For the first quarter of 2024, the weighted average number of outstanding shares used to compute per share amounts was 38,580,000 (basic and diluted) compared with 38,065,000 (basic and diluted) for 2023.

For the first quarter, adjusted net loss amounted to $81.3 million ($2.11 per share) compared with $61.6 million ($1.62 per share) in 2023.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

The decline in operating results for the first part of winter 2024 (Q1) was attributable to the additional costs caused by the Pratt & Whitney GTF engine issue and and persistent speculations throughout the quarter about a potential strike by our flight attendants that led to a decline in airline unit revenues that was greater than the decrease in unit costs. The improvement in operating results for all quarters reported in 2023 compared with 2022 (Q2, Q3 and Q4) resulted from the resumption of operations, the recovery in demand and the increase in airline unit revenues. For the 2023 summer season (Q3 and Q4), the improvement in operating results was also attributable to the drop in fuel prices, partially offset by the weakening of the dollar against the U.S. currency. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	**Q2-2022** $	**Q3-2022** $	**Q4-2022** $	**Q1-2023** $	**Q2-2023** $	**Q3-2023** $	**Q4-2023** $	**Q1-2024** $
Revenues	358,157	508,304	573,139	667,457	**870,111**	**746,317**	**764,467**	**785,498**
Operating income (loss)	(87,513)	(93,218)	(48,848)	(38,103)	**18,740**	**64,375**	**44,721**	**(52,429)**
Net income (loss)	(98,276)	(106,472)	(126,231)	(56,610)	**(29,180)**	**57,303**	**3,195**	**(60,977)**
Basic earnings (loss) per share	(2.60)	(2.82)	(3.32)	(1.49)	**(0.76)**	**1.49**	**0.08**	**(1.58)**
Diluted earnings (loss) per share	(2.60)	(2.82)	(3.32)	(1.49)	**(0.76)**	**1.49**	**0.08**	**(1.58)**
Adjusted operating income (loss)(1)	(51,014)	(57,824)	(11,545)	3,331	**56,144**	**114,782**	**89,007**	**(8,625)**
Adjusted net income (loss)(1)	(111,563)	(120,901)	(75,930)	(61,564)	**(7,957)**	**42,302**	**15,676**	**(81,342)**
Adjusted net earnings (loss) per share(1)	(2.95)	(3.20)	(2.00)	(1.62)	**(0.21)**	**1.10**	**0.41**	**(2.11)**

1 See the Non-IFRS financial measures section

7. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

As at January 31, 2024, cash and cash equivalents totalled $453.3 million compared with $435.6 million as at October 31, 2023. Cash and cash equivalents in trust or otherwise reserved amounted to $641.9 million at the end of the first quarter of 2024, compared with $450.8 million as at October 31, 2023. The Corporation's statement of financial position reflected $209.0 million in negative working capital, for a ratio of 0.87, compared with $57.7 million in negative working capital and a ratio of 0.95 as at October 31, 2023.

Total assets increased by $216.7 million (8.4%), from $2,569.4 million as at October 31, 2023 to $2,786.1 million as at January 31, 2024. This increase is explained in the financial position table provided below. Equity decreased by $61.1 million, from negative equity of $779.0 million as at October 31, 2023, to negative equity of $840.2 million as at January 31, 2024. The decrease resulted primarily from the $61.0 million net loss.

(in thousands of dollars)	**January 31, 2024 $**	**October 31, 2023 $**	**Difference $**	**Main reasons for significant differences**
Assets				
Cash and cash equivalents	**453,286**	435,647	17,639	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**641,936**	450,752	191,184	Higher business volume
Trade and other receivables	**152,754**	138,675	14,079	Increase in Government receivables following the delivery of aircraft and increase in receivables from credit card processors
Income taxes receivable	**684**	598	86	No significant difference
Inventories	**37,934**	33,735	4,199	Increase in inventory of aircraft parts
Prepaid expenses	**50,844**	38,113	12,731	Higher business volume
Deposits	**331,313**	322,805	8,508	Increase in deposits for aircraft maintenance
Deferred tax assets	**1,428**	1,047	381	Recognition of deferred tax assets by certain foreign subsidiaries
Property, plant and equipment	**1,082,125**	1,083,109	(984)	Depreciation for the period partially offset by additions
Intangible assets	**14,880**	14,771	109	Software acquisitions partially offset by amortization for the period
Derivative financial instruments	**18,927**	38,321	(19,394)	Unfavourable change in fuel-related and foreign currency derivatives contracted
Investment	**—**	11,797	(11,797)	Disposal of the joint venture

(in thousands of dollars)	January 31, 2024 $	October 31, 2023 $	Difference $	Main reasons for significant differences
Liabilities				
Trade and other payables	**404,231**	319,764	84,467	Higher business volume
Income taxes payable	**794**	416	378	No significant difference
Customer deposits and deferred revenues	**1,026,865**	754,176	272,689	Higher business volume
Derivative financial instruments	**14,247**	17,158	(2,911)	Favourable change in fuel-related derivatives and foreign currency derivatives contracted
Long-term debt and lease liabilities	**1,803,511**	1,890,596	(87,085)	Mainly due to principal repayments and strengthening of the Canadian dollar against the U.S. currency.
Provision for return conditions	**182,474**	177,832	4,642	Increase related to the passage of time and changes in estimates partially offset by the appreciation of the dollar against the U.S. currency.
Liability related to warrants	**32,563**	20,816	11,747	Increase in fair value during the period due to the changes in the Corporation's share price
Deferred government grant	**140,480**	146,634	(6,154)	Revenue from government grants for the period as per the effective interest method
Employee benefits liability	**21,113**	20,961	152	No significant difference
Deferred tax liabilities	**12**	56	(44)	No significant difference
Equity				
Share capital	**223,864**	223,450	414	Shares issued from treasury
Share-based payment reserve	**16,134**	16,329	(195)	Reversal of share-based payment expense
Deficit	**(1,069,429)**	(1,008,452)	(60,977)	Net loss
Cumulative exchange differences	**(10,748)**	(10,366)	(382)	Foreign exchange loss on the translation of the financial statements of foreign subsidiaries

CASH FLOWS

	Quarters ended January 31		
	2024	2023	Difference
(in thousands of dollars)	$	$	$
Cash flows related to operating activities	**110,702**	195,088	(84,386)
Cash flows related to investing activities	**(28,745)**	(10,481)	(18,264)
Cash flows related to financing activities	**(63,150)**	(40,307)	(22,843)
Effect of exchange rate changes on cash	**(1,168)**	877	(2,045)
Net change in cash and cash equivalents	**17,639**	145,177	(127,538)

Operating activities

Operating activities generated cash flows of $110.7 million, compared with $195.1 million in 2023. The $84.4 million decrease in cash flows from operating activities was attributable to the $71.2 million decrease in cash flows generated by the net change in non-cash working capital balances, the $7.8 million increase in net loss before operating items not involving an outlay (receipt) of cash, the $6.4 million decrease in the net change in other operating assets and liabilities, partially offset by the $1.0 million increase in the net change in the provision for return conditions.

Investing activities

Cash flows used in investing activities amounted to $28.7 million for the first quarter, compared with $10.5 million in 2023. For the quarter ended January 31, 2024, additions to property, plant and equipment and intangible assets amounted to $49.2 million and consisted primarily in aircraft maintenance and aircraft equipment, compared with $10.5 million in 2023. Furthermore, in 2024, a net consideration of $20.4 million was received for the disposal of our investment in Desarrollo Transimar.

Financing activities

For the first quarter, cash flows used in financing activities amounted to $63.2 million, compared with $40.3 million in 2023, an increase of $22.8 million. The Corporation made repayments on its lease liabilities amounting to $42.9 million compared with $40.5 million in 2023. The Corporation also made repayments on its credit facilities for a total of $20.7 million in the first quarter of 2024.

FINANCING

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allowed it to borrow $743.3 million in additional liquidity through the Large Employer Emergency Financing Facility (LEEFF). The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF are as follows:

Secured debt – LEEFF

An initial principal amount of $78.0 million, in the form of a non-revolving and secured credit facility maturing on April 29, 2025. The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at January 31, 2024, the financial ratios and covenants were met. During the quarter ended January 31, 2024, the Corporation made a repayment of $11.0 million, bringing the principal balance payable to $41.4 million [$52.4 million as at October 31, 2023]. As at January 31, 2024 and as at October 31, 2023, the credit facility was fully drawn and the carrying amount stood at $41.0 million as at January 31, 2024 [$51.9 million as at October 31, 2023].

Unsecured debt – LEEFF

An amount of $312.0 million in the form of an unsecured, non-revolving credit facility that matures on April 29, 2026. The credit facility bore interest at a rate of 5.0% until December 31, 2023. The credit facility now bears interest at a rate of 8.0% until December 31, 2024, increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024. In the event of a change of control, this credit facility becomes immediately due and payable. As at January 31, 2024 and as at October 31, 2023, the credit facility was fully drawn and the carrying amount stood at $327.4 million as at January 31, 2024 [$317.2 million as at October 31, 2023].

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

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

As at January 31, 2024 and October 31, 2023, a total of 13,000,000 warrants had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

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

- A maximum of 9,658,090 warrants could be exercised through the issuance of shares;
- 3,341,910 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Unsecured credit facility related to travel credits

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

As at January 31, 2024 and October 31, 2023, the credit facility was fully drawn. As at January 31, 2024, the carrying amount of the credit facility was $211.4 million ($205.2 million as at October 31, 2023), and an amount of $140.5 million ($146.6 million as at October 31, 2023) was also recognized as deferred government grant related to these drawdowns.

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

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

Other credit facilities

Revolving credit facility

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

Subordinated credit facility

The Corporation also has a subordinated credit facility for its operations with an initial principal amount of $70.0 million. The agreement expires on April 29, 2025 and becomes immediately due and payable in the event of a change in control. The agreement is secured by a second ranking movable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at bankers' acceptance rate plus a premium of 9.75% or at the financial institution's prime rate, plus a premium of 8.75%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at January 31, 2024, the financial ratios and covenants were met. During the quarter ended January 31, 2024, the Corporation made a repayment of $9.7 million, bringing the principal balance payable to $36,3 million [$46.0 million as at October 31, 2023]. As at January 31, 2024 and October 31, 2023, the credit facility was fully drawn.

Off-balance sheet arrangements

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

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

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

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $809.2 million as at January 31, 2024 ($851.5 million as at October 31, 2023) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	**As at January 31, 2024 $**	**As at October 31, 2023 $**
Guarantees		
Irrevocable letters of credit	**1,316**	1,350
Collateral security contracts	**768**	797
Leases		
Lease obligations	**807,147**	849,320
	809,231	851,467

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

The Corporation has a $74.0 million annually renewable revolving credit facility for issuing letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at January 31, 2024, $69.2 million of the facility was drawn ($69.9 million as at October 31, 2023), including $29.8 million ($29.8 million as at October 31, 2023) to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits from which £1,2 million ($2.0 million) has been drawn down.

As at January 31, 2024, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $42.2 million compared with October 31, 2023. This decrease was primarily due to the strengthening of the Canadian dollar against the U.S. dollar, partially offset by the impact of higher interest rates on future rents.

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

Debt

The Corporation reported $665.1 million in long-term debt and $1,138.4 million in lease liabilities in the consolidated statement of financial position.

The Corporation's total debt stood at $1,976.6 million as at January 31, 2024, down $81.5 million from October 31, 2023. This decrease was primarily due to the repayment of lease liabilities and long-term debt, and the strengthening of the Canadian dollar against the U.S. currency.

Total net debt decreased by $99.1 million from $1,622.4 million as at October 31, 2023 to $1,523.3 million as at January 31, 2024. The decrease in total net debt resulted from the decrease in total debt and the increase in cash and cash equivalent balances.

Outstanding shares

As at January 31, 2024, 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 March 8, 2024, there were a total of 38,719,979 voting shares outstanding.

Stock options

As at March 8, 2024, a total of 375,904 stock options was outstanding, 75,904 of which were exercisable.

Warrants

As at January 31, 2024, and as at March 8, 2024, a total of 13,000,000 warrants was issued. As at January 31, 2024, and as at March 8, 2024, a total of 13,000,000 warrants had vested following drawdowns on the credit facility and no warrants had been exercised.

8. OTHER

FLEET

As at January 31, 2024, Air Transat's permanent fleet consisted of thirteen Airbus A330s (332 or 345 seats), fifteen Airbus A321LRs (199 seats), and eight Airbus A321ceos (199 seats).

LITIGATION

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

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

9. ACCOUNTING

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, 2023. There have been no significant changes to the Corporation's accounting policies since that date.

CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 1 – Financial Statement Presentation

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

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

10. CONTROLS AND PROCEDURES

In accordance with the National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer who, among other things, deem adequate as at January 31, 2024 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 COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2024 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

11. OUTLOOK

Early trends for the summer season indicate bookings and pricing conditions that are largely in line with the same period last year. However, as the Corporation does not foresee the same uplift in yields that was exhibited throughout the summer season last year, it will remain proactive in managing costs under its control, while actively seeking to mitigate the structural cost increases affecting the industry.

Given the current operating environment, the Corporation revised its fiscal 2024 capacity expansion plans to 13%, versus 19% previously.

Reflecting the above, the Corporation now expects its adjusted EBITDA margin for the full year 2024 to be at the lower end of the range of 7.5% to 9.0% announced last December. In making these forward-looking statements, the Corporation used the following assumptions for the fiscal year: weak GDP growth in Canada, an exchange rate of C$1.34 to US$1 and an average price per gallon of jet fuel of C$4.00.

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

Unaudited (in thousands of Canadian dollars)	Notes	As at January 31, 2024 $	As at October 31, 2023 $
ASSETS	8		
Cash and cash equivalents		**453,286**	435,647
Cash and cash equivalents in trust or otherwise reserved	3	**612,186**	421,002
Trade and other receivables	4	**152,754**	138,675
Income taxes receivable		**684**	598
Inventories		**37,934**	33,735
Prepaid expenses		**50,844**	38,113
Derivative financial instruments		**18,927**	38,321
Current portion of deposits	5	**95,087**	100,609
Current assets		**1,421,702**	1,206,700
Cash and cash equivalents reserved	3	**29,750**	29,750
Deposits	5	**236,226**	222,196
Deferred tax assets		**1,428**	1,047
Property, plant and equipment	6	**1,082,125**	1,083,109
Intangible assets		**14,880**	14,771
Investment	7	**—**	11,797
Non-current assets		**1,364,409**	1,362,670
		2,786,111	2,569,370
LIABILITIES			
Trade and other payables		**404,231**	319,764
Income taxes payable		**794**	416
Customer deposits and deferred revenues		**1,026,865**	754,176
Derivative financial instruments		**14,247**	17,158
Current portion of lease liabilities	8	**150,204**	150,246
Liability related to warrants	9	**32,563**	20,816
Current portion of provision for return conditions	10	**1,829**	1,856
Current liabilities		**1,630,733**	1,264,432
Long-term debt and lease liabilities	8	**1,653,307**	1,740,350
Deferred government grant	8	**140,480**	146,634
Provision for return conditions	10	**180,645**	175,976
Employee benefits liability		**21,113**	20,961
Deferred tax liabilities		**12**	56
Non-current liabilities		**1,995,557**	2,083,977
NEGATIVE EQUITY			
Share capital	11	**223,864**	223,450
Share-based payment reserve		**16,134**	16,329
Deficit		**(1,069,429)**	(1,008,452)
Cumulative exchange differences		**(10,748)**	(10,366)
		(840,179)	(779,039)
		2,786,111	2,569,370

See accompanying notes to the interim unaudited condensed consolidated financial statements

On behalf of the Board,

Director

Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	Quarters ended January 31 2024 $	2023 $
Revenues	12	**785,498**	667,457
Operating expenses			
Costs of providing tourism services		**269,098**	225,828
Aircraft fuel		**135,419**	137,215
Salaries and employee benefits		**123,509**	101,426
Sales and distribution costs		**61,981**	50,377
Aircraft maintenance		**57,078**	38,625
Airport and navigation fees		**46,035**	36,752
Aircraft rent	8	**6,787**	1,987
Other airline costs		**62,599**	45,496
Other		**28,433**	24,242
Share of net income of a joint venture	7	**(130)**	(396)
Depreciation and amortization		**50,164**	41,108
Reversal of impairment of the investment in a joint venture	7	**(3,112)**	—
Restructuring costs	13	**66**	2,900
		837,927	705,560
Operating loss		**(52,429)**	(38,103)
Financing costs	8	**35,640**	32,213
Financing income		**(13,025)**	(8,378)
Change in fair value of derivatives		**22,159**	9,921
Revaluation of liability related to warrants	9	**11,747**	10,139
Foreign exchange gain		**(42,127)**	(22,829)
Gain on disposal of an investment	7	**(5,784)**	—
Gain on asset disposals	14	**—**	(2,511)
Loss before income tax expense		**(61,039)**	(56,658)
Income taxes (recovery)			
Current		**401**	254
Deferred		**(463)**	(302)
		(62)	(48)
Net loss for the period		**(60,977)**	(56,610)
Loss per share	11		
Basic		**(1.58)**	(1.49)
Diluted		**(1.58)**	(1.49)

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

	Quarters ended January 31	
Unaudited	**2024**	**2023**
(in thousands of Canadian dollars)	**$**	**$**
Net loss for the period	**(60,977)**	(56,610)
Other comprehensive loss		
Items that will be reclassified to net loss		
Foreign exchange loss on translation of financial statements of foreign subsidiaries	**(382)**	(735)
Total other comprehensive loss	**(382)**	(735)
Comprehensive loss for the period	**(61,359)**	(57,345)

CONSOLIDATED STATEMENTS OF CHANGES IN NEGATIVE EQUITY

				Accumulated other comprehensive loss	
Unaudited	Share capital	Share-based payment reserve	Deficit	Cumulative exchange differences	Total negative equity
(in thousands of Canadian dollars)	$	$	$	$	$
Balance as at October 31, 2022	221,924	16,092	(984,602)	(3,594)	(750,180)
Net loss for the period	—	—	(56,610)	—	(56,610)
Other comprehensive loss	—	—	—	(735)	(735)
Comprehensive loss for the period	—	—	(56,610)	(735)	(57,345)
Issued from treasury	341	—	—	—	341
Share-based payment expense	—	56	—	—	56
	341	56	—	—	397
Balance as at January 31, 2023	**222,265**	**16,148**	**(1,041,212)**	**(4,329)**	**(807,128)**
Net income for the period	—	—	31,318	—	31,318
Other comprehensive income (loss)	—	—	1,442	(6,037)	(4,595)
Comprehensive income (loss) for the period	—	—	32,760	(6,037)	26,723
Issued from treasury	1,185	—	—	—	1,185
Share-based payment expense	—	181	—	—	181
	1,185	181	—	—	1,366
Balance as at October 31, 2023	223,450	16,329	(1,008,452)	(10,366)	(779,039)
Net loss for the period	—	—	(60,977)	—	(60,977)
Other comprehensive loss	—	—	—	(382)	(382)
Comprehensive loss for the period	—	—	(60,977)	(382)	(61,359)
Issued from treasury	414	—	—	—	414
Share-based payment expense	—	(195)	—	—	(195)
	414	(195)	—	—	219
Balance as at January 31, 2024	**223,864**	**16,134**	**(1,069,429)**	**(10,748)**	**(840,179)**

See accompanying notes to the interim unaudited condensed consolidated financial statements

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

		Quarters ended January 31	
Unaudited		**2024**	**2023**
(in thousands of Canadian dollars)	*Notes*	**$**	$
OPERATING ACTIVITIES			
Net loss for the period		**(60,977)**	(56,610)
Operating items not involving an outlay (receipt) of cash:			
Depreciation and amortization	*6*	**50,164**	41,108
Change in fair value of derivatives		**22,159**	9,921
Revaluation of liability related to warrants		**11,747**	10,139
Foreign exchange gain		**(42,127)**	(22,829)
Gain on disposal of an investment	*7*	**(5,784)**	—
Reversal of impairment of the investment in a joint venture	*7*	**(3,112)**	—
Gain on asset disposals	*14*	**—**	(2,511)
Share of net income of a joint venture	*7*	**(130)**	(396)
Capitalized interest on long-term debt and lease liabilities		**10,848**	11,416
Deferred taxes		**(463)**	(302)
Employee benefits		**465**	450
Share-based payment expense		**(195)**	56
		(17,405)	(9,558)
Net change in non-cash working capital balances related to operations		**137,578**	208,785
Net change in provision for return conditions		**12,232**	11,183
Net change in other assets and liabilities related to operations		**(21,703)**	(15,322)
Cash flows related to operating activities		**110,702**	195,088
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(49,159)**	(10,481)
Consideration received for an investment disposal, net of transaction costs	*7*	**20,414**	—
Cash flows related to investing activities		**(28,745)**	(10,481)
FINANCING ACTIVITIES			
Repayment of lease liabilities	*8*	**(42,864)**	(40,457)
Repayment of long-term debt	*8*	**(20,700)**	—
Proceeds from issuance of shares	*11*	**414**	341
Transaction costs		**—**	(191)
Cash flows related to financing activities		**(63,150)**	(40,307)
Effect of exchange rate changes on cash and cash equivalents		**(1,168)**	877
Net change in cash and cash equivalents		**17,639**	145,177
Cash and cash equivalents, beginning of period		**435,647**	322,535
Cash and cash equivalents, end of period		**453,286**	467,712
Supplementary information (as reported in operating activities)			
Net income taxes paid (recovered)		**(172)**	57
Interest received		**(12,375)**	(7,319)
Interest paid		**23,115**	19,351

See accompanying notes to the interim unaudited 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. The core of its business consists of a Canadian leisure airline, offering international and Canadian destinations, and is vertically integrated with its other services of holiday packages, distribution through a dynamic travel agency network and value-added services at travel destinations.

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2024, were approved by the Corporation's Board of Directors on March 13, 2024.

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

Note 2 Significant accounting policies

Basis of preparation

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2023.

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.

Income Taxes

During fiscal 2023, the Government of Canada proposed to implement the Pillar 2 rules issued by the Organisation for Economic Co-operation and Development (OECD), which will apply for fiscal years beginning on or after December 31, 2023 (November 1, 2024 for the Corporation). The Pillar 2 model rules impose a 15% global minimum tax applicable to large multinational enterprises, to be applied in each country. To date, the Pillar 2 rules have not yet been included in draft Canadian legislation, but they have been included in draft legislation or been adopted in certain jurisdictions in which the Corporation operates. The Pillar 2 rules are not applicable for the current fiscal year, and the Corporation is currently assessing its potential exposure to income taxes resulting from these rules.

Changes in accounting policy

Amendments to IAS 1, Presentation of Financial Statements

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The application of these amendments are not expected to have a material impact on the Corporation's consolidated financial statements at the date of adoption.

Note 3 Cash and cash equivalents in trust or otherwise reserved

As at January 31, 2024, cash and cash equivalents in trust or otherwise reserved included $570,716 [$379,006 as at October 31, 2023] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation’s business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included an amount of $71,220, of which $29,750 was recorded as non-current assets [$71,746 as at October 31, 2023, $29,750 of which was recorded as non-current assets], and pledged as collateral security against letters of credit.

Note 4 Trade and other receivables

	As at January 31, 2024 $	As at October 31, 2023 $
Credit card processor receivables	**54,111**	46,851
Government receivables	**50,427**	30,381
Trade receivables	**12,036**	11,308
Cash receivable from lessors	**7,163**	18,862
Other receivables	**29,017**	31,273
	152,754	138,675

Note 5 Deposits

	As at January 31, 2024 $	As at October 31, 2023 $
Maintenance deposits with lessors	**195,267**	179,997
Deposits with credit card processors	**86,010**	92,064
Deposits on leased aircraft and engines	**42,357**	43,711
Deposits with suppliers	**7,679**	7,033
	331,313	322,805
Less current portion	**95,087**	100,609
	236,226	222,196

Note 6 Property, plant and equipment

	Leasehold improvements Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Right of use Fleet $	Right of use Real estate and other $	Total $
Cost							
Balance as at October 31, 2023	**105,491**	**161,874**	**39,506**	**16,746**	**1,674,883**	**113,832**	**2,112,332**
Additions	**1,999**	**14,099**	**1,006**	**19**	**30,914**	**76**	**48,113**
Reclassification	**—**	**—**	**(1,859)**	**1,859**	**—**	**—**	**—**
Write-offs	**—**	**(2,575)**	**—**	**—**	**(10,680)**	**(738)**	**(13,993)**
Exchange difference	**—**	**—**	**(116)**	**(105)**	**—**	**(22)**	**(243)**
Balance as at January 31, 2024	**107,490**	**173,398**	**38,537**	**18,519**	**1,695,117**	**113,148**	**2,146,209**
Accumulated depreciation							
Balance as at October 31, 2023	**70,300**	**94,697**	**29,867**	**12,220**	**746,306**	**75,833**	**1,029,223**
Depreciation	**2,126**	**2,721**	**875**	**178**	**41,764**	**1,378**	**49,042**
Write-offs	**—**	**(2,575)**	**—**	**—**	**(10,680)**	**(738)**	**(13,993)**
Exchange difference	**—**	**—**	**(105)**	**(63)**	**—**	**(20)**	**(188)**
Balance as at January 31, 2024	**72,426**	**94,843**	**30,637**	**12,335**	**777,390**	**76,453**	**1,064,084**
Net book value as at January 31, 2024	**35,064**	**78,555**	**7,900**	**6,184**	**917,727**	**36,695**	**1,082,125**

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

Note 7 Investment

The change in the Corporation's investment in Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2023	**11,797**
Share of net income	**130**
Reversal of impairment loss	**3,112**
Translation adjustment	**(409)**
Disposal	**(14,630)**
Balance as at January 31, 2024	**—**

On January 9, 2024, the Corporation finalized the agreement for the sale and purchase of its 50% equity interest in Desarrollo Transimar, a Mexican company operating a hotel, the Marival Armony Luxury Resort & Spa, to its co-shareholder. The transaction in the firm amount of US$15,500 [$20,749], was paid in cash upon closing of the transaction. The value of the investment at that date was $14,630. The Corporation recorded a gain on disposal of an investment of $5,784, net of transaction costs of $335.

Note 8 Long-term debt and lease liabilities

The following table details the maturities and weighted average interest rates related to long-term debt and lease liabilities as at January 31, 2024 and October 31, 2023. The current portion of lease liabilities included deferred rent payments related to aircraft leases of $33,189 [$34,011 as at October 31, 2023]:

	Final maturity	Weighted average effective interest rate	As at January 31, 2024	As at October 31, 2023
		%	$	$
Long-term debt				
Secured debt - LEEFF	**2025**	**10.01**	**40,980**	51,858
Unsecured debt - LEEFF	**2026**	**13.27**	**327,379**	317,222
Unsecured credit facility - Travel credits	**2028**	**14.00**	**211,406**	205,178
Revolving credit facility	**2025**	**9.96**	**49,608**	49,593
Subordinated credit facility	**2025**	**15.24**	**35,731**	45,294
Long-term debt		**13.16**	**665,104**	669,145
Lease liabilities				
Fleet	**2024-2035**	**6.32**	**1,097,087**	1,178,764
Real estate and other	**2024-2037**	**5.59**	**41,320**	42,687
Lease liabilities		**6.29**	**1,138,407**	1,221,451
Total long-term debt and lease liabilities		**8.83**	**1,803,511**	1,890,596
Current portion of lease liabilities			**(150,204)**	(150,246)
Long-term debt and lease liabilities			**1,653,307**	1,740,350

Funding from the Government of Canada

The Corporation has an agreement with the Government of Canada that allowed it to borrow $743,300 through the Large Employer Emergency Financing Facility (LEEFF). The fully repayable credit facilities made available by the Canada Enterprise Emergency Funding Corporation ["CEEFC"] under the LEEFF, are as follows:

Secured debt - LEEFF

An initial principal amount of $78.0 million, in the form of a non-revolving and secured credit facility maturing on April 29, 2025. The credit facility is secured by a first ranking charge on the assets of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions and bears interest at bankers' acceptance rate plus a premium of 4.5% or at the financial institution's prime rate plus a premium of 3.5%. In the event of a change of control, this credit facility becomes immediately due and payable. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at January 31, 2024, the financial ratios and covenants were met. During the quarter ended January 31, 2024, the Corporation made a repayment of $11,000, bringing the principal payable to $41,400 [$52,400 as at October 31, 2023]. As at January 31, 2024 and October 31, 2023, the credit facility was fully drawn, and the carrying amount stood at $40,980 as at January 31, 2024 [$51,858 as at October 31, 2023].

Unsecured debt - LEEFF

An amount of $312,000, in the form of an unsecured, non-revolving credit facility that matures on April 29, 2026. The credit facility bore interest at a rate of 5.0% until December 31, 2023. It now bears interest at a rate of 8.0% until December 31, 2024, increasing by 2.0% per annum thereafter, with the option to capitalize interest until December 31, 2024. In the event of a change of control, this credit facility becomes immediately due and payable.

As at January 31, 2024 and as at October 31, 2023, the credit facility was fully drawn and its carrying amount stood at $327,379 as at January 31, 2024 [$317,222 as at October 31, 2023].

As part of the financing package, the Corporation issued a total of 13,000,000 warrants *[Note 9]* in connection with the unsecured financing - LEEFF.

Unsecured credit facility related to travel credits

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

As at January 31, 2024 and October 31, 2023, the credit facility was fully drawn. As at January 31, 2024, the carrying amount of the credit facility was $211,406 [$205,178 as at October 31, 2023], and an amount of $140,480 [$146,634 as at October 31, 2023] was also recognized as deferred government grant related to these drawdowns. During the quarter ended January 31, 2024, an amount of $6,228 was recognized as proceeds from government grants as a reduction of financing costs.

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

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

Other credit facilities

Revolving credit facility

The Corporation has a $50,000 revolving term credit agreement for its operations, maturing on April 29, 2025. This agreement can be extended for one year on each anniversary date subject to lender approval and becomes immediately due and payable in the event of a change of control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian and U.S. dollars. The agreement is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The facility bears interest at bankers' acceptance rate or at SOFR (Secured Overnight Financing Rate) in U.S. dollars, plus a premium of 4.5% or at the financial institution's prime rate, plus a premium of 3.5%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at January 31, 2024, the financial ratios and covenants were met. As at January 31, 2024 and October 31, 2023, the credit facility was fully drawn.

Subordinated credit facility

The Corporation has a subordinated credit facility for its operations, at the initial principal amount of $70,000, maturing on April 29, 2025. This facility becomes immediately due and payable in the event of a change of control. The facility is secured by a first ranking moveable hypothec on the universality of assets, present and future, of the Corporation's Canadian, Mexican, Caribbean and European subsidiaries, subject to certain exceptions. The credit facility bears interest at bankers' acceptance rate plus a premium of 9.75% or at the financial institution's prime rate, plus a premium of 8.75%. Under the terms of the agreement, the Corporation is required to meet certain financial ratios and covenants. As at January 31, 2024, the financial ratios and covenants were met. During the quarter ended January 31, 2024, the Corporation made a repayment of $9,700, bringing the principal balance payable to $36,300 [$46,000 as at October 31, 2023]. As at January 31, 2024 and October 31, 2023, the credit facility was fully drawn.

Revolving credit facility agreement – Letters of credit

The Corporation has a $74,000 annually renewable revolving credit facility for the issuance of letters of credit. Under this agreement, the Corporation must pledge cash equal to 100% of the amount of the issued letters of credit. As at January 31, 2024, $69,228 had been drawn down under the facility [$69,855 as at October 31, 2023], $29,750 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure the obligations under senior executive defined benefit pension agreements will be drawn.

Financing costs

Interest expense for the periods ended January 31, 2024 and 2023, is detailed as follows:

	Quarters ended January 31	
	2024	**2023**
	$	**$**
Interest expense on lease liabilities	**17,579**	14,968
Interest expense on long-term debt	**15,737**	14,632
Accretion on provision for return conditions	**1,844**	1,302
Other interest	**480**	1,311
Financing costs	**35,640**	32,213

Rent expense

Rent expense for the periods ended January 31, 2024 and 2023, is detailed as follows:

	Quarters ended January 31	
	2024	**2023**
	$	**$**
Variable lease payments	**3,942**	1,693
Short-term leases	**2,845**	294
Aircraft rent	**6,787**	1,987
Variable lease payments	**—**	517
Short-term leases	**1,967**	1,080
Low value leases	**81**	93
	8,835	3,677

Cash flows related to lease liabilities

The following table details cash flows related to repayments of lease liabilities for the quarter ended January 31 2024:

	Cash flows $	Non-cash changes $	Total $
Balance as at October 31, 2023			**1,221,451**
Repayments	**(42,864)**	**1,005**	**(41,859)**
New lease liabilities (new contracts and amendments)	**—**	**155**	**155**
Interest portion of deferred rent payments	**—**	**598**	**598**
Exchange difference	**—**	**(41,938)**	**(41,938)**
Balance as at 31 janvier 2024	**(42,864)**	**(40,180)**	**1,138,407**

Maturity analysis

Repayment of principal and interest on long-term debt and lease liabilities as at January 31, 2024 is detailed as follows. Interest on long-term debt only includes interest payable as at January 31, 2024. Lease liabilities denominated in U.S. dollars were translated at the USD/CAD closing rate of 1.3386 as at January 31, 2024:

Year ending October 31	2024 $	2025 $	2026 $	2027 $	2028 $	2029 and up $	Total $
Long-term debt obligations	**—**	**126,319**	**327,379**	**—**	**211,406**	**—**	**665,104**
Fleet	148,988	199,483	178,047	165,258	150,887	567,583	**1,410,246**
Real estate and other	3,858	6,003	4,118	5,650	5,045	30,215	**54,889**
Lease liabilities	**152,846**	**205,486**	**182,165**	**170,908**	**155,932**	**597,798**	**1,465,135**
Total	**152,846**	**331,805**	**509,544**	**170,908**	**367,338**	**597,798**	**2,130,239**

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 9 Liability related to warrants

In the context of the initial financing arrangement related to the unsecured facility – LEEFF *[Note 8]*, on April 29, 2021, the Corporation issued to the Government of Canada a total of 13,000,000 warrants for the purchase of an equivalent number of shares of the Corporation (subject to certain limitations described below), with customary adjustment provisions, at an exercise price of $4.50 per share, exercisable over a 10-year period, representing 18.75% of the total commitment available under the unsecured debt – LEEFF.

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

As at January 31, 2024 and October 31, 2023, a total of 13,000,000 warrants had vested under the drawdowns on the unsecured debt - LEEFF and no warrants had been exercised.

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

- a maximum of 9,658,090 warrants could be exercised through the issuance of shares;
- 3,341,910 warrants would be payable in cash on the basis of the difference between the market price of Transat's shares and the exercise price.

Moreover, the parties may, by mutual agreement, exercise the 9,658,090 warrants for a settlement in cash. To the extent that Transat shares are listed on a public market, the Corporation could also choose to settle the exercise of these 9,658,090 warrants on a net share basis, that is, by issuing shares based on the difference between Transat's share market price and the exercise price of warrants.

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

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

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

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

The change in the liability related to warrants is detailed as follows:

	Quarter ended January 31, 2024	Year ended October 31, 2023
	$	$
Opening balance	**20,816**	24,360
Revaluation of liability related to cancelled warrants	**—**	(8,881)
Revaluation of liability related to warrants	**11,747**	5,337
Closing balance	**32,563**	20,816

To remeasure the liability related to warrants, classified as Level 3, the Corporation used a Black-Scholes valuation model. As at January 31, 2024, the primary unobservable input used in the model was expected volatility, which was estimated at 56.7%. A 5.0% increase in the expected volatility used in the pricing model would result in a total increase of $1,119 in the liability related to warrants as at January 31, 2024.

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 predetermined maintenance conditions. The change in the provision for return conditions is detailed as follows:

	Quarter ended January 31, 2024 $	Year ended October 31, 2023 $
Opening balance	**177,832**	154,772
Additional provisions	**5,179**	30,934
Changes in estimates	**5,276**	(17,371)
Accretion	**1,844**	5,341
Foreign exchange (gain) loss	**(7,657)**	4,156
Closing balance	**182,474**	177,832
Current provisions	**1,829**	1,856
Non-current provisions	**180,645**	175,976
Closing balance	**182,474**	177,832

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

Note 11 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 the shareholders, subject to an automatic reduction of the voting rights attached thereto in the event that [i] any non-Canadian, individually or in affiliation with another person, holds more than 25% of the votes cast, [ii] any non-Canadian authorized to provide air service in any jurisdiction (in aggregate) holds more than 25% of the votes cast, or [iii] the votes that would be cast by the 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 decrease of the votes of any non-Canadian individual (including a non-Canadian authorized to provide air service) whose votes total more than 25% of the votes cast, so that such non-Canadian holder 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 any 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 non-Canadian holders of Class A Shares authorized to provide an air service, so that such non-Canadian holders may never hold votes totalling more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting;
- last, if applicable, and once the two pro rata allocations described above have been made, a proportional reduction will be made in the voting rights of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares may never hold votes totalling more than 49% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting.

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

Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

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

	Number of shares	$
Balance as at October 31, 2022	38,012,144	221,924
Issued from treasury	477,214	1,526
Balance as at January 31, 2023	38,489,358	223,450
Issued from treasury	143,002	414
Balance as at January 31, 2024	38,632,360	223,864

As at January 31, 2024, the number of Class A Shares and Class B Shares stood at 2,319,036 and 36,313,324, respectively [2,717,825 and 35,771,533, respectively, as at October 31, 2023].

Stock option plan

	Number of options	Weighted average price ($)
Balance as at October 31, 2023	425,904	5.32
Granted	100,000	3.90
Forfeited	(150,000)	4.61
Balance as at January 31, 2024	**375,904**	**5.23**
Options exercisable as at January 31, 2024	**75,904**	**10.24**

Warrants

No warrants were exercised during the quarter ended January 31, 2024. Accordingly, the Corporation did not issue any shares related to the exercise of warrants *[Note 9]*.

Loss per share

Basic and diluted loss per share were calculated as follows:

	Quarters ended January 31	
	2024	**2023**
(in thousands of dollars, except per share data)	**$**	**$**
NUMERATOR		
Net loss used in computing basic loss per share	**(60,977)**	(56,610)
Effect of deemed conversion of warrants	**11,747**	10,139
Less anti-dilutive impact	**(11,747)**	(10,139)
Net loss used in computing diluted loss per share	**(60,977)**	(56,610)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**38,580**	38,065
Effect of potential dilutive securities		
Stock options	**2**	—
Less anti-dilutive impact	**(2)**	—
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**38,580**	38,065
Loss per share		
Basic	**(1.58)**	(1.49)
Diluted	**(1.58)**	(1.49)

For the quarter ended January 31, 2024, a total of 325,904 outstanding stock options and the 9,658,090 vested warrants that can be exercised through the issuance of shares were excluded from the calculation since their exercise price exceeded the average share price for the period [406,034 stock options and 9,536,000 warrants for the quarter ended January 31, 2023].

Note 12 Additional disclosure on revenue

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 routes. Revenue from contracts with customers is broken down as follows:

	Quarters ended January 31	
	2024	**2023**
	$	**$**
Customers		
Americas	**675,822**	570,383
Transatlantic	**106,485**	91,718
Other	**3,191**	5,356
Total revenues	**785,498**	667,457

Note 13 Restructuring costs

	Quarters ended January 31	
	2024	2023
	$	$
Restructuring costs		
Severance	**—**	2,900
Staff relocation costs	**66**	—
	66	2,900

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

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

	Quarter ended January 31, 2024	Year ended October 31, 2023
	$	$
Opening balance	**1,151**	2,015
Utilization of provision	**(153)**	(3,858)
Additional provisions	**—**	3,551
Unused amounts reversed	**—**	(557)
Closing balance	**998**	1,151

Note 14 Gain on asset disposals

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

During the quarter ended January 31, 2023, the gain on asset disposals of $2,511 was due to the return of one Boeing 737-800 to the lessor. The gain resulted mainly from the reversal of related lease liabilities. The carrying amount of the right-of-use assets for this aircraft lease was fully depreciated during the year ended October 31, 2020.

Note 15 Commitments and contingencies

Leases and other commitments

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

Year ending October 31	2024	2025	2026	2027	2028	2029 and up	Total
	$	$	$	$	$	$	$
Leases (aircraft and other)	8,672	34,756	53,429	64,871	67,766	577,653	**807,147**
Purchase obligations	29,828	12,089	5,931	5,821	1,701	—	**55,370**
	38,500	**46,845**	**59,360**	**70,692**	**69,467**	**577,653**	**862,517**

Litigation

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

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

Other

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

Note 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 prior representations or warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 4, 14, 17 and 24 to the consolidated financial statements ended October 31, 2023 provide information about some of these agreements. The following constitutes additional disclosure.

Leases

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

Collateral security contracts

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, as required by regulatory agencies, for the performance of the obligations included in mandates of its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2024, the total amount of these guarantees unsecured by deposits totalled $768. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2024, no amounts had been accrued with respect to the above-mentioned agreements.

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 primarily in the Americas. Revenues and non-current assets outside the Americas are not material. Therefore, the consolidated statements of loss and consolidated statements of financial position include all the required information.

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