TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2013

March 13, 2013

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Trading symbols
TSX: TRZ.B, TRZ.A

MANAGEMENT'S DISCUSSION & 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, 2013, compared with the quarter ended January 31, 2012, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2012 and the accompanying notes and the 2012 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 2012 Annual Report. The risks and uncertainties set out in the MD&A of the 2012 Annual Report are herein incorporated by reference and remain unchanged. The information contained herein is dated as of March 13, 2013. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended January 31, 2013 and Annual Information Form for the year ended October 31, 2012.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. 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, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, statutory changes, adverse regulatory developments or procedures, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

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 Corporation made a number of assumptions in making forward-looking statements in this MD&A such as certain economic, market, operational and financial assumptions and assumptions about transactions and forward-looking statements.

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 expects second-quarter results to outpace year-over-year performance.

In making these statements, the Corporation has assumed that pricing trends will hold firm through to season-end, that bookings will continue to track reported trends, that fuel prices, costs and the Canadian dollar relative to European currencies and the U.S. dollar will remain stable, that credit facilities will remain available as in the past and that management will continue to manage changes in cash flows to fund working capital requirements. 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 the assumptions on which these forward-looking statements are based to be reasonable.

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

NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. We occasionally use non-IFRS financial 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. The non-IFRS measures used by the Corporation are as follows:

Margin before depreciation and amortization (operating loss before depreciation and amortization)	Gross margin (operating loss) before depreciation and amortization expense.
Adjusted income (adjusted loss)	Pre-tax income (loss) before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary, impairment of goodwill and restructuring charge (gain).
Adjusted after-tax income (adjusted after-tax loss)	Net income (loss) attributable to shareholders before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary and restructuring charge (gain), net of related taxes.
Adjusted after-tax income (adjusted after-tax loss) per share	Adjusted after-tax 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 off-balance sheet arrangements, excluding agreements with service providers.
Total net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

The above-described financial measures have no prescribed meaning under IFRS and are therefore unlikely to be comparable to similar measures reported by other issuers or those used by financial analysts. They are furnished to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures. Management believes that readers of our MD&A use these measures, or a subset thereof, to analyze the Corporation's results, its financial performance and its financial position.

In addition to IFRS financial measures, management uses margin before depreciation and amortization (operating loss before depreciation and amortization), adjusted income (adjusted loss) and adjusted after-tax income (adjusted after-tax loss) to measure the Corporation's ongoing and recurring operational performance. Management considers these measures important as they exclude from results items that arise mainly from long-term strategic decisions, reflecting instead the Corporation's day-to-day operating performance. Management believes these measures to be useful in assessing the Corporation's capacity to discharge its financial obligations.

Management also uses total debt and total net debt to assess the Corporation's debt level, cash position, future cash needs and financial leverage ratio. Management believes these measures to be useful in gauging the Corporation's financial leveraging.

The following table reconciles the non-IFRS financial measures to the most comparable IFRS financial measures:

(in thousands of Canadian dollars, except per share amounts)	Quarters ended October 31	
	2013 $	2012 $
Gross margin (operating loss)	(29,936)	(41,747)
Amortization	8,919	9,908
Margin before depreciation and amortization (operating loss before depreciation and amortization)	(21,017)	(31,839)
Loss before income tax expense	(20,142)	(40,053)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,796)	(1,622)
Loss on investments in ABCP	—	780
Adjusted loss	(28,938)	(40,895)
Net loss attributable to shareholders	(15,137)	(29,489)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,796)	(1,622)
Loss on investments in ABCP	—	780
Tax impact	2,369	390
Adjusted after-tax loss	(21,564)	(29,941)
Adjusted after-tax loss	(21,564)	(29,941)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,323	38,054
Adjusted after-tax loss per share	(0.56)	(0.79)

	As at January 31, 2013 $	As at October 31, 2012 $
Off-balance sheet arrangements, excluding agreements with service providers	531,629	557,133
Total debt	531,629	557,133
Total debt	531,629	557,133
Cash and cash equivalents	(247,877)	(171,175)
Investments in ABCP	—	(27,350)
Total net debt	283,752	358,608

FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
(in thousands of dollars, except per share amounts)	2013 $	2012 $	Difference $	Difference %
Consolidated Statements of Loss				
Revenues	805,714	829,296	(23,582)	(2.8)
Margin before depreciation and amortization (operating loss before depreciation and amortization)[1]	(21,017)	(31,839)	10,822	34.0
Net loss attributable to shareholders	(15,137)	(29,489)	14,352	48.7
Basic loss per share	(0.39)	(0.77)	0.38	49.4
Diluted loss per share	(0.39)	(0.77)	0.38	49.4
Adjusted after-tax loss[1]	(21,564)	(29,941)	8,377	28.0
Adjusted after-tax loss per share	(0.56)	(0.79)	0.23	29.1
Consolidated Statements of Cash Flows				
Operating activities	61,374	50,738	10,636	21.0
Investing activities	14,712	(14,362)	29,074	202.4
Financing activities	258	(2,262)	2,520	111.4
Effect of exchange rate changes on cash and cash equivalents	358	(1,715)	2,073	120.9
Net change in cash and cash equivalents	76,702	32,399	44,303	136.7

	As at January 31, 2013 $	As at October 31, 2012 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	247,877	171,175	76,702	44.8
Cash and cash equivalents in trust or otherwise reserved (current)	407,153	331,172	75,981	22.9
Investments in ABCP	—	27,350	(27,350)	(100.0)
	655,030	529,697	125,333	23.7
Total assets	1,395,881	1,163,301	232,580	20.0
Debt	—	—	—	—
Total debt[1]	531,629	557,133	(25,504)	(4.6)
Total net debt[1]	283,752	358,608	(74,856)	(20.9)

[1]SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

CORE BUSINESS

Transat is one of the largest fully integrated tour operators in the world. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them primarily in Canada, France, the U.K. and ten other European countries, mainly through intermediaries, as part of a multichannel distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat offers destination services to Canada, Mexico, Dominican Republic and Greece. Transat holds an interest in a hotel business that owns and operates properties in Mexico and the Dominican Republic.

VISION

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

To deliver on its vision, the Corporation intends to continue: deriving synergies from its vertical integration model, which distinguishes it from several of its rivals; growing its market share in France, where it ranks among the largest tour operators; and tapping into new markets or expanding operations in markets not yet fully served. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

With regard to vertical integration, the key growth driver is its multichannel distribution, which Transat will continue developing by expanding its physical market presence and by investing in technological solutions to better the increasingly varied expectations of consumers.

Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure to improve its gross margin and maintain or grow market share in all its markets. Cost management remains a core strategic issue in light of the tourism industry's slim gross margins.

Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. This phenomenon, heightened by the anticipated growth in tourism and air travel, manifests itself in various ways, particularly through regulations and tariffs on greenhouse gas emissions and higher customer and investor expectations in this area. Given this trend and the vested interest tourism companies have in seeing the environment protected and destination communities remaining amenable to tourism, Transat undertook to adopt avant-garde policies on corporate responsibility and sustainable tourism. In doing so, the Corporation targets, among other things, the following benefits: lower resource consumption, with the associated cost savings; brand differentiation and greater customer loyalty, potentially boosting our commercial benefits; and enhanced employee loyalty and motivation.

For fiscal 2013, Transat has set the following targets:

- **Optimize financial performance and market strategy.** Measures include optimizing the aircraft fleet and the hotel portfolio in sun destinations, controlling and reducing certain costs, continuing IT upgrade projects, managing revenues and increasing controlled sales.
- **Enhance product and customer experience.** Measures include developing a distinctive hotel product in sun destinations, expanding the offering, continuing the fleet modernization program and improving performance in customer relations centres.
- **Increase organizational efficiency and implement a vision focused on customers and sustainable development.** Measures include implementing a customer experience enhancement program, upgrading the human resource programs concerned and continuing the sustainable development program launched in 2007.

Our key performance drivers are market share, and growth in revenues and margin before amortization, which are essential to successfully implement our strategy and meet our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives. Our financial resources consist primarily of cash not held in trust or otherwise reserved and the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended January 31			
	2013	2012	Difference	Difference
(in thousands of dollars)	$	$	$	%
Americas	690,717	700,837	(10,120)	(1.4)
Europe	114,997	128,459	(13,462)	(10.5)
	805,714	829,296	(23,582)	(2.8)

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

Revenues were down $23.6 million for the quarter ended January 31, 2013 compared with the same period of fiscal 2012, owing primarily to our decision to reduce our offering in our markets. During the quarter, total travellers fell 12.6%. However, the decrease in revenues for the quarter was offset by higher selling prices and $32.6 million in revenues generated by Vacances Tours Mont-Royal ("TMR"), acquired on February 1, 2012, at the beginning of the second quarter of fiscal 2012.

OPERATING EXPENSES

	Quarters ended January 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %
Cost of providing tourism services	498,920	494,126	4,794	1.0
Salaries and employee benefits	82,365	95,114	(12,749)	(13.4)
Aircraft fuel	66,225	88,991	(22,766)	(25.6)
Commissions	42,881	40,071	2,810	7.0
Aircraft maintenance	20,752	27,569	(6,817)	(24.7)
Aircraft rent	20,419	19,882	537	2.7
Airport and navigation fees	15,374	17,974	(2,600)	(14.5)
Other	79,795	77,408	2,387	3.1
Depreciation and amortization	8,919	9,908	(989)	(10.0)
Total	835,650	871,043	(35,393)	(4.1)

Total operating expenses were down $35.4 million (4.1%) for the quarter compared with the same period of fiscal 2012, resulting primarily from our decision to reduce our offering in our markets. Compared with the corresponding period of the previous fiscal year, two Airbus A310 aircraft were retired from our fleet (in the first quarter of fiscal 2012, two Airbus A330s were gradually added to the fleet). Operating expenses, primarily comprising the cost of providing tourism services, reflect increases following the February 1, 2012 acquisition of TMR.

As a result, operating expenses for the quarter were down 3.0% and 9.5% in the Americas and Europe, respectively.

COST OF PROVIDING TOURISM SERVICES

The costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with the corresponding period of the previous fiscal year, the cost of providing tourism services was up $4.8 million (1.0%). This increase arose in part from additional costs arising from the acquisition of TMR, higher hotel room costs and, to a lesser extent, changes in the categories of products sold.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employees benefits for the quarter were down $12.7 million (13.4%) year over year, due mainly to the sale of our Handlex subsidiary and, to a lesser extent, to our reduced offering.

AIRCRAFT FUEL

Aircraft fuel expense for the quarter fell $22.8 million (25.6%) from the first quarter of fiscal 2012. This decline stemmed primarily from a drop in flight hours logged by our aircraft fleet, but also from lower fuel prices compared with the corresponding period a year ago.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the first quarter rose $2.8 million (7.0%) compared with the same period of fiscal 2012. As a percentage of revenues, commissions were higher, representing 5.3% of first-quarter revenues, compared with 4.8% for the same period a year earlier. This increase resulted primarily from the redefinition of the commission program at the Corporation's travel agencies to include fuel surcharges and service fees for package reservations of certain brands of the Corporation in the amounts on which commissions are calculated.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs, consisting mainly of engine and airframe maintenance expenses incurred by Air Transat, were down $6.8 million (24.7%) for the first quarter compared with a year ago. This decrease resulted primarily from the drop in flight hours logged by our fleet.

AIRCRAFT RENT

Aircraft rent rose $0.5 million (2.7%) for the first quarter, year over year.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees, consisting mainly of fees charged by airports and air traffic control entities, were down $2.6 million (14.5%) for the quarter ended January 31, 2013 compared with the same period a year earlier, in line with our fleet's reduced number of flights.

OTHER

Other expenses for the first quarter were up $2.4 million (3.1%) from the corresponding period of fiscal 2012, owing mainly to higher other air costs resulting from the June 2012 sale our subsidiary Handlex, given that we now have to purchase these services from a third party.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization include the depreciation of property, plant and equipment and the amortization of intangible assets subject to amortization and deferred incentive benefits. Depreciation and amortization expense for the first quarter was down $1.0 million from the corresponding period of fiscal 2012, due to additions to property, plant and equipment and intangible assets over the past few years that are amortizable over longer periods.

GROSS MARGIN (OPERATING LOSS)

In light of the foregoing, the Corporation recorded an operating loss for the first quarter of $29.9 million (3.7%) compared with an operating loss of $41.7 million (5.0%) for the same period a year earlier. The narrowing in our operating loss was driven primarily by higher average selling prices.

We reported an operating loss before amortization for the first quarter of $21.0 million (2.6%) compared with an operating loss before amortization of $31.8 million (3.8%) for the same period of 2012. The narrowing in our operating loss resulted primarily from higher average selling prices.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended January 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %
Revenues	690,717	700,837	(10,120)	(1.4)
Operating expenses	706,988	728,908	(21,920)	(3.0)
Gross margin (operating loss)	(16,271)	(28,071)	11,800	42.0

First-quarter revenues at our North American subsidiaries from sales in Canada and abroad were down $10.1 million (1.4%) year over year, owing mainly to our decision to reduce capacity for sun destinations and transatlantic routes. As a result, total travellers were down 10.8%. However, the decrease in revenues for the quarter was curbed by higher selling prices and $32.6 million in revenues generated by TMR. The Corporation reported an operating loss for the quarter of $16.3 million (2.4%) compared with $28.1 million (4.0%) year over year. The narrowing in our operating loss was driven primarily by higher average selling prices and cost reduction initiatives.

We reported an operating loss before depreciation and amortization for the first quarter of $8.3 million compared with $19.1 million year over year.

EUROPE

	Quarters ended January 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %
Revenues	114,997	128,459	(13,462)	(10.5)
Operating expenses	128,662	142,135	(13,473)	(9.5)
Gross margin (operating loss)	(13,665)	(13,676)	11	0.1

Revenues for the first quarter at our European subsidiaries from sales in Europe and Canada were down $13.5 million (10.5%) from the same period of fiscal 2012, owing mainly to our decision to reduce capacity. Traveller volumes for the quarter were down 11.5% compared a year earlier, while average selling prices were higher. Our European operations reported a first-quarter operating loss of $13.7 million (11.9%) compared with $13.7 million (10.6%) for the same period of fiscal 2012.

The operating loss before depreciation and amortization for the first quarter stood at $12.7 million compared with $12.7 million for the same period of fiscal 2012.

OTHER EXPENSES (REVENUES)

	Quarters ended January 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %
Financing costs	668	504	164	32.5
Financing income	(1,825)	(1,837)	12	0.7
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,796)	(1,622)	(7,174)	(442.3)
Foreign exchange loss (gain) on long-term monetary items	6	(156)	162	103.8
Loss on investments in ABCP	—	780	(780)	(100.0)
Share of net loss of an associate	153	637	(484)	(76.0)

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Financing costs for the first quarter rose $0.2 million from a year ago.

FINANCING INCOME

Financing income for the first quarter was comparable to the year-over-year level.

CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS USED FOR AIRCRAFT FUEL PURCHASES

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents 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 fuel price instability. For the first quarter, the fair value of derivative financial instruments used for aircraft fuel purchases rose $8.8 million compared with $1.6 million a year earlier.

FOREIGN EXCHANGE LOSS (GAIN) ON LONG-TERM MONETARY ITEMS

Foreign exchange gains and losses on long-term monetary items result mainly from the exchange effect on foreign currency deposits. For the first quarter, the Corporation posted an insignificant foreign exchange loss on long-term monetary items compare with a $0.2 million foreign gain in the corresponding period of fiscal 2012.

Loss (gain) on investments in ABCP

The gain/loss on investments in ABCP reflects the change in fair value of investments in ABCP during the period. During the fiscal quarter ended January 31, 2013, the Corporation sold all of its investments in ABCP. The transaction triggered neither a gain nor a loss. In the first quarter of fiscal 2012, the Corporation reported a $0.8 million loss on investments in ABCP (see *Investments in ABCP* for further details).

Share of net loss of an associate

Our share of net loss of an associate represents our share of the net loss of our hotel business, Caribbean Investments B.V. ["CIBV"]. Transat reported a share of net loss for the first quarter amounting to $0.2 million compared with $0.6 million for the corresponding quarter of fiscal 2012. The narrowing in the share of net loss resulted from an improved operating profitability compared with the same period last year.

Income taxes

Income tax recoveries for the first quarter totalled $6.2 million compared with $11.5 million for the corresponding period a year earlier. Excluding the share in net loss of an associate, the effective tax rate stood at 31.0% for the first quarter and 29.1% for the same period of fiscal 2012. The change in tax rates for the first quarter resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

Net loss and net loss attributable to shareholders

In light of the items discussed in *Consolidated operations*, net loss for the quarter ended January 31, 2013 amounted to $13.9 million compared with $28.6 million a year earlier. Net loss attributable to shareholders for the quarter stood at $15.1 million or $0.39 per share (basic and diluted) compared with $29.5 million or $0.77 per share (basic and diluted) year over year. The weighted average number of outstanding shares used to compute per share amounts for the first quarter was 38,323,000 compared with 38,054,000 for the corresponding period of fiscal 2012.

Adjusted after-tax loss for the first quarter stood at $21.6 million ($0.56 per share) compared with $29.9 million ($0.79 per share) one year ago.

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. Overall, revenues are up for the winter season and down for the summer season (compared with the quarters for corresponding periods in previous fiscal years). Overall, average selling prices rise during the winter season when traveller volumes rise, and decline during the summer season. Margins have fluctuated from quarter to quarter, mainly due to competitive price pressures. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

(in thousands of dollars, except per share data)	Q2-2011 $	Q3-2011 $	Q4-2011 $	Q1-2012 $	Q2-2012 $	Q3-2012 $	Q4-2012 $	Q1-2013 $
Revenues	1,101,109	936,974	805,930	829,296	1,212,426	909,056	763,441	805,714
Margin (operating loss)	(1,756)	3,936	6,227	(41,747)	(36,320)	12,498	41,731	(29,936)
Margin before depreciation and amortization (operating loss before depreciation and amortization)	9,299	14,736	16,984	(31,839)	(26,226)	22,074	52,946	(21,017)
Net income (loss)	10,095	(2,567)	(6,655)	(28,580)	(11,774)	9,664	17,154	(13,940)
Net income (loss) attributable to shareholders	8,715	(2,782)	(7,266)	(29,489)	(13,199)	9,405	16,614	(15,137)
Basic earnings (loss) per share	0.23	(0.07)	(0.19)	(0.77)	(0.35)	0.25	0.43	(0.39)
Diluted earnings (loss) per share	0.23	(0.07)	(0.19)	(0.77)	(0.35)	0.25	0.43	(0.39)
Adjusted after-tax income (loss)	(576)	2,849	7,343	(29,941)	(24,536)	10,521	28,684	(21,564)
Adjusted after-tax income (loss) per share	(0.02)	0.07	0.19	(0.79)	(0.64)	0.28	0.75	(0.56)

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2013, cash and cash equivalents totalled $247.9 million compared with $171.2 million as at October 31, 2012. As at the end of the fiscal quarter of fiscal 2013, cash and cash equivalents held in trust or otherwise reserved amounted to $446.2 million compared with $370.3 million as at October 31, 2012. The Corporation's statement of financial position reflects working capital of $15.6 million and a ratio of 1.0 compared with a working capital deficiency of $1.2 million and a ratio of 1.0 as at October 31, 2012.

Total assets grew $232.6 million (20.0%) to $1,395.9 million as at January 31, 2013 from $1,163.3 million as at October 31, 2012. This increase was generated by a $76.7 million increase in cash and cash equivalents (including $27.4 million from the sale of investments in ABCP), $75.9 million in cash and cash equivalents in trust or otherwise reserved and $79.3 million in prepaid expenses. These changes reflect the seasonal nature of our operations. The Corporation recorded a $15.3 million decline in equity to $351.0 million as at January 31, 2013 from $366.3 million as at October 31, 2012. owing primarily to the $15.1 million net loss attributable to shareholders.

CASH FLOWS

	Quarters ended January 31		
(in thousands of dollars)	2013 $	2012 $	Difference $
Cash flows related to operating activities	61,374	50,738	10,636
Cash flows related to investing activities	14,712	(14,362)	29,074
Cash flows related to financing activities	258	(2,262)	2,520
Effect of exchange rate changes on cash	358	(1,715)	2,073
Net change in cash and cash equivalents	76,702	32,399	44,303

OPERATING ACTIVITIES

Cash flows generated by operating activities in the first quarter amounted to $61.4 million compared with $50.7 million for the corresponding period of fiscal 2012. The $10.6 million increase from the year-over-year quarter resulted from improved profitability, which was offset by a $2.6 million decrease reflected in the net change in provision for overhaul of leased aircraft and a $1.0 million increase reflected in the net change in non-cash working capital balances related to operations.

INVESTING ACTIVITIES

Operating activities in the first quarter generated cash inflows totalling $14.7 million, representing a $29.1 million favourable difference from the $14.4 million in cash outflows recorded in the same period of fiscal 2012. We received $27.4 million during the quarter following the sale of investments in ABCP. Capital expenditures and investments in other intangible assets totalled $12.6 million, down $2.4 million from $15.1 million for the first quarter of fiscal 2012.

FINANCING ACTIVITIES

Cash flows generated by financing activities in the first quarter amounted to $0.3 million compared with $2.3 million in cash flows used in the year-over-year period. This positive difference resulted primarily from a lack, in the first quarter of fiscal 2013, of dividends paid to a non-controlling interest compared with $2.6 million for the corresponding period of fiscal 2012.

FINANCING

As at January 31, 2013, the Corporation had several types of financing, consisting primarily of a revolving term credit facilities as well as lines of credit for issuing letters of credit.

The Corporation has a $50.0 million revolving term credit facility for its operations, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and will be further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rates, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreement require the Corporation to comply with certain financial criteria and ratios. As at January 31, 2013, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation has a $60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at January 31, 2013, $52.5 million had been drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$15.6 million].

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 liquidity, some of which are reflected as liabilities in the notes to the unaudited interim condensed consolidated financial statements.

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

- Guarantees
- Operating leases

Estimated off-balance sheet debt, excluding agreements with service providers, amounted to approximately $531.6 million as at January 31, 2013 ($557.1 million as at October 31, 2012) and is detailed as follows:

(in thousands of dollars)	As at January 31, 2013 $	As at October 31, 2012 $
Guarantees		
Irrevocable letters of credit	26,155	25,118
Collateral security contracts	1,100	1,108
Operating leases		
Commitments under operating leases	504,374	530,907
	531,629	557,133

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

In addition, the Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at January 31, 2013, $21.1 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its French operations, the Corporation has guarantee lines of credit amounting to €11.2 million [$15.2 million], of which €3.8 million had been drawn down [$5.0 million].

As at January 31, 2013, off-balance sheet arrangements were down $25.5 million following repayments made during the year.

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 LEVELS

The Corporation's debt levels as at January 31, 2013 were no higher than as at October 31, 2012.

The Corporation did not report any debt on its statement of financial position while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, decreased $25.5 million to $531.6 million as at January 31, 2013 from $557.1 million as at October 31, 2012, collectively representing a $25.5 million decrease in total debt compared with October 31, 2012. The decline in total debt resulted from repayments during the first quarter of fiscal 2013.

Net of cash and cash equivalents and investments in ABCP, total net debt as at January 31, 2013 totalled $283.8 million, down $74.9 million from $358.6 million as at October 31, 2012.

OUTSTANDING SHARES

As at January 31, 2013, 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 January 31, 2013, there were 856,359 Class A Variable Voting Shares outstanding and 37,491,242 Class B Voting Shares outstanding.

STOCK OPTIONS

As at March 13, 2013, there were a total of 2,938,517 stock options outstanding, 885,755 of which were exercisable.

INVESTMENTS IN ABCP

On November 9, 2012, the Corporation sold its ABCP for a total consideration of $27.4 million.

Changes in balances of investments in ABCP in the statement of financial position and the composition of loss (gain) on investments in ABCP in the consolidated statement of net loss are summarized as follows:

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2011	116,414	(37,663)	78,751	
Increase in value of investments in ABCP	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012 / Impact on results for the period ended January 31, 2012	115,702	(38,443)	77,259	780
Increase in value of investments in ABCP	—	8,716	8,716	(8,716)
Principal repayments	(1,177)	—	(1,177)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Balance as at October 31, 2012 / Impact on results for the period ended October 31, 2012	34,525	(7,175)	27,350	(7,936)
Disposal of investments in ABCP	(34,525)	7,175	(27,350)	—
Balance as at January 31, 2013 / Impact on results for the period ended January 31, 2013	—	—	—	—

At the beginning of the ABCP crisis in 2007, the Corporation held ABCP with a notional amount of $154.5 million. Of that amount, $121.7 million was recovered, or 78.7%.

OTHER

FLEET

During three-month period ended January 31, 2013, two A310 aircraft were retired from the fleet. Air Transat's fleet currently consists of 9 Airbus A310 aircraft (249 seats), which will be gradually retired, and 12 Airbus A330 (342 seats).

FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards and has yet to determine the impact of adopting these standards on the consolidated financial statements.

IFRS 9, *FINANCIAL INSTRUMENTS*

In October 2010, the IASB issued IFRS 9, *Financial Instruments*, which represents the completion of the first of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The first phase addressed the classification and measurement of financial assets and financial liabilities, whereas the next two phases will cover impairment of financial assets and hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Under the new requirements, an entity choosing to measure a liability at fair value must present the portion of the change in fair value attributable to changes in credit risk related to equity in other comprehensive income (loss), rather than within the statement of income (loss). IFRS 9 will be effective for the Corporation's fiscal years beginning on or after November 1, 2015, with earlier adoption permitted.

IFRS 10, *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation: Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 12, *Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 13, *Fair Value Measurement*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IAS 1, *Presentation of Financial Statements*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income (loss) that may be reclassified to the statement of income (loss). The amendments also reaffirm existing requirements that items in other comprehensive income (loss) and net income (loss) should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective for the Corporation's fiscal years beginning on or after November 1, 2012, with earlier adoption permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment, as the items within other comprehensive income (loss) that may be reclassified to the statement of income (loss) are already grouped together.

IAS 19, *Employee Benefits*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which will improve comparability and faithfulness of presentation. The amendments will also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (loss), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures (DC&P) and the design of internal control over financial reporting (ICFR).

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission on Internal Control – Integrated Framework and in connection with the preparation of its interim financial report and management's discussion and analysis, the two certifying officers consider the design of DC&P and ICFR to be adequate for the Corporation's interim reporting for the interim period ended January 31, 2013.

AMENDMENT OF ICFR

As disclosed in the Corporation's 2012 Annual Report, an accounting error for a foreign subsidiary of the Corporation representing 5% of Transat's consolidated revenues required the Corporation to restate its financial statements for the fiscal year ended October 31, 2011. Accordingly, as defined in National Instrument 52-109, a material weakness was reported in the design and effectiveness of ICFR. Subsequent to this event, remedial actions were decided on and implemented to rectify this material weakness and also to strengthen the Corporation's DC&P and ICFR, particularly as follows:

- Key items in the subsidiary's balance sheet have been reviewed and validated by a senior financial executive at head office.
- The subsidiary's period-end financial statement close process was reviewed. Specifically, controls over the creation, authorization, recording and processing of transactions and journal entries were strengthened.
- The subsidiary's information technology controls were reviewed and validated.
- The primary reporting relationship of the subsidiary's director of finance to the office of the chief financial officer at head office was strengthened.
- Internal Audit ensured the existence and effectiveness of the new remedial actions, as described.

Lastly, excluding the remedial action put in place in this subsidiary, based on our assessment, no significant changes in ICFR occurred during the first quarter ended January 31, 2013 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

OUTLOOK

The Canadian sun destinations market accounts for a very significant portion of Transat's business in the winter. For that market, Transat's capacity in the second quarter is approximately 10% inferior than last year, load factors are inferior, selling prices are higher.

On the transatlantic market, on which it is low-season, capacity is 18% inferior to the previous year, load factors are similar and selling prices are higher.

In France, where it is also low-season, medium-haul bookings are similar to last year, and long-haul bookings are 7% inferior (based on the Corporation's decision to reduce capacity). Selling prices are slightly higher on both market segments.

To the extent the aforementioned trends hold, Transat expects better results than last year for its second quarter.

On the transatlantic market, for the summer, Transat's capacity is down by 11% compared with 2012. Load factors are similar and selling prices are higher. In France, compared with last year at the same date, bookings are slightly lower and selling prices are similar.

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

(in thousands of Canadian dollars) (unaudited)	As at January 31, 2013 $	As at October 31, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents	247,877	171,175
Cash and cash equivalents in trust or otherwise reserved *[note 6]*	407,153	331,172
Trade and other receivables	118,350	111,525
Income taxes receivable	23,870	14,690
Inventories	11,683	11,469
Prepaid expenses	136,562	57,234
Derivative financial instruments	11,860	7,460
Current portion of deposits	23,911	12,968
Current assets	981,266	717,693
Cash and cash equivalents reserved	39,065	39,119
Investments in ABCP *[note 7]*	—	27,350
Deposits	24,139	30,735
Deferred tax assets	22,509	24,338
Property, plant and equipment	103,219	96,415
Goodwill	92,513	91,494
Intangible assets	64,052	66,531
Investments and other assets *[note 8]*	69,118	69,626
Non-current assets	414,615	445,608
	1,395,881	1,163,301
LIABILITIES		
Trade and other payables	351,866	307,219
Current portion of provision for overhaul of leased aircraft *[note 9]*	14,848	19,513
Income taxes payable	2,115	932
Customer deposits and deferred income	591,969	382,823
Derivative financial instruments	4,847	8,416
Current liabilities	965,645	718,903
Provision for overhaul of leased aircraft *[note 9]*	11,425	12,356
Other liabilities *[note 11]*	54,991	54,448
Deferred tax liabilities	12,811	11,268
Non-current liabilities	79,227	78,072
EQUITY		
Share capital *[note 12]*	220,994	220,736
Share-based payment reserve	13,872	13,336
Retained earnings	130,061	145,198
Unrealized gain (loss) on cash flow hedges	(1,060)	(475)
Cumulative exchange differences	(12,858)	(12,469)
	351,009	366,326
	1,395,881	1,163,301

See accompanying notes to interim condensed consolidated financial statements

NOTICE

The Corporation's independent auditors have not performed a review of the accompanying interim condensed consolidated financial statements in accordance with the Canadian Institute of Chartered Accountants' standards for a review of interim financial statements by the auditors.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended January 31, 2013 $	2012 $
Revenues	805,714	829,296
Operating expenses		
Cost of providing tourism services	498,920	494,126
Salaries and employee benefits	82,365	95,114
Aircraft fuel	66,225	88,991
Commissions	42,881	40,071
Aircraft maintenance	20,752	27,569
Aircraft rent	20,419	19,882
Airport and navigation fees	15,374	17,974
Other	79,795	77,408
Depreciation and amortization	8,919	9,908
	835,650	871,043
Gross margin (operating loss)	(29,936)	(41,747)
Financing costs	668	504
Financing income	(1,825)	(1,837)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,796)	(1,622)
Foreign exchange loss (gain) on long-term monetary items	6	(156)
Loss on investments in ABCP *[note 7]*	—	780
Share of net loss of an associate	153	637
Loss before income tax expense	(20,142)	(40,053)
Income taxes (recovery)		
Current	(10,391)	(9,100)
Deferred	4,189	(2,373)
	(6,202)	(11,473)
Net loss	(13,940)	(28,580)
Net loss attributable to:		
Shareholders	(15,137)	(29,489)
Non-controlling interests	1,197	909
	(13,940)	(28,580)
Loss per share attributable to shareholders *[note 12]*		
Basic	(0.39)	(0.77)
Diluted	(0.39)	(0.77)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended January 31,	
	2013	2012
(in thousands of Canadian dollars, except per share amounts) (unaudited)	$	$
Net loss for the period	(13,940)	(28,580)
Other comprehensive income (loss)		
Items that will be reclassified to net loss		
Change in fair value of derivatives designated as cash flow hedges	(106)	(597)
Reclassification to net loss	(839)	973
Deferred taxes	360	(154)
	(585)	222
Foreign exchange losses on translation of financial statements of foreign subsidiaries	(389)	(1,798)
Total other comprehensive loss	(974)	(1,576)
Comprehensive loss for the period	(14,914)	(30,156)
Attributable to:		
Shareholders	(16,100)	(31,069)
Non-controlling interests	1,186	913
	(14,914)	(30,156)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Attributable to shareholders			Accumulated other comprehensive income (loss)				
(in thousands of Canadian dollars) (unaudited)	Share capital $	Share-based payment reserve $	Retained earnings $	Unrealized gain (loss) on cash flow hedges $	Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at October 31, 2011	219,462	11,063	161,726	1,948	(9,958)	384,241	—	384,241
Net income (loss) for the period	—	—	(29,489)	—	—	(29,489)	909	(28,580)
Other comprehensive income (loss)	—	—	—	222	(1,802)	(1,580)	4	(1,576)
Comprehensive income (loss)	—	—	(29,489)	222	(1,802)	(31,069)	913	(30,156)
Issued from treasury	347	—	—	—	—	347	—	347
Share-based payment expense	—	499	—	—	—	499	—	499
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(909)	(909)
Reclassification of non-controlling interest exchange difference	—	—	—	—	4	4	(4)	—
	347	499	—	—	4	850	(913)	(63)
Balance as at January 31, 2012	219,809	11,562	132,237	2,170	(11,756)	354,022	—	354,022
Net income for the period	—	—	12,820	—	—	12,820	2,224	15,044
Other comprehensive income (loss)	—	—	(1,970)	(2,645)	(790)	(5,405)	77	(5,328)
Comprehensive income (loss)	—	—	10,850	(2,645)	(790)	7,415	2,301	9,716
Issued from treasury	927	—	—	—	—	927	—	927
Share-based payment expense	—	1,774	—	—	—	1,774	—	1,774
Other changes in non-controlling interest liability	—	—	2,111	—	—	2,111	(2,111)	—
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(113)	(113)
Reclassification of non-controlling interest exchange difference	—	—	—	—	77	77	(77)	—
	927	1,774	2,111	—	77	4,889	(2,301)	2,588
Balance as at October 31, 2012	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326
Net income (loss) for the period	—	—	(15,137)	—	—	(15,137)	1,197	(13,940)
Other comprehensive loss	—	—	—	(585)	(378)	(963)	(11)	(974)
Comprehensive income (loss)	—	—	(15,137)	(585)	(378)	(16,100)	1,186	(14,914)
Issued from treasury	258	—	—	—	—	258	—	258
Share-based payment expense	—	536	—	—	—	536	—	536
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(1,197)	(1,197)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(11)	(11)	11	—
	258	536	—	—	(11)	783	(1,186)	(403)
Balance as at January 31, 2013	220,994	13,872	130,061	(1,060)	(12,858)	351,009	—	351,009

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars) (unaudited)	Quarters ended January 31, 2013 $	2012 $
OPERATING ACTIVITIES		
Net loss for the period	(13,940)	(28,580)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	8,919	9,908
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,796)	(1,622)
Foreign exchange loss (gain) on long-term monetary items	6	(156)
Loss on investments in ABCP	—	780
Share of net loss of an associate	153	637
Deferred taxes	4,189	(2,373)
Employee benefits	537	521
Share-based payment expense	536	499
	(8,396)	(20,386)
Net change in non-cash working capital balances related to operations	75,351	74,336
Net change in other assets and liabilities related to operations	15	(191)
Net change in provision for overhaul of leased aircraft	(5,596)	(3,021)
Cash flows related to operating activities	61,374	50,738
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(12,638)	(15,074)
Proceeds from sale of investments in ABCP	27,350	—
Realization of principal of investments in ABCP	—	712
Cash flows related to investing activities	14,712	(14,362)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	258	347
Dividends paid to a non-controlling interest	—	(2,609)
Cash flows related to financing activities	258	(2,262)
Effect of exchange rate changes on cash and cash equivalents	358	(1,715)
Net change in cash and cash equivalents	76,702	32,399
Cash and cash equivalents, beginning of period	171,175	181,576
Cash and cash equivalents, end of period	247,877	213,975
Supplementary information (as reported in operating activities)		
Income taxes paid (recovery)	1,648	(5,578)
Interest paid	275	241

See accompanying notes to unaudited interim condensed consolidated financial statements

[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts] [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*. The Class A variable voting shares and Class B voting shares are listed on the Toronto Stock Exchange.

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2013 were approved by the Corporation's Board of Directors on March 13, 2013.

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 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 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, 2012.

These interim condensed consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities that were measured at fair value.

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards and has not yet determined the impacts of their adoption on its consolidated financial statements.

IFRS 9, *FINANCIAL INSTRUMENTS*

In October 2010, the IASB issued IFRS 9, *Financial Instruments*, which represents the completion of the first of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The first phase addressed the classification and measurement of financial assets and financial liabilities, whereas the next two phases will cover impairment of financial assets and hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Under the new requirements, an entity choosing to measure a liability at fair value must present the portion of the change in fair value attributable to changes in credit risk related to equity in other comprehensive income (loss), rather than within the statement of income (loss). IFRS 9 will be effective for the fiscal years beginning on or after November 1, 2015, with earlier adoption permitted.

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation: Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 will be effective for the fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 will be effective for the fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 13, *FAIR VALUE MEASUREMENT*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income (loss) that may be reclassified to the statement of income (loss). The amendments also reaffirm existing requirements that items in other comprehensive income (loss) and net income (loss) should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective for the Corporation's fiscal years beginning on or after November 1, 2012, with earlier adoption permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment, as the items within other comprehensive income (loss) that may be reclassified to the statement of income (loss) are already grouped together.

IAS 19, *EMPLOYEE BENEFITS*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which will improve comparability and faithfulness of presentation. The amendments will also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (loss), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

Note 4 BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5,778. TMR specializes in the sale of packages to sun destinations for Canadian travellers, including Cuba, the Dominican Republic and Mexico, for which a large portion of the flights were provided by Transat. With this acquisition, the Corporation extends its offering and services to customers in its existing markets.

The Corporation has completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. The excess of the total consideration over the fair value of net assets acquired was allocated to the trademark.

The net amounts of assets acquired and liabilities assumed are detailed as follows:

	$
Cash and cash equivalents in trust or otherwise reserved	23,976
Trade and other receivables	6,566
Prepaid expenses	11,238
Property, plant and equipment	291
Intangible assets	4,483
Trade and other payables	(7,766)
Customer deposits and deferred revenues	(33,827)
Net assets at fair value	4,961
Cash and cash equivalents of acquired business	817
Total consideration	5,778

The results of the acquired business have been consolidated as of the date of acquisition. For the year ended October 31, 2012, TMR generated revenues of $97,241 (nil for the quarter ended January 31, 2012) with a pre-tax loss of $5,372 (nil for the quarter ended January 31, 2012), which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated loss would have included additional revenues of $37,200 and a pre-tax loss of $863.

Note 5 DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex, which provides airport ground-handling services at Montréal, Toronto and Vancouver international airports, to Servisair Holding Canada Inc. for a total consideration of $9,000, of which $6,000 is receivable in two equal annual payments. The balance of sale price receivable bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation. The carrying amount of the net assets disposed of on June 12, 2012 amounted to $3,345, which gave rise to a $5,655 gain on disposal of a subsidiary. The transaction did not trigger any tax expense, as the Corporation used unrecognized capital losses to eliminate the taxation of the capital gain realized on the transaction. The transaction includes a service agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operating hubs.

The carrying value of net assets sold is detailed as follows:

	$
Cash and cash equivalents	890
Trade and other receivables	3,277
Income taxes receivable	598
Inventories	395
Prepaid expenses	506
Property, plant and equipment	3,910
Intangible assets	297
Trade and other payables	(6,333)
Deferred tax liabilities	(195)
Net assets sold	3,345

Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at January 31, 2012, cash and cash equivalents in trust or otherwise reserved included $349,177 [$288,789 as at October 31, 2012] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulators and the Corporation's business agreement with one of its credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $97,041, of which $39,065 was recorded as non-current assets, [$81,502 as at October 31, 2012, of which $39,119 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 INVESTMENTS IN ABCP

On November 9, 2012, the Corporation sold its ABCP for a total consideration of $27,350.

The following table details the change in balances of investments in ABCP in the consolidated balance sheet and the composition of loss (gain) on investments in ABCP in the consolidated statement of income (loss):

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2011	116,414	(37,663)	78,751	
Increase in value of investments in ABCP	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012 / Impact on results for the period ended January 31, 2012	115,702	(38,443)	77,259	780
Increase in value of investments in ABCP	—	8,716	8,716	(8,716)
Principal repayments	(1,177)	—	(1,177)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Balance as at October 31, 2012 / Impact on results for the period ended October 31, 2012	34,525	(7,175)	27,350	(7,936)
Disposal of investments in ABCP	(34,525)	7,175	(27,350)	—
Balance as at January 31, 2013 / Impact on results for the period ended January 31, 2013	—	—	—	—

Note 8 INVESTMENT IN ASSOCIATES AND OTHER ASSETS

	As at January 31, 2013 $	As at October 31, 2012 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	64,011	64,189
Balance of sale price receivable	3,000	3,000
Deferred costs, unamortized balance	755	793
Sundry	1,352	1,644
	69,118	69,626

The change in the investment in CIBV is detailed as follows:

	$
Balance as at October 31, 2012	64,189
Share of net loss	(153)
Exchange difference	(25)
Balance as at January 31, 2013	64,011

The balance of sale price receivable is payable on June 11, 2014, bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation.

Note 9 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The provision for overhaul of leased aircraft relates to maintenance on leased aircraft used by the Corporation in respect of operating leases. The change in the provision for overhaul of leased aircraft for the quarters ended January 31 is detailed as follows:

	$
Balance as at October 31, 2012	31,869
Additional provisions	2,234
Utilization of provisions	(7,650)
Exchange difference	(180)
Balance as at January 31, 2013	26,273
Current provisions	14,848
Non-current provisions	11,425
Balance as at January 31, 2013	26,273

	$
Balance as at October 31, 2011	33,318
Additional provisions	8,795
Utilization of provisions	(11,547)
Unused amounts released	(350)
Exchange difference	81
Balance as at January 31, 2012	30,297
Current provisions	17,269
Non-current provisions	13,028
Balance as at January 31, 2012	30,297

Note 10 LONG–TERM DEBT

The Corporation has a $50,000 revolving term credit facility for its operations, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and will be further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rates, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at January 31, 2013, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a $60,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at January 31, 2013, $52,511 had been drawn down.

Operating lines of credit totalling €11,500 [$15,609] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at January 31, 2013.

Note 11 OTHER LIABILITIES

	As at January 31, 2013 $	As at October 31, 2012 $
Employee benefits	32,316	31,961
Deferred lease inducements	18,667	19,685
Non-controlling interests	25,399	24,193
	76,382	75,839
Less non-controlling interests included in Trade and other payables	21,391	21,391
	54,991	54,448

Note 12 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

An unlimited number of participating Class A Variable Voting Shares ["Class A Shares"], which may be owned or controlled only by non-Canadians as defined by the *Canada Transportation Act* ["CTA"], carrying one vote per Class A Share unless (i) the number of issued and outstanding Class A Shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the CTA); or (ii) the total number of votes cast by or on behalf of holders of Class A Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A Share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph (i) above, the Class A Shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph (ii) above, the Class A Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without any further action on the part of the Corporation or of the holder if [i] the Class A Share is or becomes owned and 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 be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation.

Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	Amount ($)
Balance as at October 31, 2011	38,021,720	219,462
Issued from treasury	55,967	347
Balance as at January 31, 2012	38,077,687	219,809
Issued from treasury	217,981	927
Balance as at October 31, 2012	38,295,668	220,736
Issued from treasury	51,933	258
Balance as at January 31, 2013	38,347,601	220,994

As at January 31, 2013, the number of Class A Shares and Class B Shares stood at 856,359 and 37,491,242, respectively.

OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2012	2,199,810	13.99
Granted	766,620	6.01
Cancelled	(27,913)	16.66
Balance as at January 31, 2013	2,938,517	11.88
Options exercisable as at January 31, 2013	885,755	20.42

LOSS PER SHARE

Basic and diluted loss per share was computed as follows:

	Quarters ended January 31	
(in thousands of dollars, except per share data)	2013 $	2012 $
NUMERATOR		
Net loss attributable to shareholders of the Corporation used in computing basic and diluted loss per share	(15,137)	(29,489)
DENOMINATOR		
Weighted average number of outstanding shares	38,323	38,054
Effect of dilutive securities		
Stock options	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	38,323	38,054
Loss per share		
Basic	(0.39)	(0.77)
Diluted	(0.39)	(0.77)

In light of the net losses recognized for the quarters ended January 31, 2013 and 2012, the 2,938,517 and 2,416,097 outstanding stock options, respectively, were not included in the calculation of diluted loss per share because of their anti-dilutive effect.

Note 13 SEGMENTED INFORMATION

The Corporation has determined that it has a single operating segment: holiday travel. Therefore, the consolidated statements of income (loss) include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and Europe. Sales between geographic areas are accounted for at prices that take into account market conditions and other considerations.

	Quarter ended January 31, 2013		
	Americas $	Europe $	Total $
Revenues	690,717	114,997	805,714
Operating expenses	706,988	128,662	835,650
Gross margin (operating loss)	(16,271)	(13,665)	(29,936)

	Quarter ended January 31, 2012		
	Americas $	Europe $	Total $
Revenues	700,837	128,459	829,296
Operating expenses	728,908	142,135	871,043
Gross margin (operating loss)	(28,071)	(13,676)	(41,747)

	Revenues[(1)]		Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended January 31,		As at	As at
	2013 $	2012 $	January 31, 2013 $	October 31, 2012 $
Canada	677,358	684,781	177,823	174,262
France *	109,224	113,422	35,344	33,166
United Kingdom	5,326	14,718	32,176	32,984
Other	13,806	16,375	14,441	14,028
	805,714	829,296	259,784	254,440

(1) Revenues are allocated based on the subsidiary's country of domicile.

Note 14 GUARANTEES

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

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

Notes 7, 16, 19 and 25 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases expire at various dates through 2034. 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 has guaranteed a prescribed amount to its customers at the request of regulatory agencies for the performance of the obligations included in mandates by its customers during the term of the licenses 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, 2013, these guarantees totalled $1,100. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2013, no amounts have been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at January 31, 2013, $21,083 had been drawn down under the facility.

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