The Airline Seat Company Limited

Annual Report and Financial Statements

31 October 2020

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Corporate Information

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Kathryn Munro
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Frederic Mercier (Canadian)
Chris Hedley
Joseph Adamo (Canadian)

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Bernard Bussieres

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Strategic report

The directors present their strategic report for the year ended 31 October 2020.

Review of business

The company's principal activities continued to be acting as a specialist Tour Operator to Canada, selling airline seats and ancillary ground products under the trading name Canadian Affair. The majority of transatlantic flights are offered by Air Transat, a fellow subsidiary of the Transat Group. Revenue was primarily generated from travel to Canada.

The ongoing Covid 19 pandemic continues to severely disrupt trading and profitability, with the combination of border closures, quarantine requirements and the non-operation of a majority of flights to Canada. The company has taken mitigating action by lowering its cost base, however, until borders re-open and consumers confidence in travelling returns, we will suffer a period of losses. We believe this disruption will last into the 3rd quarter of 2021, so will also impact our trading in the forthcoming financial year.

Key performance indicators

The key factor affecting the years result was the impact of the Covid-19 pandemic, which effectively suppressed all travel to Canada from April 20 onwards. As a direct result of this, turnover fell by 91.9% to £2,547,830 (2019 – £31,453,210).

From April 20, to counter the negative impact on sales, operational overheads were reduced by a total of 22.6% in the year to £3,333,260 (2019 - £4,305,576). This includes a reduction in headcount that was completed in August 2020, although the size of this reduction was tempered by our continued receipt of government grant support for furloughed employees. During the period, the company has received £441,323 in such support from the Coronavirus Job Retention Scheme. The reduced operation and lower operating cost will continue into 2021 and headcount will be further scrutinised in the event of government grant support being rescinded. Operating costs will only be re-introduced as and when trading demands to keep losses to a minimum.

The net impact on trading resulted in the company recording an operating loss of £2,992,745 (2019 – operating profit £1,387,471) with the loss for the year after taxation amounting to £3,241,438 (2019 – profit £750,318). This has reduced Shareholders funds by the same value, as detailed in the Statement of changes in equity.

Net current assets have reduced significantly in the year as the company repaid it's £12.7M loan in March 2020. This has reduced the company's immediate cash position, however, it will reduce interest payment in future years of over £550k, lowering the annual cost of the operation. Overall, net assets have reduced by £15,660,946, but the company still maintains a net asset position of £9,601,331, the equivalent of circa 3 years of operating costs.

Principal risks and uncertainties

<u>Competitive Risks</u>

There is increased competition for the transatlantic market on key routes and their progress will be monitored with interest. However, the directors remain confident that the knowledge and expertise provided by the company will ensure it remains a market leader.

<u>Group Loan guarantor</u>

The company together with the parent undertaking and two companies under common control are jointly and severally guarantors of the revolving credit facilities amounting to CAD $300 million. This facility will provide access to additional funds for the group, as may be required to continue operations during the ongoing Covid-19 disruption. This facility creates significant exposure for the company to the groups' overall financial health and as at October 31, 2020, there exists material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. The group is subject to a takeover bid from Air Canada, pending regulatory approval from the Canadian government and the European Commission. If the takeover is completed, Air Canada will put the required financing in place. If not completed, the group will have to put in place overall financing totalling approximately CAD $500 million in 2021 to ensure continuity of operations. The group is seeking to secure this financing prior to the maturity of $250 million of the existing credit facility on 31st March 2021 and is currently in discussions with potential lenders, including Canadian government authorities.

Strategic report (continued)

Group Loan guarantor (continued)

The Directors are confident the group will ultimately recover once trading conditions allow. As at 31 October 2020 $250 million of the $300 million revolving credit facilities remained unused.

Use of derivatives

The company uses forward currency contracts to reduce exposure to the variability of foreign exchange rates, which is then the benchmark for the rate used when pricing holidays.

Exposure to price, credit, liquidity and cash flow risk

Price risk occurs as the travel industry continues to be very challenging, with ever-increasing choices of destinations and airlines to choose from.

Credit risk is low in the company as we do not offer credit facilities to customers with all monies paid prior to the departure date. All amounts owed by group undertakings are assessed for recoverability annually.

Cash is held with banks with an A rating or higher.

Liquidity risk is minimal in the business as the company has no current leverage, having repaid it's intergroup loan in March 2020. We have a healthy current asset position and a favourable cash flow cycle, whereby client monies are collected well in advance of their being paid to the supplier.

Terrorist activity, meteorological/geological activity, and economic uncertainty continue to be risks for the industry, which could result in reduced sales. The company works closely with the parent undertaking to manage this risk by identifying and managing key issues.

Business Risks

The Covid 19 pandemic highlights how prone to risk the company is to any disruption in global air travel. This disruption removes the ability to generate new revenues, as consumers are reluctant to book holidays without the knowledge it will proceed, particularly for the more complex transatlantic packages we offer. This also increases risk across the supply chain, with airlines and ground product suppliers all facing similar disruption to revenue streams. The length of any disruption is also an unknown, which could lead to a period of continued losses, even with corrective action against operating costs.

On behalf of the board

CHedley

Chris Hedley, Director
12th February 2021

Directors' report

The directors present their report for the year ended 31 October 2020.

Directors

The current directors of the company are shown on page 2.

Dividends

No dividend was paid during 2020 (2019 - £Nil). The directors do not recommend a final dividend.

Future developments

The ongoing Covid-19 pandemic continues to severely disrupt trading and profitability so the company will maintain its lower cost base until trading conditions necessitate a change. We believe this disruption will last into the 3rd quarter of 2021, so will also impact our trading in the forthcoming financial year, with a return to normal trading conditions the following year. The Directors long term plan remains: to significantly grow the volume of Tour Operating passengers to Canada, in order to replace the flight only sales being distributed either directly with Air Transat or via UK B2B channels. A large part of this increase will be driven by distribution of Tour Operator sales through the UK travel trade, of which the company currently only has a small share of the total market.

Post balance sheet events

There have been no material events since 31 October 2020.

Financial instruments

Details of financial instruments are provided in the strategic report on page 3.

Going concern

The company's activities and key performance indicators, together with the factors likely to affect its future development and risk management are described in the Strategic Report on page 3. The directors have considered all these factors and believe that the company is well placed to manage its business risks successfully.

The company benefits from a comfort letter from its ultimate parent, Transat A.T. Inc to provide financial support to meet liabilities as and when they fall due. This support is provided for a period of 18 months from the date these financial statements were signed.

Note 20 details the cross guarantees provided within the Transat group and which The Airline Seat Company is party to. The group is subject to a takeover bid from Air Canada, pending regulatory approval from the Canadian government and the European Commission. If the takeover is completed, Air Canada will put the required financing in place. If not completed, the group will have to put financing in place to ensure continuity of operations. The Group's management is in discussion with various lenders including government authorities, to secure the required financing. These discussions include a possible application under the Large Employer Emergency Financing Facility (LEEFF). Management could also try to extend the maturity of the new subordinated short-term credit facility to give itself more time to arrange the required overall financing. In the unlikely event that either the takeover does not occur or alternative financing is not available, there is a risk that the company will be called upon under the cross guarantee.

This creates significant exposure for the company to the groups' overall financial health and as at October 31, 2020, creates a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern

Directors' report (continued)

Going concern (continued)

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with s.485 of the Companies Act 2006, a resolution to reappoint Ernst & Young Chartered Accountants and statutory audit firm as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

CHedley

Chris Hedley
Director
12th February 2021

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CHedley

Chris Hedley
Director
12th February 2021

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE AIRLINE SEAT COMPANY LIMITED

Opinion

We have audited the financial statements of The Airline Seat Company Limited for the year ended 31 October 2020 which comprise the Income Statement, the Statement of comprehensive income, the Statement of changes in equity and Statement of Financial Position and the related notes1 to 24, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31st October 2020 and of its loss for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty related to Going Concern

We draw attention to note 20 in the financial statements, which indicates that the Company together with the parent undertaking and two companies under common control are jointly and severally guarantors of the revolving credit facilities amounting to CAD$300,000,000 as of year ended 31 October 2020. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE AIRLINE SEAT COMPANY LIMITED (CONTINUED)

Other information

The other information comprises the information included in the director's report set out on pages 5 and 6, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE AIRLINE SEAT COMPANY LIMITED (CONTINUED)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Brian Devereux
Executive Director
for and on behalf of Ernst & Young Chartered Accountants

Waterford, Ireland

Date: 15 Feb 2021

Income Statement

for the year ended 31 October 2020

	Notes	2020 £	2019 £
Turnover	3	2,485,574	31,453,210
Cost of sales		(1,804,273)	(25,311,878)
Depreciation		(97,405)	(106,041)
Amortisation		(305,637)	(342,244)
Staff costs	6	(2,977,727)	(3,148,438)
Other operating charges		(2,081,890)	(2,712,950)
Government grant income – CJRS		441,123	-
Other income		1,347,490	1,555,812
Operating (Loss) / profit	4	(2,992,745)	1,387,471
Interest receivable and similar income	7	92,733	207,708
Interest payable and similar costs	7	(21,838)	(26,405)
Interest payable and similar costs - Group	7	(558,369)	(613,033)
Other Finance Costs		(1,126)	(1,113)
(Loss) / profit on ordinary activities before taxation		(3,481,345)	954,628
Tax on (loss) / profit on ordinary activities	8	239,907	(204,310)
(Loss) / profit for the financial year		(3,241,438)	750,318

The notes on pages 14 - 26 form part of these financial statements.

Statement of comprehensive income

for the year ended 31 October 2020

The Company has no other items of comprehensive income in any of the periods for which financial statements are presented.

Statement of changes in equity

for the year ended 31 October 2020

	Called up share capital	*Share premium*	*Profit and loss account*	*Total shareholders ' equity*
	£	£	£	£
At 31 October 2018	123,450	7,956,550	4,690,679	12,770,679
Profit for the year	-	-	750,318	750,318
At 31 October 2019	123,450	7,956,550	5,440,997	13,520,997
(Loss) for the year	-	-	(3,241,438)	(3,241,438)
Total comprehensive income for the year	-	-	(3,241,438)	(3,241,438)
At 31 October 2020	123,450	7,956,550	2,199,559	10,279,559

The notes on pages 14 - 26 form part of these financial statements.

Statement of financial position

at 31 October 2020

	Notes	2020 £	2019 £
Fixed assets			
Intangible assets	9	537,268	735,260
Tangible assets	10	256,732	345,404
		794,000	1,080,664
Current assets			
Debtors	12	2,844,330	2,423,907
Cash at bank and in hand	20	15,282,859	28,974,822
		18,127,189	31,398,729
Creditors: amounts falling due within one year	13	(8,525,858)	(6,136,452)
Net current assets		9,601,331	25,262,277
Total assets less current liabilities		10,395,331	26,342,941
Creditors: amounts falling due after more than one year	14	-	(12,700,000)
Provisions for liabilities	16	(115,772)	(121,944)
Net Assets		10,279,559	13,520,997
Capital and reserves			
Called up share capital	17	123,450	123,450
Share premium	19	7,956,550	7,956,550
Profit and loss account		2,199,559	5,440,997
Shareholders' funds		10,279,559	13,520,997

The notes on pages 14 -26 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

CHedley

Chris Hedley
Director
12th February 2021

1. Authorisation of financial statements and statement of compliance

The Airline Seat Company Limited is a private company limited by shares incorporated and domiciled in England and Wales, registered number 3030025. The registered office is Part First Floor, 10 Eastbourne Terrace, London, W2 6LG. These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) as it applies to the financial statements of the Company for the year ended 31 October 2020. The financial statements are prepared under the historical cost convention and are presented in Sterling.

The financial statements of The Airline Seat Company Limited for the year ended 31 October 2020 were authorised for issue by the board of directors on 12th February 2021 and the statement of financial position was signed on the board's behalf by Chris Hedley.

2. Accounting policies

2.1 Basis of preparation

The Airline Seat Company Limited has taken advantage of the exemption available under section 401 of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Transat A.T. Inc, which prepares publicly available group financial statements which include the results of the Company and its subsidiaries. These can be downloaded from https://www.transat.com/en-CA/corporate/investors. The Airline Seat Company Limited financial statements therefore purely reflect the Company as an individual undertaking.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 October 2020.

The Airline Seat Company Limited has taken advantage of the following disclosure exemptions under FRS 102:

(a) the requirements of section 7 Statement of Cash Flows and Section 3 *Financial Statement Presentation* paragraph 3.17(d)

(b) the requirements of *Basic Financial Instruments* paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii)(iv), 11.48(b), 11.48(c) and section 12 *Other Financial Instruments* paragraphs 12.27, 12.29(a), 12.29(b) and 12.29(a)

(c) the requirements of Section 26 *Share based Payment*: paragraph 26.18 (b), 26.19 to 26.21 and 26.23

(d) Requirements of Section 33 *Related Party Disclosures*, paragraph 33.7

Going Concern

The company's activities and key performance indicators, together with the factors likely to affect its future development and risk management are described in the Strategic Report on page 3. The directors have considered all these factors and believe that the company is well placed to manage its business risks successfully.

The company benefits from a comfort letter from its ultimate parent, Transat A.T. Inc to provide financial support to meet liabilities as and when they fall due. This support is provided for a period of 18 months from the date these financial statements were signed.

Note 13 details the cross guarantees provided within the Transat group and Transat Europe Limited is party to. The group is subject to a takeover bid from Air Canada, pending regulatory approval from the Canadian government and the European Commission. If the takeover is completed, Air Canada will put the required financing in place. If not completed, the group will have to put financing in place to ensure continuity of operations. The Group's management is in discussion with various lenders including government authorities, to secure the required financing. These discussions include a possible application under the Large Employer Emergency Financing Facility (LEEFF). Management could also try to extend the maturity of the new subordinated short-term credit facility to give itself more time to arrange the required overall financing. In the unlikely event that either the takeover does not occur or alternative financing is not available, there is a risk that the company will be called upon under the cross guarantee.

2.1 Basis of preparation (continued)

This creates significant exposure for the company to the groups' overall financial health and as at October 31, 2020, there exists material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following is the Company's key source of estimation uncertainty:

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with assessment of the effect of future tax planning strategies.

Useful lives of intangible assets and tangible assets

Management estimation is required to determine the period of time for which an asset will be economically feasible for use in the company.

2.3 Significant accounting policies

Intangible assets

Intangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Software licences are amortised over a period of 5 years.

The carrying values of intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. We consider 5 years to be an appropriate period of amortisation given the complexity and pace of technological change in our industry.

Intangible Assets under construction

Intangible assets under construction are stated at costs and arise from the company's development of its booking software. These are transferred to Intangible assets only once their functionality is available for use. They are not amortised whilst under construction, but once transferred to intangible assets are amortised over a period of 5 years.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid, and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Dilapidations costs are stated at the present value of the estimated final cost less accumulated depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

2.3 Significant accounting policies (continued)

Fixtures and fittings	–	4 - 5 years
Computer Equipment	–	3 - 5 years
Dilapidations	–	10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Investments

Investments in subsidiary companies are stated at cost less any provisions for impairment.

Where an event has occurred that gives rise to doubt about the recovery of the carrying value, an impairment assessment is made. The impairment is calculated by comparing the investment's carrying value to the recoverable amount. The recoverable amount is taken to be the higher of realisable value and value in use. Value in use is determined by reference to the expected future cash flows of the business, discounted at a risk adjusted weighted cost of capital.

Financial Instruments

Cash at bank and in hand

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less.

Forward contracts

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in operating expenses

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in the finance costs in the income statement.

Current and Deferred tax

The current corporation tax charge is calculated on the basis of tax rules and laws that have been enacted or substantively enacted by the statement of financial position date in the countries where the Company operates and generates income.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverses, based on tax rates and laws enacted at the statement of financial position date.

2.3 Significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance and once the service is rendered and all the significant risks and rewards of the service have been transferred to the customer. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, VAT and other sales taxes or duty. Revenue from tour operating activities, flight only sales and the related costs are recognized when passengers depart. Commission revenue is recognized when travel is reserved. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred revenues.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Dividends

Dividends are recorded as a debit within the statement of changes in equity when paid of declared and approved.

Operating leases

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight-line basis.

Pensions commitments

Defined contribution scheme

The company operates one defined contribution pension scheme. Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Foreign currency

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Share-based payments

The parent company operates equity settled and cash-settled share-based compensation plans under which the company receives services from employees as consideration for equity instruments of the parent company or cash-settled payments. The parent company recharges the associated cost to the company.

Equity-settled transactions

For equity-settled share-based compensation (performance share unit (PSU) plan, the expense is based on the grant date fair value of the awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. The value of the compensation is measured based on the closing price of Transat shares on the Toronto Stock Exchange at grant date, adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. For awards with graded vesting, the fair value of each tranche is recognized through profit or loss over its respective vesting period. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to share-based payment reserve are credited to share capital of the parent company.

2.3 Significant accounting policies (continued)

Cash-settled transactions

For cash-settled share-based compensation (restricted share unit (RSU) plan), the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. RSUs are awarded annually by the parent undertaking, Transat A.T. Inc, to eligible employees under the plan. The value of the compensation is measured based on the closing price of Transat shares on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance and service conditions are satisfied. At the end of each reporting period, the parent company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions through profit or loss.

Government Grants

Coronavirus Job Retention Scheme (CJRS)

Government grants received from the CJRS scheme are recognised under the accrual model with grant income being recognised in the period in which it becomes receivable.

3. Turnover

Turnover represents the amounts derived from the provision of services which fall within the company's ordinary activities, stated net of value added tax. All turnover is derived from operations carried out in the United Kingdom, Europe and Canada. Turnover consists of sale of services.

Turnover is analysed as follows:

Geographical area

	2020	*2019*
	£	£
United Kingdom	2,483,916	31,413,963
Europe	-	6,249
Canada	1,658	32,998
	2,485,574	31,453,210

4. Operating Profit

This is stated after charging:

	2020	*2019*
	£	£
Foreign Exchange (gain) / loss	(83,881)	182,725
Other operating income – management fees (i)	(1,290,234)	(1,555,812)
Operating lease rentals – land and buildings	246,440	275,989
– others (equipment rental)	1,742	2,140
Depreciation of owned assets (see note 10)	97,405	106,041
Amortisation of software (see note 9)	305,637	342,244

i) The company receives a management fee to cover the costs of operating the UK&I commercial activities for Air Transat.

5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and, where applicable, for other services provided to the Company.

	2020	2019
	£	£
Audit of the financial statements	56,985	53,000
Other assurance services	3,000	11,800
	59,985	64,800

6. Staff costs

a) Staff costs, including directors' remuneration, were as follows

	2020	2019
	£	£
Wages and salaries	2,589,070	2,709,897
Social security costs	257,883	298,236
Other pension costs	130,774	140,305
	2,977,727	3,148,438

Included in wages and salaries is a total expense of share-based payments of £Nil (2019: £Nil) of which £Nil (2018: £Nil) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £127,242 (2019: £140,305) in respect of the defined contribution scheme.

The average monthly number of employees during the year was made up as follows:

	2020	2019
	No.	No.
Office and management	12	12
Sales	56	56
	68	68

b) Directors' remuneration

	2020	2019
	£	£
Aggregate remuneration in respect of qualifying services	216,119	231,268
	216,119	231,268

	2020	2019
	£	£
In respect of the highest paid director:		
Aggregate remuneration	175,100	178,011
Pension Contributions	16,957	16,298

7. Interest payable and similar charges

	2020	2019
	£	£
Interest payable:		
Bond interest	21,838	26,405
Loan interest – Group	558,369	613,033
	580,207	629,438
Interest receivable:		
Bank interest	92,733	207,708
	92,733	207,708

8. Tax

(a) *Tax on Profit on ordinary activities*

The tax charge is made up as follows:

	2020	2019
	£	£
Current tax:		
UK corporation tax at 19.00% (2019:19.00%)	(186,653)	203,636
Tax under provided in previous years	(45,956)	26,677
Total current tax	(232,609)	230,313
Deferred tax:		
Origination and reversal of timing differences	(54,249)	(13,521)
Tax over provided in previous years	38,708	(12,482)
Effect of change in the tax rate on opening liability	8,243	-
Total change in the deferred tax	(7,298)	(26,003)
Tax on profit on ordinary activities (note 8(b))	(239,907)	204,310

(b) *Factors affecting the current tax charge/(credit) for the year*

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2019 – 19.00%). The differences are reconciled below:

	2020	2019
	£	£
(Loss)/profit on ordinary activities before tax	(3,481,345)	954,626
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2019 – 19.00%)	(661,455)	181,379
Expenses not deductible for tax purposes	6,207	10,036
Tax under/(over) provided in previous years	(7,248)	14,195
Group Relief	(2,165)	(2,891)
Tax Rate Change	8,242	-
Current year losses available for future use not recognised	603,165	-
Utilisation of current year losses against prior year profits	(186,653)	-
Difference between current & deferred tax rate	-	1,591
Total tax expense	(239,907)	204,310

8. Tax (Continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2020	2019
	£	£
Included in provisions for liabilities (note 16)	24,056	31,354
Accelerated capital allowances	43,960	52,054
Other timing differences	(19,904)	(20,700)
Deferred tax Liability	24,056	31,354

Deferred tax assets of £416,512 have not been recognised in the financial statements, arising from corporation tax losses in the amount of £2,192,163, due to high level of uncertainty, taxable profits could not be foreseen in near future.

9. Intangible assets

	Software
	£
Cost:	
At 1 November 2019	1,906,196
Additions	107,645
At 31 October 2020	2,013,841
Amortisation:	
At 1 November 2019	1,170,936
Charged in the year	305,637
At 31 October 2020	1,476,573
Carrying amount:	
At 31 October 2020	537,268
At 1 November 2019	735,260

10. Tangible fixed assets

	Dilapidations	Fixtures and Fittings	Computer Equipment	Total
	£	£	£	£
Cost:				
At 1 November 2019	88,379	334,941	224,658	647,978
Additions	-	-	8,733	8,733
At 31 October 2020	88,379	334,941	233,391	656,711
Depreciation:				
At 1 November 2019	17,676	121,964	162,934	302,574
Charged in the year	8,838	63,224	25,343	97,405
At 31 October 2020	26,514	185,188	188,277	399,979
Carrying amount :				
At 31 October 2020	61,865	149,753	45,114	256,732
At 1 November 2019	70,703	212,977	61,724	345,404

The carrying value of assets has been assessed for impairment, including market value, obsolescence and economic performance, with no assets requiring impairment.

11. Investments

The company's subsidiaries are as follows:

	Class of shares	Country of incorporation	Proportion held	Nature of business
Australian Affair Limited	Ordinary	England	100%	Dormant
Australian Airfares Limited	Ordinary	England	100%	Dormant
Canada Airfares Limited	Ordinary	England	100%	Dormant
Canadian Airfares Limited	Ordinary	England	100%	Dormant
Canadian Travel Service Limited	Ordinary	England	100%	Dormant
Flag Carrier Limited	Ordinary	England	100%	Dormant
Go Canada Direct Limited	Ordinary	England	100%	Dormant
Go Canada Limited	Ordinary	England	100%	Dormant
ASC The Airline Seat Company Limited	Ordinary	Canada	100%	Dormant

All subsidiary companies are dormant, and the investments values have been written down to zero.

12. Debtors:

Amounts falling due within one year

	2020	2019
	£	£
Trade debtors	70,950	187,048
Prepayments	1,143,136	524,353
Amounts owed by group undertakings	1,145,933	973,747
Corporate Tax	180,120	-
Other debtors	73,467	508,035
	2,613,606	2,193,183

Amounts falling due after one year

	2020	2019
	£	£
Rent Deposit	230,724	230,724
	230,724	230,724
Debtors	2,844,330	2,423,907

Amounts owed by group undertakings are non-interest bearing, unsecured and are payable in the month following the date of transaction.

13. Creditors: amounts falling due within one year

	2020	2019
	£	£
Trade creditors	282,553	718,609
Derivative financial instruments	-	67,741
Amounts owed to group undertakings	492,243	315,198
Loan Interest payable to fellow subsidiaries (Note 14)	-	588,099
Taxation and social security	54,622	83,435
Corporate Tax	-	364,394
Accruals	469,586	760,709
Deferred income	7,226,854	3,238,267
	8,525,858	6,136,452

Amounts owed to group undertakings are non-interest bearing, unsecured and are payable within a month of the date of transaction.

14. Creditors: amounts falling due after more than one year

	2020	2019
	£	£
Other creditors		
Loan from fellow group undertaking	-	12,700,000

The principle loan, drawn from A.S.C (Luxembourg.) S.a.r.l. which is a subsidiary of the ultimate parent undertaking, Transat A.T. Inc was repaid on 27 March 2020. Interest accrued at a rate equal to the LIBOR 12 month rate applicable on the draw down date, plus 370 basis points per annum and was payable annually at each anniversary date.

15. Obligations under leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2020	2019
	£	£
Not later than one year	303,234	309,753
Later than one year and not later than five years	1,023,465	1,059,749
Later than five years	656,663	948,513
	1,983,362	2,318,015

The lease payment recognised as expenses in FY20 is £248,182 (FY19 £278,129).

16. Provisions for liabilities

	Deferred tax	*Dilapidation accrual*	*Total*
	£	£	£
At 1 November 2019	31,354	90,590	121,944
Utilised in the year	(7,298)	-	(7,298)
Provided during the year	-	1,126	1,126
At 31 October 2020	24,056	91,716	115,772

(i) The deferred tax provision reflects the expected amount that will unwind.

(ii) The dilapidation accrual reflects the present value of the expected cost to make good leasehold property upon expiry of the lease in 2028.

17. Allotted and issued share capital

	2020	2019
Allotted, called up and fully paid	£	£
123,450 'A' ordinary shares of £1 each	123,450	123,450

The 'A' Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights.

18. Dividends and other appropriations

	2020	2019
Declared and paid during the year	£	£
Equity dividends on ordinary shares:		
Interim fŏr 2020: £0.00 (2019 : £0.00)	-	-
	-	-

19. Reserves

	2020	2019
	£	£
Share Premium Account - as at 31 October	7,956,550	7,956,550

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

20. Guarantees

The company has granted a charge to its bank over bank deposits totalling £3,262,724 (2019 £2,743,939) in connection with certain letters of credit and guarantees given by the bank on behalf of the company. Funds are held in separate accounts, the use of which is restricted.

The company together with the parent undertaking and two companies under common control are jointly and severally guarantors of the revolving credit facilities amounting to CAD $300 million. As at 31 October 2020, CAD $250 million of the revolving credit facilities remained unused.

21. Events after the reporting period

There have been no material events since the statement of financial position.

22. Transactions with directors

The following advances and credits to directors subsided during the years ended 31 October 2020 and 31 October 2019

Mr Chris Hedley	2020	2019
	£	£
Balance outstanding at start of year	1,205	1,168
Amounts advanced	-	2,892
Amounts repaid	(1,205)	(2,855)
Balance outstanding at end of year	-	1,205

The above loan to Mr Chris Hedley is an interest free, unsecured advance, repayable over a 12 month period.

23. Related party disclosures

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. There were no transactions undertaken with related parties that are not wholly owned by the Transat Inc. group.

24. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Transat Europe Ltd, a company incorporated in England and Wales.

The ultimate parent undertaking and controlling party of the company is Transat A.T. Inc, incorporated in Canada. This also represents both the largest and smallest group of which the company is a member, and for which group financial statements are prepared. Copies of the financial statements can be obtained from Place du Parc, 300 rue Leo-Pariseau, Bureau 600, Montreal (Quebec), H2X 4C2.