TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2014

September 10, 2014

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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 July 31, 2014, compared with the quarter ended July 31, 2013, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2013 and the accompanying notes and the 2013 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2013 Annual Report. The risks and uncertainties set out in the MD&A of the 2013 Annual Report are herein incorporated by reference and remain unchanged. The information contained herein is dated as of September 10, 2014. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2014 and the Annual Information Form for the year ended October 31, 2013.

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 that the weak Canadian dollar, net of the variance in fuel costs, will result in an increase in operational expenses of 3.8%, assuming that the dollar and the cost of fuel remain at their current levels.
- The outlook whereby the Corporation expects to record satisfying results in the fourth quarter, though lower than the record results posted last year.

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. In addition to IFRS financial measures, management uses non-IFRS measures to gauge the Corporation's operational performance. The non-IFRS 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 as their measures may have different definitions. The measures used by the Corporation are furnished to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

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

By excluding from results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect the Corporation's operating performance for the period, such as the change in fair value of derivative financial instruments used for aircraft fuel purchases, restructuring charges, impairment of goodwill, amortization and other significant unusual items, we believe this MD&A helps users to better analyze the Corporation's results and ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

The non-IFRS measures the Corporation uses to gauge operational performance include adjusted operating income (loss), adjusted pre-tax income (loss) and adjusted net income (loss).

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 assessing the Corporation's capacity to discharge its current and future financial obligations.

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

Adjusted operating income (loss)	Operating income (loss) before depreciation and amortization expense, restructuring charge and other significant unusual items.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense 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, restructuring charge and other significant unusual items.
Adjusted net income (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, impairment of goodwill, restructuring charge and other significant unusual items, net of related taxes.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Adjusted operating leases	Aircraft rental expense for the past four quarters multiplied by 5.
Total debt	Long-term debt plus the amount for adjusted operating leases.
Total net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP (the Corporation has had no investments in ABCP since November 9, 2012).

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 July 31		Nine-month periods ended July 31	
	2014 $	2013 $	2014 $	2013 $
Operating income (loss)	35,100	41,803	(15,481)	1,742
Restructuring charge	—	1,318	2,226	5,233
Depreciation and amortization	11,698	11,250	32,227	29,109
Adjusted operating income	46,798	54,371	18,972	36,084
Income (loss) before income tax expense	36,191	58,623	(8,134)	8,193
Change in fair value of derivative financial instruments used for aircraft fuel purchases	1,237	(15,431)	2,717	1,009
Restructuring charge	—	1,318	2,226	5,233
Adjusted pre-tax income (loss)	37,428	44,510	(3,191)	14,435
Net income (loss) attributable to shareholders	25,820	41,129	(7,732)	3,232
Change in fair value of derivative financial instruments used for aircraft fuel purchases	1,237	(15,431)	2,717	1,009
Restructuring charge	—	1,318	2,226	5,233
Tax impact	(327)	3,743	(1,322)	(1,711)
Adjusted net income (loss)	26,730	30,759	(4,111)	7,763
Adjusted net income (loss)	26,730	30,759	(4,111)	7,763
Adjusted weighted average number of outstanding shares used in computing diluted income (loss) per share	38,969	38,575	38,691	38,370
Adjusted net income (loss) per share	0.69	0.80	(0.11)	0.20

	As at July 31, 2014 $	As at October 31, 2013 $
Aircraft rent for the past four quarters	82,138	81,270
Multiple	5	5
Adjusted operating leases	410,690	406,350
Long-term debt	—	—
Adjusted operating leases	410,690	406,350
Total debt	410,690	406,350
Total debt	410,690	406,350
Cash and cash equivalents	(497,072)	(265,818)
Total net debt	(86,382)	140,532

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars, except per share amounts)	2014 $	2013 $	Difference $	Difference %	2014 $	2013 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	941,702	927,004	14,698	1.6	2,907,544	2,839,542	68,002	2.4
Adjusted operating income (loss)[1]	46,798	54,371	(7,573)	(13.9)	18,972	36,084	(17,112)	(47.4)
Net income (loss) attributable to shareholders	25,820	41,129	(15,309)	(37.2)	(7,732)	3,232	(10,964)	(339.2)
Basic income (loss) per share	0.67	1.07	(0.40)	(37.4)	(0.20)	0.08	(0.28)	(350.0)
Diluted income (loss) per share	0.66	1.07	(0.41)	(38.3)	(0.20)	0.08	(0.28)	(350.0)
Adjusted net income (loss) attributable to shareholders[1]	26,730	30,759	(4,029)	(13.1)	(4,111)	7,763	(11,874)	(153.0)
Adjusted net income (loss) per share[1]	0.69	0.80	(0.11)	(13.8)	(0.11)	0.20	(0.31)	(155.0)
Consolidated Statements of Cash Flows								
Operating activities	111,641	67,608	44,033	65.1	275,594	236,616	38,978	16.5
Investing activities	(14,198)	(16,146)	1,948	12.1	(44,056)	(17,785)	(26,271)	(147.7)
Financing activities	(637)	(111)	(526)	(473.9)	(81)	(1,443)	1,362	94.4
Effect of exchange rate changes on cash and cash equivalents	(4,288)	1,838	(6,126)	(333.3)	(203)	774	(977)	(126.2)
Net change in cash and cash equivalents	92,518	53,189	39,329	73.9	231,254	218,162	13,092	6.0

	As at July 31, 2014 $	As at October 31, 2013 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	497,072	265,818	231,524	87.0
Cash and cash equivalents in trust or otherwise reserved	302,283	403,468	(101,185)	(25.1)
	799,355	669,286	130,069	19.4
Total assets	1,501,317	1,290,073	211,244	16.4
Debt	—	—	—	—
Total debt[1]	410,690	406,350	4,340	1.1
Total net debt[1]	(86,382)	140,532	(226,914)	(161.5)

[1] SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

CORE BUSINESS

Transat is one of the largest 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 in Canada, France, the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel 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 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.

Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure to improve its operating income 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 2014, Transat has set the following targets:

1. Transat is currently committed to a cost reduction and margin improvement program, and, in 2014, sought to improve results during the winter while aiming to maintain its profitability over the summer.

2. In 2014, Transat will modify the Air Transat fleet by insourcing its narrow-body aircraft, except for supplemental requirements, and continue its shift toward an flexible fleet to meet its seasonal needs.

3. From a product and customer experience standpoint, projects to improve performance, efficiency and margins will continue, particularly upgrades to our Canadian call centres and refinement of sun destination collections.

4. Transat intends in 2014 to refine its distribution strategy, particularly with a view to enhancing customer proximity through the appropriate business technologies and applications.

5. Transat is carrying out a strategic review and intends in 2014 to review its organizational structure based on the growth prospects it has identified.

Our key performance drivers are adjusted operating income (loss), market share, and revenue growth, 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 July 31				Nine-month periods ended July 31			
	2014	2013	Difference	Difference	2014	2013	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Americas	660,191	688,046	(27,855)	(4.0)	2,322,843	2,323,174	(331)	(0.0)
Europe	281,511	238,958	42,553	17.8	584,701	516,368	68,333	13.2
	941,702	927,004	14,698	1.6	2,907,544	2,839,542	68,002	2.4

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

Revenues for the quarter ended July 31, 2014 were up $14.7 million from fiscal 2013 and $68.0 million for the nine-month period. These increases resulted primarily from higher average selling prices and the strengthening of the euro and pound sterling against the Canadian dollar. For the third quarter, total travellers remained unchanged, whereas we scaled back our product offering on transatlantic routes, our primary market for the period, by 2.1% and we expanded our product offering in sun destinations by 8%. For the nine-month period, total travellers were down 2.0%, whereas we reduced our sun destination product offering during the winter season by 1.9% over 2013. Our product offering in the transatlantic market during the summer season was trimmed 2.1% from the same period of 2013.

OPERATING EXPENSES

	Quarters ended July 31				Nine-month periods ended July 31			
	2014	2013	Difference	Difference	2014	2013	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Costs of providing tourism services	429,361	444,248	(14,887)	(3.4)	1,689,645	1,645,368	44,277	2.7
Aircraft fuel	151,049	129,960	21,089	16.2	315,693	293,286	22,407	7.6
Salaries and employee benefits	100,185	98,088	2,097	2.1	274,339	273,639	700	0.3
Commissions	31,718	30,055	1,663	5.5	143,302	137,766	5,536	4.0
Aircraft maintenance	32,553	31,063	1,490	4.8	87,308	79,960	7,348	9.2
Airport and navigation fees	33,993	29,416	4,577	15.6	69,541	66,566	2,975	4.5
Aircraft rent	23,350	20,530	2,820	13.7	62,373	61,505	868	1.4
Other	92,695	90,591	2,104	2.3	248,597	250,601	(2,004)	(0.8)
Depreciation and amortization	11,698	11,250	448	4.0	32,227	29,109	3,118	10.7
Total	906,602	885,201	21,401	2.4	2,923,025	2,837,800	85,225	3.0

Total operating expenses for the quarter and nine-month period were up $21.4 million (2.4%) and $85.2 million (3.0%), respectively, from the same periods of fiscal 2013. These increases stemmed primarily from the depreciation of Canada's currency against the U.S. dollar, the euro and the pound sterling, as we scaled back our product offering by 2.1% for the transatlantic market during the third quarter and, for the nine-month period, by 1.9% for sun destinations in the winter season. In addition, during the third quarter, we began operating our narrow-body Boeing 737-800s (three). Apart from the anticipated cost savings, this initiative will prompt lower costs of providing tourism services (previously those flights were operated by an external air carrier) and higher other operating expenses, excluding commissions.

As a result, operating expenses for the quarter in the Americas were down 3.0%, whereas in Europe, they rose 18.2%. For the nine-month period, operating expenses in the Americas and Europe climbed 1.1% and 11.6%, respectively.

COSTS 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. The cost of providing tourism services for the quarter fell $14.9 million (3.4%) but rose $44.3 million (2.7%) for the nine-month period, compared with the corresponding periods of the previous fiscal year. The quarterly decline was triggered primarily by reduction in our flight purchases from other air carriers than Air Transat, owing to the start of our narrow-body Boeing 737-800 operations, offset by weaker Canadian currency relative to the U.S. dollar and the euro and higher hotel room costs. For the nine-month period, the rise in costs emanated primarily from a weaker Canadian currency relative to the U.S. dollar and the euro and higher hotel room costs.

AIRCRAFT FUEL

Aircraft fuel expense for the quarter and nine-month period was up year over year, rising $21.1 million (16.2%) and $22.4 million (7.6%), respectively, due primarily to commissioning our narrow-body Boing 737-800s and the weakening of the Canadian dollar versus the U.S. dollar (fuel is primarily paid in U.S. dollars) and, to a lesser extent, to higher fuel prices.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the quarter and nine-month period rose $2.1 million (2.1%) and $0.7 million (0.3%), respectively, compared with the same periods of 2013. These increases resulted from annual salary reviews and the weakening of the Canadian dollar against the euro, the pound sterling and the U.S. dollar, offset by the savings generated by workforce reductions made in fiscal 2013. Salaries and employee benefits for the nine-month period also factored in a $2.2 million restructuring charge, consisting primarily of termination benefits paid during the first quarter, compared with $5.2 million in 2013 ($1.3 million in the third quarter).

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 third quarter and the nine-month period was up $1.7 million (5.5%) and $5.5 million (4.0%), respectively, compared with the same periods of 2013. As a percentage, commissions accounted for 3.4% of revenues for the quarter compared with 3.2% a year earlier and 4.9% for the nine-month periods of ended July 31, 2014 and 2013.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Aircraft maintenance costs for the third quarter and the nine-month period climbed $1.5 million (4.8%) and $7.3 million (9.2%), respectively, from the same periods last year. Quarterly growth was driven by the beginning of narrow-body operations and the Canadian dollar's weakening against its U.S. counterpart. The increase for the nine-month period was attributable, in addition to aforementioned quarterly reasons, to the receipt by the Company of aircraft maintenance refunds in the first quarter of fiscal 2013.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees, consisting mainly of fees charged by airports and air traffic control entities, were up $4.6 million (15.6%) and $3.0 million (4.5%) respectively for the third quarter and nine-month period ended July 31, 2014. Those increases were prompted by the addition to our feet of narrow-body aircraft and a weaker Canadian dollar relative to its U.S. counterpart. In addition, the higher fees for the nine-month period were offset by a reduction in our winter season offering.

AIRCRAFT RENT

Aircraft rent for the quarter and nine-month period was up $2.8 million (13.7%) and $0.9 million (1.4 %), respectively, compared the same periods of 2013. These increases were generated by the addition to our fleet of three Boeing 737-800s and the Canadian dollar's weakening relative to the U.S. currency, offset by the impacts of a number of aircraft lease renewals under better conditions.

OTHER

Year over year, other expenses for the third quarter were up $2.1 million (2.3%) whereas, for the nine-month period, they fell $2.0 million (0.8%). The quarterly growth emanated primarily from a rise in other air costs due to the commissioning of our Boeing 737-800s, while the decline for the nine-month period stemmed mostly from decreases in marketing costs and other operating expenses.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense, comprising the depreciation of property, plant and equipment and the amortization of intangible assets subject to amortization and deferred incentive benefits, was up $0.4 million and $3.1 million for the third quarter and nine-month period, respectively, compared with the corresponding periods of 2013. The increases resulted from improvements made to our aircraft fleet, mainly involving the reconfiguration of our Airbus A330s.

OPERATING INCOME (LOSS)

In light of the foregoing, operating income for the third quarter totalled $35.1 million (3.7%) compared with $41.8 million (4.5%) in 2013. For the nine-month period, the Corporation recognized an operating loss of $15.5 million (0.5%) compared with operating income of $1.7 million (0.1%) one year ago. The deterioration in operating income arose from the weakening of the Canadian dollar versus its U.S. counterpart, the effects of which selling price increases could not fully offset. The weakening in the Canadian dollar raised our operating expenses for the quarter and the nine-month period by $18.0 million and $54.0 million, respectively, compared with the same periods of 2013. Operating income for the third quarter of 2013 included a $1.3 million restructuring charge, whereas the operating loss for the nine-month period of 2014 included a $2.2 million restructuring charge, compared with a $5.2 million restructuring charge in 2013.

Adjusted operating income for the third quarter amounted to $46.8 million (5.0%) compared with $54.4 million (5.9%) in 2013. Adjusted net income for the nine-month period totalled $19.0 million (0.7%) compared with $36.1 million (1.3%) for the first three quarters of 2013.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %	2014 $	2013 $	Difference $	Difference %
Revenues	660,191	688,046	(27,855)	(4.0)	2,322,843	2,323,174	(331)	(0.0)
Operating expenses	640,392	659,924	(19,532)	(3.0)	2,343,697	2,318,657	25,040	1.1
Operating income (loss)	19,799	28,122	(8,323)	(29.6)	(20,854)	4,517	(25,371)	(561.7)

Third-quarter revenues at our North American subsidiaries from sales in Canada and abroad were down $27.9 million (4.0%) compared with a year earlier owing to our decision to reduce our transatlantic product offering by 2.1%, which resulted in a 2.8% decline in total travellers for all our markets, whereas average selling prices were higher. Quarterly operating income in the Americas stood at $19.8 million (3.0%) compared with $28.1 million (4.1%) for the third quarter of 2013. The decline in operating income was mainly attributable to the Canadian dollar's weakening against the U.S. dollar, which pushed up operating expenses. The combination of higher selling prices and cost reduction initiatives was not sufficient to offset the impact of increased costs. Operating income for the quarter ended July 31, 2013 included a $1.3 million restructuring charge.

For the nine-month period ended July 31, 2014, revenues at our North American subsidiaries remained unchanged from the same period last year. For that period, average selling prices were higher, whereas total travellers were down 3.5%, mainly due to our decision to reduce our sun destinations product offering by 1.9% in the winter season and our transatlantic routes by 2.1% in the third quarter. For the nine-month period, the Corporation reported an operating loss of $20.9 million (0.9%) compared with operating income of $4.5 million (0.2%) for the first three quarters of 2013. The adverse change in operating income originated mainly from the rise in costs sparked by the Canadian dollar's depreciation against the U.S. dollar. The operating loss for the nine-month period included a $2.2 million restructuring charge compared with a restructuring charge of $5.2 million in fiscal 2013.

EUROPE

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %	2014 $	2013 $	Difference $	Difference %
Revenues	281,511	238,958	42,553	17.8	584,701	516,368	68,333	13.2
Operating expenses	266,210	225,277	40,933	18.2	579,328	519,143	60,185	11.6
Operating income (loss)	15,301	13,681	1,620	11.8	5,373	(2,775)	8,148	293.6

Revenues at our European subsidiaries for the third quarter, resulting from sales in Europe and Canada, were up $42.6 million (17.8%) from the same period of fiscal 2013, driven by a rise in total travellers and the strength of the euro and the pound sterling against the Canadian dollar. In local currency terms, revenues in France were up, while revenues in the U.K. were lower following our decision to reduce our product offering. Total travellers for the quarter were up 12.1% from the year-ago period, while average selling prices were slightly lower than in the third quarter of 2013. Our European operations reported a quarterly operating income of $15.3 million (5.4%) compared with $13.7 million (5.7%) in fiscal 2013.

For the nine-month period, revenues at our European subsidiaries climbed $68.3 million (13.2%), driven by the strength of the euro and the pound sterling against the Canadian dollar. In local currency terms, revenues in France were up, while revenues in the U.K. were lower following our decision to reduce our product offering. Total travellers for the nine-month period fell 2.0% from a year earlier, while average selling prices were slightly lower than in the first three quarters of 2013. At our European operations, operating income for the nine-month period totalled $5.4 million (0.9%), up from an operating loss of $2.8 million (0.5%) in the same period of 2013.

OTHER EXPENSES (REVENUES)

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %	2014 $	2013 $	Difference $	Difference %
Financing costs	550	721	(171)	(23.7)	1,491	2,095	(604)	(28.8)
Financing income	(2,019)	(2,003)	16	0.8	(6,079)	(5,618)	461	8.2
Change in fair value of derivative financial instruments used for aircraft fuel purchases	1,237	(15,431)	16,668	108.0	2,717	1,009	1,708	169.3
Foreign exchange loss (gain) on long-term monetary items	132	(197)	329	167.0	(547)	(403)	(144)	(35.7)
Share of net income (loss) of an associate	(991)	90	1,081	1,201.1	(4,929)	(3,534)	1,395	39.5

FINANCING COSTS

Financing costs, comprising interest on long-term debt and other interest as well as financial expenses, were down $0.2 million and $0.6 million respectively for the third quarter and nine-month period, year over year, owing mostly to lower credit facility costs.

FINANCING INCOME

Year over year, financing income remained unchanged in the third quarter, but were up $0.5 million in the nine-month period, due to higher bank balances.

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 third quarter, the fair value of derivative financial instruments used for aircraft fuel purchases fell $1.2 million compared with a $15.4 million increase recorded in the period a year earlier. The change in fair value of derivative financial instruments used for aircraft fuel purchases during the nine-month period reflected a $2.7 million decrease compared with a $1.0 million decline in the same period of 2013.

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. During the third quarter, the Corporation recognized a $0.1 million foreign exchange loss on long-term monetary items compared with a $0.2 million foreign exchange gain in fiscal 2013. For the nine-month period, the Corporation recorded a $0.5 million foreign exchange gain compared with a foreign exchange gain of $0.4 million for the first three quarters of 2013.

SHARE OF NET INCOME (LOSS) OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. The Corporation reported $1.0 million share of net income of an associate for the third quarter compared with a $0.1 million share of net loss for the corresponding quarter of 2013. Transat's share of net income for the nine-month period amounted to $4.9 million compared with $3.5 million for the same period in 2013. The improvements in share of net income resulted from higher operating profitability than in the corresponding periods of 2013.

INCOME TAXES

Income taxes for the third quarter totalled $9.9 million, down from $17.2 million for the corresponding period of the previous year. For the nine-month period, income tax recovery amounted to $3.0 million, compared with income tax expense of $2.2 million for the first three quarters of 2013. Excluding the share in net income (loss) of an associate, the effective tax rate for the third quarter and the nine-month period stood at 28.1% and 22.7%, respectively, compared with 29.2% and 47.6% for the respective periods of fiscal 2013. The changes in tax rates for the quarter and nine-month period arose from differences between countries in the statutory tax rates applied to taxable income.

NET INCOME (LOSS) AND NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed in Consolidated operations, net income for the quarter ended July 31, 2014 totalled $26.3 million compared with $41.5 million a year earlier. Net income attributable to shareholders for the quarter amounted to $25.8 million or $0.67 per share ($0.66 per share, diluted), compared with $41.1 million or $1.07 per share ($1.07 per share, diluted) for the corresponding quarter of the preceding year. For the third quarter of 2014, the weighted average number of outstanding shares used to compute basic earnings per share and diluted earnings per share was 38,674,000 and 38,969,000, respectively, compared with 38,519,000 and 38,575,000, respectively, for the corresponding quarter of 2013.

For the nine-month period ended July 31, 2014, the Corporation recognized a net loss of $5.2 million compared with net income of $6.0 million for the same period of 2013. Net loss attributable to shareholders stood at $7.7 million or $0.20 per share (basic and diluted) compared with net income attributable to shareholders of $3.2 million or $0.08 per share (basic and diluted) for the corresponding nine-month period of the previous year. The weighted average number of outstanding shares used to compute per share amounts for the nine-month period ended July 31, 2014 was 38,691,000 compared with 38,370,000 for corresponding period of 2013.

Adjusted net income for the third quarter totalled $26.7 million ($0.69 per share), compared with $30.8 million ($0.80 per share) for the same period of 2013. Adjusted net loss for the nine-month period amounted to $4.1 million ($0.11 per share) compared with adjusted net income of $7.8 million ($0.20 per share) for the first three quarters of 2013.

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. Revenues rose compared with the corresponding quarters. Average selling prices were up while total travellers declined for both the winter and summer seasons. Our operating results improved each quarter, mainly due to higher average selling prices and our cost reduction and margin improvement initiatives, except for the quarters of fiscal 2014 where the sharp decline in the dollar led to increases in certain operating expenses. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

(in thousands of dollars, except per share data)	Q4-2012 $	Q1-2013 $	Q2-2013 $	Q3-2013 $	Q4-2013 $	Q1-2014 $	Q2-2014 $	Q3-2014 $
Revenues	763,441	805,714	1,106,824	927,004	808,616	847,222	1,118,620	941,702
Aircraft rent	24,529	20,419	20,556	20,530	19,765	19,170	19,853	23,350
Operating income (loss)	41,731	(29,936)	(10,125)	41,803	70,096	(33,534)	(17,047)	35,100
Adjusted operating income (loss)	52,946	(21,017)	2,730	54,371	80,055	(23,812)	(4,014)	46,798
Net income (loss)	17,154	(13,940)	(21,556)	41,469	55,229	(24,860)	(6,606)	26,296
Net income (loss) attributable to shareholders	16,614	(15,137)	(22,760)	41,149	54,723	(25,649)	(7,903)	25,820
Basic earnings (loss) per share	0.43	(0.39)	(0.59)	1.07	1.42	(0.67)	(0.20)	0.67
Diluted earnings (loss) per share	0.43	(0.39)	(0.59)	1.07	1.40	(0.67)	(0.20)	0.66
Adjusted net income (loss)	28,684	(21,564)	(1,432)	30,759	54,804	(23,288)	(7,553)	26,730
Adjusted net income (loss) per share	0.75	(0.56)	(0.04)	0.80	1.40	(0.60)	(0.19)	0.69

LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2014, cash and cash equivalents totalled $497.1 million compared with $265.8 million as at October 31, 2013. As at the end of the third quarter of fiscal 2014, cash and cash equivalents in trust or otherwise reserved amounted to $302.3 million compared with $403.5 million as at October 31, 2013. The Corporation's statement of financial position reflects working capital of $58.9 million and a ratio of 1.06 compared with working capital of $81.1 million and a ratio of 1.10 as at October 31, 2013.

Total assets grew $211.2 million to $1,501.3 million as at July 31, 2014 from $1,290.1 million as at October 31, 2013, driven by increases of $231.3 million in cash and cash equivalents, $30.5 million in trade and other receivables and $21.9 million in deposits, offset by a $101.2 million decline in cash and cash equivalents in trust or otherwise reserved. Those changes and the differences in the other main monetary assets reflect the seasonal nature of our operations, as well as fluctuations in cash subsequent to the renegotiation of the accessibility periods for our cash balances with one of our credit card processors. Equity decreased $1.2 million to $440.2 million as at July 31, 2014 from $441.4 million as at October 31, 2013, owing primarily to the $7.7 million net loss attributable to shareholders and the $5.3 million unrealized loss on cash flow hedges, offset by the $8.6 million foreign exchange gain on translation of financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2014	2013	Difference	2014	2013	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	111,641	67,608	44,033	275,594	236,616	38,978
Cash flows related to investing activities	(14,198)	(16,146)	1,948	(44,056)	(17,785)	(26,271)
Cash flows related to financing activities	(637)	(111)	(526)	(81)	(1,443)	1,362
Effect of exchange rate changes on cash	(4,288)	1,838	(6,126)	(203)	774	(977)
Net change in cash and cash equivalents	92,518	53,189	39,329	231,254	218,162	13,092

OPERATING ACTIVITIES

Cash flows generated by operating activities in the third quarter amounted to $111.6 million, compared with $67.6 million for the corresponding quarter of 2013. The $44.0 million increase from the year-over-year quarter resulted from a $50.8 million increase in the net change in non-cash working capital balances related to operations which in turn stemmed primarily from a larger decrease in the balance of cash and cash equivalents in trust or otherwise reserved subsequent to the renegotiation of the accessibility periods for our cash balances with one of our credit card processors, and a larger decline in trade and other payables during the quarter than a year ago, offset by a $5.8 million decline in profitability.

Cash flows from operating activities for the nine-month period were up $39.0 million to $275.6 million from $236.6 million for the first three quarters of 2013. The increase was mainly attributable to a $35.6 million increase in the net change in non-cash working capital balances related to operations which in turn stemmed primarily from a larger decrease in the balance of cash and cash equivalents in trust or otherwise reserved subsequent to the renegotiation of the accessibility periods for our cash balances with one of our credit card processors, a $9.7 million increase in the net change in other assets and liabilities related to operations and a $6.5 million increase in the net change in provision for overhaul of leased aircraft, offset by a $12.8 million decline in profitability.

INVESTING ACTIVITIES

Cash flows used in investing activities in the third quarter amounted to $14.2 million compared with $16.1 million for the same period of 2013. Additions to property, plant and equipment and other intangible assets totalled $15.1 million compared with $19.9 million a year earlier. Our balance of cash and cash equivalents reserved (non-current) decreased by $0.9 million during the quarter.

Cash flows used in investing activities for the nine-month period totalled $44.1 million, an increase of $26.3 million from $17.8 million for the first three quarters of 2013. Additions to property, plant and equipment and other intangible assets rose $3.9 million to $47.9 million and our balance of cash and cash equivalents reserved (non-current) fell $0.9 million, whereas it increased $3.9 million in the year-ago period. In 2013, we also received $27.4 million following the sale of our last investments in ABCP.

FINANCING ACTIVITIES

Cash flows used in financing activities rose $0.5 million to $0.6 million for the third quarter of 2014 from $0.1 million for the third quarter of 2013. The increase resulted from higher dividends paid to a non-controlling interest than in the 2013 period.

Cash flows used in financing activities during the nine-month period totalled $0.1 million, compared with $1.4 million for the first three quarters of 2013. This decrease in cash flows is due to the issuance of shares for a total of $2.0 million during the nine-month period compared with $0.8 million in the corresponding period of 2013.

CONSOLIDATED FINANCIAL POSITION

(in thousands of dollars, except per share data)	July 31, 2014 $	October 31, 2013 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	497,072	265,818	231,254	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	302,283	403,468	(101,185)	Seasonal nature of operations and impact of renegotiation of accessibility periods for our cash balances with one of our credit card processors
Trade and other receivables	143,279	112,738	30,541	Seasonal nature of operations and foreign exchange difference
Income taxes receivable	13,167	5,645	7,522	Increase in income taxes recoverable given certain subsidiaries' taxable income, and tax instalments
Inventories	9,970	13,143	(3,173)	Seasonal nature of operations
Prepaid expenses	67,593	73,453	(5,860)	Decrease in prepayments to certain service providers due to the seasonal nature of operations
Derivative financial instruments	3,779	7,720	(3,941)	Unfavourable change in the Canadian dollar compared with the U.S. currency with respect to foreign exchange forward contracts entered into
Deposits	58,431	36,575	21,856	Seasonal nature of operations
Deferred tax assets	27,827	22,048	5,779	Increase due to certain subsidiaries' taxable income
Property, plant and equipment	128,565	115,025	13,540	Additions during the period and foreign exchange difference, offset by depreciation
Goodwill	97,271	94,723	2,548	Foreign exchange difference
Intangible assets	72,058	67,333	4,725	Additions during the period and foreign exchange difference, offset by amortization
Investments and other assets	80,022	72,384	7,638	Foreign exchange difference and share of net income of an associate
Liabilities				
Trade and other payables	463,785	326,687	137,098	Seasonal nature of operations and foreign exchange difference
Provision for overhaul of leased aircraft	37,182	28,057	9,125	Foreign exchange difference and seasonal nature of operations
Income taxes payable	354	19,729	(19,375)	Settlement of balances due
Customer deposits and deferred income	485,867	410,340	75,527	Seasonal nature of operations and foreign exchange difference
Derivative financial instruments	10,483	4,675	5,808	Unfavourable change in the Canadian dollar compared with the U.S. currency and in fuel prices with respect to forward contracts entered into
Other liabilities	52,706	48,096	4,610	Increase in deferred lease inducements
Deferred tax liabilities	10,698	11,096	(398)	No significant difference
Equity				
Share capital	224,277	221,706	2,571	Issued from treasury
Share-based payment reserve	16,173	15,391	782	Share-based payment expense offset by the exercise of options
Retained earnings	199,103	206,835	(7,732)	Net loss for the period
Unrealized gain (loss) on cash flow hedges	(2,953)	2,380	(5,333)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	3,642	(4,919)	8,561	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at July 31, 2014, the Corporation had several types of financing, consisting primarily of a revolving term credit facility 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 agreements require the Corporation to comply with certain financial criteria and ratios. As at July 31, 2014, all the financial ratios and criteria were met and the credit facility was undrawn.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$16.8 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 cash-flows, 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

Off-balance sheet arrangements that can be estimated, excluding agreements with service providers, amounted to approximately $583.9 million as at July 31, 2014 ($655.8 million as at October 31, 2013) and are detailed as follows:

(in thousands of dollars)	As at July 31, 2014 $	As at October 31, 2013 $
Guarantees		
Irrevocable letters of credit	19,687	21,850
Collateral security contracts	1,350	1,137
Operating leases		
Obligations under operating leases	562,821	632,804
	583,858	655,791

Note: The amount for obligations under operating leases as at October 31, 2013 reported in the Annual Report for the year ended October 31, 2013 included obligations under agreements with aircraft suppliers in the amount of $112.5 million. This amount should have been included under agreements with suppliers.

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.

The Corporation also has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at July 31, 2014, $59.5 million had been drawn down.

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 July 31, 2014, $16.0 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 €11.0 million [$16.0 million], of which €2.2 million [$3.2 million] had been drawn down.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £18.1 million [$33.3 million], which has been fully drawn down.

As at July 31, 2014, off-balance sheet arrangements were down $71.9 million. This decrease resulted from repayments made during the nine-month period, offset by the weakening of Canada's currency against the U.S. dollar, the euro and the pound sterling.

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 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 $71.9 million to $583.9 million as at July 31, 2014 from $655.8 million as at October 31, 2013.

The Corporation's total debt rose $4.3 million to $410.7 million from its October 31, 2013 level, while its total net debt of $140.5 million as at October 31, 2013 underwent a favourable change of $226.9 million, resulting in a surplus of $86.4 million as at July 31, 2014. The decline in total net debt resulted from higher cash and cash equivalent balances than at October 31, 2013.

OUTSTANDING SHARES

As at July 31, 2014, 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 August 31, 2014, there were 1,524,310 Class A Variable Voting Shares outstanding and 37,201,462 Class B Voting Shares outstanding.

STOCK OPTIONS

As at September 9, 2014, there were a total of 2,784,187 stock options outstanding, 1,329,650 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of nine Airbus A310s (250 seats), twelve Airbus A330s (345 seats) and three Boeing 737-800s (189 seats).

On July 24, 2013, the Corporation announced the signing of an eight-year lease in respect of four narrow-body Boeing 737-800s. One aircraft was commissioned during the second quarter of 2014 and two others in the third quarter. The fourth aircraft is to be commissioned in the fourth quarter.

CHANGES IN ACCOUNTING POLICIES

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 became effective on November 1, 2013. Adoption of this standard had no impact on the Corporation's financial statements.

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. The standard requires an entity to present information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 became effective on November 1, 2013. These disclosures are required in the annual consolidated financial statements.

IFRS 13, *FAIR VALUE MEASUREMENT*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 improves consistency and reduces 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 became effective on November 1, 2013. Except for additional disclosures, the adoption of this standard had no impact on the Corporation's financial statements.

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 improves comparability and faithfulness of presentation. The amendments 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. The amendments also require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations. Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on the plan assets. 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 made to IAS 19 became effective on November 1, 2013. Except for additional disclosures, the adoption of this standard had no impact on the Corporation's financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement* by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected-loss impairment model as well as a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit and loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Adoption of IFRS 9 will be effective for the Corporation's fiscal years beginning on November 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of the adoption of this standard on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2017, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2014 the design of:

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2014 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

The transatlantic market outbound from Canada and Europe accounts for a very significant portion of Transat's business in the summer. For the period August to October 2014, Transat's capacity on that market is similar to that for summer. To date, 86% of that capacity has been sold. Load factors are 1.5% lower and selling prices of bookings taken are 1.0% higher, compared with the same date in 2013. The weak Canadian dollar, net of the variance in fuel costs, will result in an increase in operational expenses of 3.8%, assuming that the dollar and the cost of fuel remain at their current levels.

On the Sun destinations market outbound from Canada, Transat's capacity is higher by 7% than that last year at this time. To date, 74% of that capacity has been sold, while load factors and selling prices are similar.

In France, compared with last year at the same date, medium-haul bookings are ahead by 21%, while long-haul bookings are at a similar level. Variations in the product mix have resulted in lower average selling prices, with no negative impact on the average margin.

To the extent the aforementioned trends hold, the Corporation expects to record satisfactory results in the fourth quarter, though lower than the record results posted last year.

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

(in thousands of Canadian dollars) (unaudited)	As at July 31, 2014 $	As at October 31, 2013 $
ASSETS		
Current assets		
Cash and cash equivalents	497,072	265,818
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	262,803	361,743
Trade and other receivables	143,279	112,738
Income taxes receivable	13,167	5,645
Inventories	9,970	13,143
Prepaid expenses	67,593	73,453
Derivative financial instruments	3,779	7,720
Current portion of deposits	34,679	13,267
Current assets	1,032,342	853,527
Cash and cash equivalents reserved	39,480	41,725
Deposits	23,752	23,308
Deferred tax assets	27,827	22,048
Property, plant and equipment	128,565	115,025
Goodwill	97,271	94,723
Intangible assets	72,058	67,333
Investments and other assets *[note 6]*	80,022	72,384
Non-current assets	468,975	436,546
	1,501,317	1,290,073
LIABILITIES		
Trade and other payables	463,785	326,687
Current portion of provision for overhaul of leased aircraft *[note 7]*	12,904	11,029
Income taxes payable	354	19,729
Customer deposits and deferred income	485,867	410,340
Derivative financial instruments	10,483	4,675
Current liabilities	973,393	772,460
Provision for overhaul of leased aircraft	24,278	17,028
Other liabilities *[note 9]*	52,706	48,096
Deferred tax liabilities	10,698	11,096
Non-current liabilities	87,682	76,220
EQUITY		
Share capital *[note 10]*	224,277	221,706
Share-based payment reserve	16,173	15,391
Retained earnings	199,103	206,835
Unrealized gain (loss) on cash flow hedges	(2,953)	2,380
Cumulative exchange differences	3,642	(4,919)
	440,242	441,393
	1,501,317	1,290,073

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.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended July 31, 2014 $	Quarters ended July 31, 2013 $	Nine-month periods ended July 31, 2014 $	Nine-month periods ended July 31, 2013 $
Revenues	941,702	927,004	2,907,544	2,839,542
Operating expenses				
Costs of providing tourism services	429,361	444,248	1,689,645	1,645,368
Aircraft fuel	151,049	129,960	315,693	293,286
Salaries and employee benefits	100,185	98,088	274,339	273,639
Commissions	31,718	30,055	143,302	137,766
Aircraft maintenance	32,553	31,063	87,308	79,960
Airport and navigation fees	33,993	29,416	69,541	66,566
Aircraft rent	23,350	20,530	62,373	61,505
Other	92,695	90,591	248,597	250,601
Depreciation and amortization	11,698	11,250	32,227	29,109
	906,602	885,201	2,923,025	2,837,800
Operating income (loss)	35,100	41,803	(15,481)	1,742
Financing costs	550	721	1,491	2,095
Financing income	(2,019)	(2,003)	(6,079)	(5,618)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	1,237	(15,431)	2,717	1,009
Foreign exchange loss (gain) on long-term monetary items	132	(197)	(547)	(403)
Share of net (income) loss of an associate	(991)	90	(4,929)	(3,534)
Income (loss) before income tax expense	36,191	58,623	(8,134)	8,193
Income taxes (recovery)				
Current	10,128	10,383	1,562	1,862
Deferred	(233)	6,771	(4,526)	358
	9,895	17,154	(2,964)	2,220
Net income (loss) for the period	26,296	41,469	(5,170)	5,973
Net income (loss) attributable to:				
Shareholders	25,820	41,129	(7,732)	3,232
Non-controlling interests	476	340	2,562	2,741
	26,296	41,469	(5,170)	5,973
Earnings (loss) per share attributable to shareholders *[note 10]*				
Basic	0.66	1.07	(0.20)	0.08
Diluted	0.66	1.07	(0.20)	0.08

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended July 31,		Nine-month periods ended July 31,	
	2014	2013	2014	2013
(in thousands of Canadian dollars, except per share amounts) (unaudited)	$	$	$	$
Net income (loss) for the period	26,296	41,469	(5,170)	5,973
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	345	858	(22,858)	2,918
Reclassification to net income (loss)	(167)	752	15,701	(672)
Deferred taxes	(120)	(387)	1,824	(552)
	58	1,223	(5,333)	1,694
Foreign exchange gains (losses) on translation of financial statements of foreign subsidiaries	(1,646)	2,112	8,561	1,312
Total other comprehensive income (loss)	(1,588)	3,335	3,228	3,006
Comprehensive income (loss) for the period	24,708	44,804	(1,942)	8,979
Attributable to:				
Shareholders	24,269	44,553	(4,173)	6,345
Non-controlling interests	439	251	2,231	2,634
	24,708	44,804	(1,942)	8,979

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, 2012	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326
Net income for the period	—	—	3,232	—	—	3,232	2,741	5,973
Other comprehensive income (loss)	—	—	—	1,694	1,419	3,113	(107)	3,006
Comprehensive income	—	—	3,232	1,694	1,419	6,345	2,634	8,979
Issued from treasury	745	—	—	—	—	745	—	745
Exercise of options	5	—	—	—	—	5	—	5
Share-based payment expense	—	1,571	—	—	—	1,571	—	1,571
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(2,741)	(2,741)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(107)	(107)	107	—
	750	1,571	—	—	(107)	2,214	(2,634)	(420)
Balance as at July 31, 2013	221,486	14,907	148,430	1,219	(11,157)	374,885	—	374,885
Net income for the period	—	—	54,723	—	—	54,723	506	55,229
Other comprehensive income	—	—	2,180	1,161	5,482	8,823	756	9,579
Comprehensive income	—	—	56,903	1,161	5,482	63,546	1,262	64,808
Issued from treasury	220	—	—	—	—	220	—	220
Share-based payment expense	—	484	—	—	—	484	—	484
Dividends	—	—	—	—	—	—	(2,787)	(2,787)
Other changes in non-controlling interest liabilities	—	—	1,502	—	—	1,502	(1,502)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	3,783	3,783
Reclassification of non-controlling interest exchange difference	—	—	—	—	756	756	(756)	—
	220	484	1,502	—	756	2,962	(1,262)	1,700
Balance as at October 31, 2013	221,706	15,391	206,835	2,380	(4,919)	441,393	—	441,393
Net income (loss) for the period	—	—	(7,732)	—	—	(7,732)	2,562	(5,170)
Other comprehensive income (loss)	—	—	—	(5,333)	8,892	3,559	(331)	3,228
Comprehensive income (loss)	—	—	(7,732)	(5,333)	8,892	(4,173)	2,231	(1,942)
Issued from treasury	662	—	—	—	—	662	—	662
Exercise of options	1,909	(613)	—	—	—	1,296	—	1,296
Share-based payment expense	—	1,395	—	—	—	1,395	—	1,395
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(2,562)	(2,562)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(331)	(331)	331	—
	2,571	782	—	—	(331)	3,022	(2,231)	791
Balance as at July 31, 2014	224,277	16,173	199,103	(2,953)	3,642	440,242	—	440,242

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 July 31, 2014 $	2013 $	Nine-month periods ended July 31, 2014 $	2013 $
OPERATING ACTIVITIES				
Net income (loss) for the period	26,296	41,469	(5,170)	5,973
Operating items not involving an outlay (receipt) of cash :				
Depreciation and amortization	11,698	11,250	32,227	29,109
Change in fair value of derivative financial instruments used for aircraft fuel purchases	1,237	(15,431)	2,717	1,009
Foreign exchange loss (gain) on long-term monetary items	132	(197)	(547)	(403)
Share of net income (loss) of an associate	(991)	90	(4,929)	(3,534)
Deferred taxes	(233)	6,771	(4,526)	358
Employee benefits	563	536	1,690	1,611
Share-based payment expense	456	484	1,395	1,571
	39,158	44,972	22,857	35,694
Net change in non-cash working capital balances related to operations	70,966	20,122	235,601	200,036
Net change in other assets and liabilities related to operations	(2,840)	(1,968)	8,011	(1,722)
Net change in provision for overhaul of leased aircraft	4,357	4,482	9,125	2,608
Cash flows related to operating activities	111,641	67,608	275,594	236,616
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(15,074)	(19,877)	(47,932)	(44,953)
Decrease (increase) in cash and cash equivalents reserved	876	—	876	(3,913)
Consideration received on disposal of a subsidiary	—	3,000	3,000	3,000
Dividend received from an associate	—	731	—	731
Proceeds from sale of investments in ABCP	—	—	—	27,350
Cash flows related to investing activities	(14,198)	(16,146)	(44,056)	(17,785)
FINANCING ACTIVITIES				
Proceeds from issuance of shares	244	266	1,958	750
Dividends paid to a non-controlling interest	(881)	(377)	(2,039)	(2,193)
Cash flows related to financing activities	(637)	(111)	(81)	(1,443)
Effect of exchange rate changes on cash and cash equivalents	(4,288)	1,838	(203)	774
Net change in cash and cash equivalents	92,518	53,189	231,254	218,162
Cash and cash equivalents, beginning of period	404,554	336,148	265,818	171,175
Cash and cash equivalents, end of period	497,072	389,337	497,072	389,337
Supplementary information (as reported in operating activities)				
Income taxes paid (recovered)	2,346	(1,610)	29,489	525
Interest paid	126	151	385	576

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"] is incorporated under the *Canada Business Corporations Act*. The Corporation's head office is located at 300 Léo-Pariseau Street, Montréal, Québec, Canada. 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 July 31, 2014 were approved by the Corporation's Board of Directors on September 10, 2014.

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, 2013.

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 CHANGES IN ACCOUNTING POLICIES

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 became effective on November 1, 2013. Adoption of this standard had no impact on the Corporation's financial statements.

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. The standard requires an entity to present information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 became effective on November 1, 2013. These disclosure are required in the annual consolidated financial statements.

IFRS 13, *FAIR VALUE MEASUREMENT*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 improves consistency and reduces 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 became effective on November 1, 2013. Except for additional disclosures, the adoption of this standard had no impact on the Corporation's financial statements.

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 improves comparability and faithfulness of presentation. The amendments 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. The amendments also require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations. Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on the plan assets. 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 made to IAS 19 became effective on November 1, 2013. Except for additional disclosures, the adoption of this standard had no impact on the Corporation's financial statements.

Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement* by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected-loss impairment model as well as a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit and loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Adoption of IFRS 9 will be effective for the Corporation's fiscal years beginning on November 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of the adoption of this standard on its financial statements.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2017, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2014, cash and cash equivalents in trust or otherwise reserved included $203,563 [$294,473 as at October 31, 2013] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for some of which the availability period had not ended, in accordance with Canadian regulators and the Corporation's business agreement with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $98,720, of which $39,480 was recorded as non-current assets [$108,995 as at October 31, 2013, of which $41,725 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 INVESTMENTS AND OTHER ASSETS

	As at July 31, 2014 $	As at October 31, 2013 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	78,026	70,041
Deferred costs, unamortized balance	523	639
Sundry	1,473	1,704
	80,022	72,384

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

	$
Balance as at October 31, 2013	70,041
Share of net income	4,929
Exchange difference	3,056
Balance as at July 31, 2014	78,026

Note 7 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 July 31 is detailed as follows:

	$
Balance as at October 31, 2013	28,057
Additional provisions	7,149
Utilization of provisions	(4,018)
Exchange difference	1,638
Balance as at April 30, 2014	32,826
Additional provisions	4,452
Utilization of provisions	—
Exchange difference	(96)
Balance as at July 31, 2014	37,182
Current provisions	12,904
Non-current provisions	24,278
Balance as at July 31, 2014	37,182

	$
Balance as at October 31, 2012	31,869
Additional provisions	8,541
Utilization of provisions	(10,524)
Exchange difference	109
Balance as at April 30, 2013	29,995
Additional provisions	4,764
Utilization of provisions	(539)
Exchange difference	257
Balance as at July 31, 2013	34,477
Current provisions	19,392
Non-current provisions	15,085
Balance as at July 31, 2013	34,477

Note 8 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 July 31, 2014, all the financial ratios and criteria were met, and the credit facility was undrawn.

The Corporation also has a $75,000 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 July 31, 2014, $59,453 had been drawn down.

Operating lines of credit totalling €11,500 [$16,768] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at July 31, 2014.

Note 9 OTHER LIABILITIES

	As at July 31, 2014 $	As at October 31, 2013 $
Employee benefits	32,031	30,940
Deferred lease inducements	18,334	16,036
Non-controlling interests	25,021	23,800
	75,386	70,776
Less non-controlling interests included in Trade and other payables	(22,680)	(22,680)
	52,706	48,096

Note 10 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 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 Class B Voting Shares ["Class B Shares"], participating, 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, 2012	38,295,668	220,736
Issued from treasury	144,107	745
Exercise of options	1,316	5
Balance as at July 31, 2013	38,441,091	221,486
Issued from treasury	27,396	220
Balance as at October 31, 2013	38,468,487	221,706
Issued from treasury	72,473	662
Exercise of options	155,183	1,909
Balance as at July 31, 2014	38,696,143	224,277

As at July 31, 2014, the number of Class A Shares and Class B Shares stood at 1,493,527 and 37,202,616, respectively.

OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2013	2,692,544	12.18
Granted	374,374	12.49
Exercised	(155,183)	8.36
Cancelled	(177,729)	13.55
Exercised	(28,833)	15.68
Balance as at July 31, 2014	2,705,123	12.32
Options exercisable as at July 31, 2014	1,284,049	15.10

EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were computed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2014	2013	2014	2013
(in thousands of dollars, except per share amounts)	$	$	$	$
NUMERATOR				
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	25,820	41,129	(7,732)	3,232
DENOMINATOR				
Weighted average number of outstanding shares	38,674	38,519	38,691	38,370
Effect of dilutive securities				
Stock options	295	56	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	38,969	38,575	38,691	38,370
Earnings (loss) per share				
Basic	0.67	1.07	(0.20)	0.08
Diluted	0.66	1.07	(0.20)	0.08

For the purposes of calculating diluted earnings per share for the quarter ended July 31, 2014, 1,578,959 outstanding stock options [2,048,820 stock options for the quarter ended July 31, 2013] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

In light of the net loss recognized for nine-month period ended July 31, 2014, the 2,705,123 stock options outstanding were excluded from the calculation of diluted loss per share. For the purposes of calculating diluted earnings per share for the nine-month period ended July 31, 2013, 2,758,594 stock options were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

Note 11 SEGMENTED DISCLOSURE

The Corporation has determined that it has a single operating segment: holiday travel. Therefore, the consolidated statements of income 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 July 31, 2014			Nine-month period ended July 31, 2014		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	660,191	281,511	941,702	2,322,843	584,701	2,907,544
Operating expenses	640,392	266,210	906,602	2,343,697	579,328	2,923,025
Operating income (loss)	19,799	15,301	35,100	(20,854)	5,373	(15,481)

	Quarter ended July 31, 2013			Nine-month period ended July 31, 2013		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	688,046	238,958	927,004	2,323,174	516,368	2,839,542
Operating expenses	659,924	225,277	885,201	2,318,657	519,143	2,837,800
Operating income (loss)	28,122	13,681	41,803	4,517	(2,775)	1,742

	Revenues[(1)] Quarters ended July 31,		Revenues[(1)] Nine-month periods ended July 31,		Property, plant and equipment, goodwill and other intangible assets	
	2014 $	2013 $	2014 $	2013 $	As at July 31, 2014 $	As at October 31, 2013 $
Canada	649,937	676,260	2,279,866	2,277,154	200,164	187,103
France	231,845	203,403	519,905	465,311	46,554	42,059
United Kingdom	38,387	27,994	51,277	41,690	36,055	33,073
Other	21,533	19,347	56,496	55,387	15,121	14,846
	941,702	927,004	2,907,544	2,839,542	297,894	277,081

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

Note 12 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 8, 18, 19, 25 and 26 to the financial statements for the fiscal year ended October 31, 2013 provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

The Corporation's subsidiaries have general indemnity clauses in most 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 contracts typically cover a one-year period and are renewable annually. As at July 31, 2014, these guarantees totalled $1,350. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2014, no amounts had 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 July 31, 2014, $16,024 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €11,000 [$16,039]. As at July 31, 2014, letters of guarantee had been issued totalling €2,208 [$3,219].

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