TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2014

March 12, 2014

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Trading symbols
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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended January 31, 2014, compared with the quarter ended January 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 first-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 March 12, 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 January 31, 2014 and Annual Information Form for the year ended October 31, 2013.

Our 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 its second-quarter results will be inferior to those posted for the corresponding quarter last year..
- The outlook whereby the Corporation expects that the increase in operating expenses for the second quarter overall resulting from the decline in the dollar's value compared with the previous year will be 3.7%.
- The outlook whereby the Corporation expects that the weakened Canadian dollar will mean an increase in operating expenses this summer, estimated to be 6% if the dollar remains at its current value against the US dollar, the euro and the pound.

In making these statements, the Corporation has assumed that pricing trends will hold firm through to season-end, that bookings will continue to track reported trends, that fuel prices, costs and the Canadian dollar relative to European currencies and the U.S. dollar will remain stable, that credit facilities will remain available as in the past and that management will continue to manage changes in cash flows to fund working capital requirements. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. We occasionally use non-IFRS financial measures. Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. The non-IFRS measures used by the Corporation are as follows:

Operating margin (loss) before depreciation and amortization	Gross margin (operating loss) before depreciation and amortization expense.
Adjusted income (loss)	Income (loss) before income tax and 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, restructuring charge and impairment of goodwill.
Adjusted after-tax 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, restructuring charge and impairment of goodwill, net of related taxes.
Adjusted after-tax income (loss) per share	Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
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 above-described financial measures have no prescribed meaning under IFRS and are therefore unlikely to be comparable to similar measures reported by other issuers or those used by financial analysts. They are furnished to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures. Management believes that readers of our MD&A use these measures, or a subset thereof, to analyze the Corporation's results, its financial performance and its financial position.

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

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

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended January 31	
	2014 $	2013 $
Operating loss	(33,534)	(29,936)
Depreciation and amortization	9,722	8,919
Operating loss before depreciation and amortization	(23,812)	(21,017)
Loss before income tax expense	(34,367)	(20,142)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	3,218	(8,796)
Adjusted loss	(31,149)	(28,938)
Net loss attributable to shareholders	(25,649)	(15,137)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	3,218	(8,796)
Tax impact	(857)	2,369
Adjusted after-tax loss	(23,288)	(21,564)
Adjusted after-tax loss	(23,288)	(21,564)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,536	38,323
Diluted adjusted after-tax loss per share	(0.60)	(0.56)

	As at January 31, 2014 $	As at October 31, 2013 $
Aircraft rent for the past four quarters	80,021	81,270
Multiple	5	5
Adjusted operating leases	400,105	406,350
Long-term debt	—	—
Adjusted operating leases	400,105	406,350
Total debt	400,105	406,350
Total debt	400,105	406,350
Cash and cash equivalents	(359,596)	(265,818)
Total net debt	40,509	140,532

FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
(in thousands of dollars, except per share data)	2014 $	2013 $	Difference $	Difference %
Consolidated Statements of Loss				
Revenues	847,222	805,714	41,508	5.2
Operating loss before depreciation and amortization[1]	(23,812)	(21,017)	(2,795)	(13.3)
Net loss attributable to shareholders	(25,649)	(15,137)	(10,512)	(69.4)
Basic loss per share	(0.67)	(0.39)	(0.28)	(71.8)
Diluted loss per share	(0.67)	(0.39)	(0.28)	(71.8)
Adjusted after-tax loss[1]	(23,288)	(21,564)	(1,724)	(8.0)
Diluted adjusted after-tax loss per share[1]	(0.60)	(0.56)	(0.04)	(7.1)
Consolidated Statements of Cash Flows				
Operating activities	97,738	61,374	36,364	59.2
Investing activities	(8,644)	14,712	(23,356)	(158.8)
Financing activities	1,489	258	1,231	477.1
Effect of exchange rate changes on cash and cash equivalents	3,195	358	2,837	792.5
Net change in cash and cash equivalents	93,778	76,702	17,076	22.3
	As at January 31, 2014 $	As at October 31, 2013 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	359,596	265,818	93,778	35.3
Cash and cash equivalents in trust or otherwise reserved	459,833	403,468	56,365	14.0
	819,429	669,286	150,143	22.4
Total assets	1,585,069	1,290,073	294,996	22.9
Debt	—	—	—	—
Total debt[1]	400,105	406,350	(6,245)	(1.5)
Total net debt[1]	40,509	140,532	(100,023)	(71.2)

[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 gross margin and maintain or grow market share in all its markets. Cost management remains a core strategic issue in light of the tourism industry's slim gross margins.

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

For fiscal 2014, Transat has set the following targets

1. Transat is currently committed under a cost reduction and margin improvement program, and, in 2014, aims to improve its winter results and maintain its summer profitability.

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 adaptable 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 revamp its organizational structure based on the growth prospects it has identified.

Our key performance drivers are operating margin before depreciation and amortization, 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 January 31			
	2014	2013	Difference	Difference
(in thousands of dollars)	$	$	$	%
Americas	722,207	690,717	31,490	4.6
Europe	125,015	114,997	10,018	8.7
	847,222	805,714	41,508	5.2

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 January 31, 2014 were up $41.5 million from fiscal 2013. This increase stems primarily from higher average selling prices, the euro's strengthening against the dollar, amid a 1% increase in capacity deployed. During the quarter, total travellers fell 0.8%.

OPERATING EXPENSES

	Quarters ended January 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %
Costs of providing tourism services	537,499	498,920	38,579	7.7
Salaries and employee benefits	83,327	82,365	962	1.2
Aircraft fuel	70,958	66,225	4,733	7.1
Commissions	47,028	42,881	4,147	9.7
Aircraft maintenance	24,045	20,752	3,293	15.9
Aircraft rent	19,170	20,419	(1,249)	(6.1)
Airport and navigation fees	14,769	15,374	(605)	(3.9)
Other	74,238	79,795	(5,557)	(7.0)
Depreciation and amortization	9,722	8,919	803	9.0
Total	880,756	835,650	45,106	5.4

Total operating expenses were up $45.1 million (5.4%) for the quarter compared with fiscal 2013, mainly attributable to our cost of providing tourism services. Among other factors underlying this increase were the weakening of the dollar against the U.S. dollar, the euro and the pound sterling, and to a lesser extent, adverse weather conditions that affected certain Canadian airports.

As a result, operating expenses for the first quarter rose 5.7% and 3.8% in the Americas and Europe, 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. Compared with the corresponding period of the previous fiscal year, these costs were up $38.6 million (7.7%). The higher cost for the quarter stemmed primarily from the dollar's weakening against the U.S. dollar and the euro and the increase in hotel room costs.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $1.0 million (1.2%) for the quarter, compared with fiscal 2013. This increase stemmed from annual salary reviews and the weakening of the dollar against the U.S. dollar, the euro and the pound sterling, partly offset by the savings generated by workforce reductions made during fiscal 2013.

AIRCRAFT FUEL

Aircraft fuel expense for the quarter rose $4.7 million (7.1%) from fiscal 2013. This increase stemmed from the weakening of the dollar against the U.S. dollar (fuel is primarily paid for in U.S. dollars) and to a lesser extent, the higher flight hours logged by our aircraft fleet and the rise in fuel prices at destination compared with the corresponding quarter of the previous fiscal year.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense grew $4.1 million (9.7%) in the first quarter compared with 2013. As a percentage of revenues, commissions increased to 5.6% from 5.1% in fiscal 2013, owing to the higher revenue base used to calculate commissions.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs, consisting mainly of engine and airframe maintenance expenses incurred by Air Transat, were up $3.3 million or 15.9% for the first quarter, compared with fiscal 2013. This increase resulted from the dollar's weakening against the U.S. dollar and the repayment relating to aircraft maintenance received by the Corporation in the first quarter of fiscal 2013.

AIRCRAFT RENT

Aircraft rent declined $1.2 million (6.1%) during the quarter, due in large part to the renewal of certain aircraft leases under improved terms, partly offset by the dollar's weakening against the U.S. dollar.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees, consisting mainly of fees charged by airports and air traffic control entities, were down $0.6 million (3.9%) for the first quarter ended January 31, 2014, owing primarily to downward adjustments to certain provisions, partly offset by a slightly higher number of flights than in the corresponding quarter of fiscal 2013.

OTHER

Other expenses for the first quarter were down $5.6 million (7.0%) compared with 2013, owing primarily to lower 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 $0.8 million in the first quarter from the corresponding period of fiscal 2013. The increase resulted from improvements made to our aircraft fleet, mainly for the reconfiguration of our Airbus A330s.

OPERATING LOSS

In light of the foregoing, the Corporation recorded an operating loss for the first quarter of $33.5 million (4.0%) compared with an operating loss of $29.9 million (3.7%) in 2013. The deterioration in gross margins was mainly attributable to the recent, sharp weakening of the dollar against the U.S. dollar, which led to a $14.0 million increase in our operating expenses.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended January 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %
Revenues	722,207	690,717	31,490	4.6
Operating expenses	747,181	706,988	40,193	5.7
Operating loss	(24,974)	(16,271)	(8,703)	(53.5)

First-quarter revenues at our North American subsidiaries from sales in Canada and abroad were up $31.5 million (4.6%) compared with fiscal 2013, driven by higher average selling prices, while total travellers declined 0.8%. During the quarter, our capacity increased 3% for sun destinations and decreased 10% for transatlantic routes, compared with fiscal 2013. The Corporation reported an operating loss for the quarter of $25.0 million (3.5%) compared with an operating loss of $16.3 million (2.4%) in fiscal 2013. The higher operating loss was mainly attributable to the recent, sharp weakening of the dollar against the U.S. dollar, which led to a rise in operating expenses. The combination of higher selling prices and cost reduction initiatives was not sufficient to offset the impact of increased costs.

EUROPE

	Quarters ended January 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %
Revenues	125,015	114,997	10,018	8.7
Operating expenses	133,575	128,662	4,913	3.8
Operating loss	(8,560)	(13,665)	5,105	37.4

Compared with 2013, revenues at our European subsidiaries for the first quarter, stemming from sales in Europe and Canada, were up $10.0 million or 8.7%, driven by the strengthening of the euro and the pound sterling against the dollar. In local currency terms, revenues of our European entities declined, following our decision to reduce capacity. Total travellers for the quarter were down 0.1% compared with 2013, while average selling prices were higher than in the same period of fiscal 2013. Our European operations reported an operating loss of $8.6 million (6.8%) for the quarter, compared with an operating loss of $13.7 million (11.9%) in fiscal 2013.

OTHER EXPENSES (REVENUES)

	Quarters ended January 31			
(in thousands of dollars)	2014 $	2013 $	Difference $	Difference %
Financing costs	484	668	(184)	(27.5)
Financing income	(2,044)	(1,825)	219	12.0
Change in fair value of derivative financial instruments used for aircraft fuel purchases	3,218	(8,796)	12,014	136.6
Foreign exchange (gain) loss on long-term monetary items	(905)	6	911	n/a
Share of net loss of an associate	80	153	(73)	(47.7)

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Financing costs were down $0.2 million over the first quarter, primarily due to lower expenses related to our credit facilities.

FINANCING INCOME

Financing income rose $0.2 million in the first quarter compared with the corresponding period of fiscal 2013, 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. During the first quarter, the fair value of derivative financial instruments used for aircraft fuel purchases fell $3.2 million compared with an $8.8 million increase in 2013.

FOREIGN EXCHANGE (GAIN) LOSS 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. The Corporation posted a $0.9 million foreign exchange gain on long-term monetary items for the first quarter compared with an insignificant loss in 2013.

SHARE OF NET LOSS OF AN ASSOCIATE

Our share of net loss of an associate represents our share of the net loss of our hotel business, Caribbean Investments B.V. ["CIBV"]. The Corporation reported $0.1 million as its share of the net loss of an associate for the first quarter compared with a $0.2 million share of the net loss for the same quarter of 2013.

INCOME TAXES

Income tax recovery for the first quarter totalled $9.5 million compared with $6.2 million for the corresponding period of the previous fiscal year. Excluding the share of net loss of an associate, the effective tax rate stood at 27.7% for the first quarter compared with 31.0% for the same period of 2013. The change in tax rates for the quarter resulted from differences between countries in the statutory tax rates applied to taxable income or losses.

NET LOSS AND NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed in *Consolidated operations*, the Corporation reported a net loss $24.9 million for the quarter ended January 31, 2014 compared with a net loss of $13.9 million in 2013. Net loss attributable to shareholders for the quarter stood at $25.6 million or $0.67 per share (basic and diluted) compared with a net loss of $15.1 million or $0.39 per share (basic and diluted) for the corresponding quarter of the previous fiscal year. The weighted average number of outstanding shares used to compute per share amounts for the first quarter of 2014 was 38,536,000 and 38,323,000 for the corresponding period of 2013.

For the first quarter, the Corporation posted an adjusted after-tax loss of $23.3 million ($0.60 per share) compared with $21.6 million ($0.56 per share) in fiscal 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. Except for one quarter, revenues rose compared with the corresponding quarters. Average selling prices were up while total travellers declined for both the winter and summer seasons. Our margins improved each quarter, mainly due to higher average selling prices and our cost reduction and margin improvement initiatives, except for the current quarter where the sharp decline in the dollar led to higher 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)	Q2-2012 $	Q3-2012 $	Q4-2012 $	Q1-2013 $	Q2-2013 $	Q3-2013 $	Q4-2013 $	Q1-2014 $
Revenues	1,212,426	909,056	763,441	805,714	1,106,824	927,004	808,616	847,222
Aircraft rent	21,589	22,361	24,529	20,419	20,556	20,530	19,765	19,170
Operating margin (loss)	(36,320)	12,498	41,731	(29,936)	(10,125)	41,803	70,096	(33,534)
Operating margin (loss) before depreciation and amortization	(26,226)	22,074	52,946	(21,017)	(1,185)	53,053	80,055	(23,812)
Net income (loss)	(11,774)	9,664	17,154	(13,940)	(21,556)	41,469	55,229	(24,860)
Net income (loss) attributable to shareholders	(13,199)	9,405	16,614	(15,137)	(22,760)	41,149	54,723	(25,649)
Basic earnings (loss) per share	(0.35)	0.25	0.43	(0.39)	(0.59)	1.07	1.42	(0.67)
Diluted earnings (loss) per share	(0.35)	0.25	0.43	(0.39)	(0.59)	1.07	1.40	(0.67)
Adjusted after-tax income (loss)	(24,536)	10,521	28,684	(21,564)	(1,432)	30,759	54,804	(23,288)
Adjusted after-tax income (loss) per share	(0.64)	0.28	0.75	(0.56)	(0.04)	0.80	1.40	(0.60)

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2014, cash and cash equivalents totalled $359.6 million compared with $265.8 million as at October 31, 2013. As at the end of the first quarter of fiscal 2014, cash and cash equivalents held in trust or otherwise reserved amounted to $459.8 million compared with $403.5 million as at October 31, 2013. The Corporation's statement of financial position reflects working capital of $72.5 million and a ratio of 1.1 compared with a working capital of $81.1 million and a ratio of 1.1 as at October 31, 2013.

Total assets grew $295.0 million to $1,585.1 million as at January 31, 2014 from $1,290.1 million as at October 31, 2013, driven primarily by a $93.8 million increase in cash and cash equivalents, a $64.2 million increase in pre-paid expenses and a $56.4 million increase in cash and cash equivalents in trust or otherwise reserved. These changes and changes in other main monetary asset items reflect the seasonal nature of our operations. The Corporation recorded a $3.7 million decline in equity to $437.7 million as at January 31, 2014 from $441.4 million as at October 31, 2013, mainly due to the net loss attributable to shareholders of $25.7 million, offset by the $8.9 million unrealized gain on cash flow hedges and the $11.9 million foreign exchange gain on translation of financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended January 31		
	2014	2013	Difference
(in thousands of dollars)	$	$	$
Cash flows related to operating activities	97,738	61,374	36,365
Cash flows related to investing activities	(8,644)	14,712	(23,356)
Cash flows related to financing activities	1,489	258	1,231
Effect of exchange rate changes on cash	3,195	358	2,837
Net change in cash and cash equivalents	93,778	76,702	17,076

OPERATING ACTIVITIES

Cash flows generated by operating activities in the first quarter amounted to $97.7 million compared with $61.4 million for the corresponding period of fiscal 2013. This $36.4 million increase resulted from a $30.3 million rise in the net change in non-cash working capital balances related to operations, which in turn stemmed primarily from a larger increase in trade and other payables during the quarter compared with fiscal 2013, and a $12.9 million increase in the net change in other assets and liabilities related to operations and the provision for overhaul of leased aircraft, offset by the decline in profitability.

INVESTING ACTIVITIES

Cash flows used in investing activities in the first quarter amounted to $8.6 million compared with cash flows generated of $14.7 million in fiscal 2013. Additions to property, plant and equipment and other intangible assets totalled $11.6 million compared with $12.6 million in fiscal 2013. We also received a $3.0 million balance of sale price receivable related to the disposal of a subsidiary in 2012. During the first quarter of fiscal 2013, we received $27.4 million in proceeds from the sale of ABCP investments.

FINANCING ACTIVITIES

Cash flows used in financing activities totalled $1.5 million for the first quarter of 2014, up $1.2 million from $0.3 million, following higher proceeds from share issuance than in the same quarter of fiscal 2013.

CONSOLIDATED FINANCIAL POSITION

(in thousands of dollars, except per share data)	January 31, 2014 $	October 31, 2013 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	359,596	265,818	93,778	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	459,833	403,468	56,365	Seasonal nature of operations
Trade and other receivables	135,865	112,738	23,127	Seasonal nature of operations and foreign exchange difference
Income taxes receivable	15,953	5,645	10,308	Increase in income taxes recoverable given subsidiaries' taxable income
Inventories	12,366	13,143	(777)	No significant difference
Prepaid expenses	137,643	73,453	64,190	Increase in prepayments to certain service providers due to the seasonal nature of operations
Derivative financial instruments	23,680	7,720	15,960	Favourable change in the dollar compared with the U.S. currency with respect to forward contracts entered into
Deposits	53,908	36,575	17,333	Seasonal nature of operations
Deferred tax assets	24,376	22,048	2,328	No significant difference
Property, plant and equipment	116,851	115,025	1,826	Additions during the period and foreign exchange difference, offset by depreciation
Goodwill	98,099	94,723	3,376	Foreign exchange difference
Intangible assets	70,370	67,333	3,037	Additions during the period and foreign exchange difference, offset by amortization
Investments and other assets	76,529	72,384	4,145	Foreign exchange difference and share of net loss of an associate
Liabilities				
Trade and other payables	421,172	326,687	94,485	Seasonal nature of operations, variable compensation and foreign exchange difference
Provision for overhaul of leased aircraft	28,462	28,057	405	No significant difference
Income taxes payable	2,573	19,729	(17,156)	Settlement of balances due
Customer deposits and deferred revenues	621,618	410,340	211,278	Seasonal nature of operations
Derivative financial instruments	11,243	4,675	6,568	Unfavourable change in fuel prices with respect to the forward contracts entered into
Other liabilities	49,314	48,096	1,218	No significant difference
Deferred tax liabilities	12,996	11,096	1,900	No significant difference
Equity				
Share capital	223,784	221,706	2,078	Issued from treasury
Share-based payment reserve	15,285	15,391	(106)	Exercise of options offset by the share-based payment expense
Retained earnings	181,186	206,835	(25,649)	Net income
Unrealized gain (loss) on cash flow hedges	11,256	2,380	8,876	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	6,180	(4,919)	11,099	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at January 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 rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at January 31, 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 [$17.3 million].

OFF-BALANCE SHEET ARRANGEMENTS

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

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

- Guarantees
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with service providers, amounted to approximately $657.0 million as at January 31, 2014 ($655.8 million as at October 31, 2013) and are detailed as follows:

(in thousands of dollars)	As at January 31, 2014 $	As at October 31, 2013 $
Guarantees		
Irrevocable letters of credit	22,374	21,850
Collateral security contracts	1,171	1,137
Operating leases		
Obligations under operating leases	633,475	632,804
	657,020	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 January 31, 2014, $57.5 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 January 31, 2014, $16.3 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its French operations, the Corporation has guarantee lines of credit amounting to €11.2 million [$16.5 million], of which €3.9 million had been drawn down [$5.9 million].

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £15.1 million [$27.5 million], which has been fully drawn down.

As at January 31, 2014, off-balance sheet arrangements had increased by $1.2 million, following the dollar's weakening against the U.S. dollar, the euro and the pound sterling, offset by repayments made during the quarter.

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, increased $1.2 million to $657.0 million as at January 31, 2014 from $655.8 million as at October 31, 2013. This increase resulted from the dollar's weakening against the U.S. dollar, the euro and the pound sterling, offset by repayments made during the quarter.

The Corporation's total debt stood at $400.1 million, down $6.2 million from its October 31, 2013 level, while total net debt declined $99.8 million to $40.5 million as at January 31, 2014 from $140.5 million as at October 31, 2013. The decline in total net debt stemmed from higher cash and cash equivalent balances as at October 31, 2013.

OUTSTANDING SHARES

As at January 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 bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at January 31, 2013, there were 1,164,536 Class A Variable Voting Shares outstanding and 37,472,313 Class B Voting Shares outstanding.

STOCK OPTIONS

As at March 11, 2014, there were a total of 2,784,187 stock options outstanding, 1,312,269 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of nine Airbus A310s (250 seats) and twelve Airbus A330s (345 seats). On July 24, 2013, the Corporation announced the signing of an eight-year lease in respect of four short-haul Boeing 737-800s, which will be commissioned in summer 2014.

FUTURE 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 an entity. 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 disclose 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 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 the Corporation is exposed to through its participation in those plans. The amendments made to IAS 19 became effective on November 1, 2013. Except for additional disclosures, adoption of this standard had no impact on the Corporation's financial statements.

MODIFICATIONS FUTURES DE MÉTHODES COMPTABLES

IFRS 9, *FINANCIAL INSTRUMENTS*

IFRS 9, *Financial Instruments*, has been issued and is applicable at a later date to be determined by the IASB, with earlier application permitted. IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. The Corporation continues to assess 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 January 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, using the criteria set by COSO Framework -1992, 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 January 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

On the Sun destinations market, Transat's capacity is approximately 2% lower than that commercialized last year. To date, 70% of that capacity has been sold, load factors are lower by 2%, and selling prices are higher by 4% compared with those recorded last year at the same date.

In France, where winter corresponds to low season, compared to last year at this time medium-haul bookings are higher by 16%, long-haul bookings are down by 4%, and selling prices are similar.

On the transatlantic market, also in low season, Transat's capacity is 6% lower than that commercialized last winter. To date, 67% of that capacity has been sold, load factors are lower by 5%, and selling prices are higher by 2%.

Outlook for winter – The Sun destinations market out of Canada accounts for a substantial portion of Transat's business during the winter season, and on that market, margins are particularly slim and volatile. Owing to the rapid recent decline in the value of the Canadian dollar, the Corporation expects that its second-quarter results will be inferior to those posted for the corresponding quarter last year.

Drop of Canadian dollar – The weakening dollar by itself led to an increase in operating expenses of 2.7% in the first quarter for sun destinations, and of 3.4% in the second quarter for bookings made to date. If the dollar remains at its current value, the increase in operating expenses for the second quarter overall resulting from the decline in the dollar's value compared with the previous year will be 3.7%.

Summer 2014 – With regard to summer 2014, while it is too soon to draw firm conclusions given that only 27% of seats have been sold, Transat's capacity on the transatlantic market is 1% higher than in 2013. Load factors are similar and prices are higher by 5%. As in the winter season, the weakened Canadian dollar will mean an increase in operating expenses this summer, estimated to be 6% if the dollar remains at its current value against the US dollar, the euro and the pound.

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

(in thousands of Canadian dollars) (unaudited)	As at January 31, 2014 $	As at October 31, 2013 $
ASSETS		
Current assets		
Cash and cash equivalents	359,596	265,818
Cash and cash equivalents in trust or otherwise reserved [note 5]	418,504	361,743
Trade and other receivables	135,865	112,738
Income taxes receivable	15,953	5,645
Inventories	12,366	13,143
Prepaid expenses	137,643	73,453
Derivative financial instruments	23,680	7,720
Current portion of deposits	33,869	13,267
Current assets	1,137,476	853,527
Cash and cash equivalents reserved	41,329	41,725
Deposits	20,039	23,308
Deferred tax assets	24,376	22,048
Property, plant and equipment	116,851	115,025
Goodwill	98,099	94,723
Intangible assets	70,370	67,333
Investments and other assets *[note 6]*	76,529	72,384
Non-current assets	447,593	436,546
	1,585,069	1,290,073
LIABILITIES		
Trade and other payables	421,172	326,687
Current portion of provision for overhaul of leased aircraft *[note 7]*	8,339	11,029
Income taxes payable	2,573	19,729
Customer deposits and deferred revenues	621,618	410,340
Derivative financial instruments	11,243	4,675
Current liabilities	1,064,945	772,460
Provision for overhaul of leased aircraft	20,123	17,028
Other liabilities *[note 9]*	49,314	48,096
Deferred tax liabilities	12,996	11,096
Non-current liabilities	82,433	76,220
EQUITY		
Share capital *[note 10]*	223,784	221,706
Share-based payment reserve	15,285	15,391
Retained earnings	181,186	206,835
Unrealized gain (loss) on cash flow hedges	11,256	2,380
Cumulative exchange differences	6,180	(4,919)
	437,691	441,393
	1,585,069	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 in accordance with the Canadian Institute of Chartered Accountants' standards for a review of interim financial statements by the auditors.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended January 31, 2014 $	2013 $
Revenues	847,222	805,714
Operating expenses		
Costs of providing tourism services	537,499	498,920
Salaries and employee benefits	83,327	82,365
Aircraft fuel	70,958	66,225
Commissions	47,028	42,881
Aircraft maintenance	24,045	20,752
Aircraft rent	19,170	20,419
Airport and navigation fees	14,769	15,374
Other	74,238	79,795
Depreciation and amortization	9,722	8,919
	880,756	835,650
Operating loss	(33,534)	(29,936)
Financing costs	484	668
Financing income	(2,044)	(1,825)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	3,218	(8,796)
Foreign exchange (gain) loss on long-term monetary items	(905)	6
Share of net loss of an associate	80	153
Loss before income tax expense	(34,367)	(20,142)
Income taxes (recovery)		
Current	(5,974)	(10,391)
Deferred	(3,533)	4,189
	(9,507)	(6,202)
Net loss for the period	(24,860)	(13,940)
Net income (loss) attributable to:		
Shareholders	(25,649)	(15,137)
Non-controlling interests	789	1,197
	(24,860)	(13,940)
Loss per share attributable to shareholders *[note 10]*		
Basic	(0.67)	(0.39)
Diluted	(0.67)	(0.39)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended January 31, 2014 $	2013 $
Net loss for the period	(24,860)	(13,940)
Other comprehensive income (loss)		
Items that will be reclassified to net income (loss)		
Change in fair value of derivatives designated as cash flow hedges	8,722	(106)
Reclassification to net income (loss)	3,352	(839)
Deferred taxes	(3,198)	360
	8,876	(585)
Foreign exchange gains (losses) on translation of financial statements of foreign subsidiaries	11,099	(389)
Total other comprehensive income (loss)	19,975	(974)
Comprehensive loss for the period	(4,885)	(14,914)
Attributable to:		
Shareholders	(5,438)	(16,100)
Non-controlling interests	553	1,186
	(4,885)	(14,914)

See accompanying notes to unaudited interim condensed consolidated financial statements

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 (loss) for the period	—	—	(15,137)	—	—	(15,137)	1,197	(13,940)
Other comprehensive loss	—	—	—	(585)	(378)	(963)	(11)	(974)
Comprehensive income (loss)	—	—	(15,137)	(585)	(378)	(16,100)	1,186	(14,914)
Issued from treasury	258	—	—	—	—	258	—	258
Share-based payment expense	—	536	—	—	—	536	—	536
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(1,197)	(1,197)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(11)	(11)	11	—
	258	536	—	—	(11)	783	(1,186)	(403)
Balance as at January 31, 2013	220,994	13,872	130,061	(1,060)	(12,858)	351,009	—	351,009
Net income for the period	—	—	73,092	—	—	73,092	2,050	75,142
Other comprehensive income	—	—	2,180	3,440	7,279	12,899	660	13,559
Comprehensive income	—	—	75,272	3,440	7,279	85,991	2,710	88,701
Issued from treasury	707	—	—	—	—	707	—	707
Exercise of options	5	—	—	—	—	5	—	5
Share-based payment expense	—	1,519	—	—	—	1,519	—	1,519
Dividends	—	—	—	—	—	—	(2,787)	(2,787)
Other changes in non-controlling interest liabilities	—	—	1,502	—	—	1,502	(1,502)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	2,239	2,239
Reclassification of non-controlling interest exchange difference	—	—	—	—	660	660	(660)	—
	712	1,519	1,502	—	660	4,393	(2,710)	1,683
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	—	—	(25,649)	—	—	(25,649)	789	(24,860)
Other comprehensive income (loss)	—	—	—	8,876	11,335	20,211	(236)	19,975
Comprehensive income (loss)	—	—	(25,649)	8,876	11,335	(5,438)	553	(4,885)
Issued from treasury	244	—	—	—	—	244	—	244
Exercise of options	1,834	(589)	—	—	—	1,245	—	1,245
Share-based payment expense	—	483	—	—	—	483	—	483
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(789)	(789)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(236)	(236)	236	—
	2,078	(106)	—	—	(236)	1,736	(553)	1,183
Balance as at January 31, 2014	223,784	15,285	181,186	11,256	6,180	437,691	—	437,691

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars) (unaudited)	Quarters ended January 31, 2014 $	2013 $
OPERATING ACTIVITIES		
Net loss for the period	(24,860)	(13,940)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	9,722	8,919
Change in fair value of derivative financial instruments used for aircraft fuel purchases	3,218	(8,796)
Foreign exchange (gain) loss on long-term monetary items	(905)	6
Share of net loss of an associate	80	153
Deferred taxes	(3,533)	4,189
Employee benefits	563	537
Share-based payment expense	483	536
	(15,232)	(8,396)
Net change in non-cash working capital balances related to operations	105,691	75,351
Net change in other assets and liabilities related to operations	6,874	15
Net change in provision for overhaul of leased aircraft	405	(5,596)
Cash flows related to operating activities	97,738	61,374
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(11,644)	(12,638)
Proceeds from disposal of a subsidiary	3,000	—
Proceeds from sale of investments in ABCP	—	27,350
Cash flows related to investing activities	(8,644)	14,712
FINANCING ACTIVITIES		
Proceeds from issuance of shares	1,489	258
Cash flows related to financing activities	1,489	258
Effect of exchange rate changes on cash and cash equivalents	3,195	358
Net change in cash and cash equivalents	93,778	76,702
Cash and cash equivalents, beginning of period	265,818	171,175
Cash and cash equivalents, end of period	359,596	247,877
Supplementary information (as reported in operating activities)		
Income taxes paid	21,261	1,648
Interest paid	26	275

See accompanying notes to unaudited interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. The Class A variable voting shares and Class B voting shares are listed on the Toronto Stock Exchange.

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2014 were approved by the Corporation's Board of Directors on March 12, 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 an entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 became effective November 1, 2013. The adoption of this standard had no impact on the Corporation's financial statements.

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IFRS 13, *FAIR VALUE MEASUREMENT*

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Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9, *FINANCIAL INSTRUMENTS*

IFRS 9, *Financial Instruments*, has been issued and is applicable at a later date to be determined by the IASB, with earlier application permitted. IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. The Corporation continues to assess the impact of adopting this standard on its financial statements.

Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at January 31, 2014, cash and cash equivalents in trust or otherwise reserved included $349,456 [$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 $110,377, of which $41,329 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 January 31, 2014 $	As at October 31, 2013 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	74,579	70,041
Deferred costs, unamortized balance	600	639
Sundry	1,350	1,704
	76,529	72,384

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

	$
Balance as at October 31, 2013	70,041
Share of net loss	(80)
Exchange difference	4,618
Balance as at January 31, 2014	74,579

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 January 31 is detailed as follows:

	$
Balance as at October 31, 2013	28,057
Additional provisions	3,022
Utilization of provisions	(3,844)
Exchange difference	1,228
Balance as at January 31, 2014	28,463
Current provisions	8,339
Non-current provisions	20,123
Balance as at January 31, 2014	28,462

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

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 rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at January 31, 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 January 31, 2014, $57,517 had been drawn down.

Operating lines of credit totalling €11,500 [$17,263] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at January 31, 2014.

Note 9 OTHER LIABILITIES

	As at January 31, 2014 $	As at October 31, 2013 $
Employee benefits	31,304	30,940
Deferred lease inducements	15,015	16,036
Non-controlling interests	25,675	23,800
	71,994	70,776
Less non-controlling interests included in Trade and other payables	(22,680)	(22,680)
	49,314	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	51,933	258
Balance as at January 31, 2013	38,347,601	220,994
Issued from treasury	119,570	707
Exercise of options	1,316	5
Balance as at October 31, 2013	38,468,487	221,706
Issued from treasury	20,952	244
Exercise of options	147,410	1,834
Balance as at January 31, 2014	38,636,849	223,784

As at January 31, 2014, the number of Class A Shares and Class B Shares stood at 1,164,536 and 37,472,313, 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	(147,410)	8.45
Cancelled	(135,321)	12.68
Balance as at January 31, 2014	2,784,187	12.40
Options exercisable as at January 31, 2014	1,312,269	15.24

EARNINGS (LOSS) PER SHARE

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

	Quarters ended January 31	
	2014	2013
(in thousands of dollars, except per share data)	$	$
NUMERATOR		
Net loss attributable to shareholders of the Corporation used in computing basic and diluted loss per share	(25,649)	(15,137)
DENOMINATOR		
Weighted average number of outstanding shares	38,536	38,323
Effect of dilutive securities		
Stock options	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	38,536	38,323
Loss per share		
Basic	(0.67)	(0.39)
Diluted	(0.67)	(0.39)

In light of the net loss recognized for quarters ended January 31, 2014 and 2013, respectively, 2,784,187 and 2,692,544 outstanding stock options were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 11 SEGMENTED DISCLOSURE

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

	Quarter ended January 31, 2014		
	Americas $	Europe $	Total $
Revenues	722,207	125,015	847,222
Operating expenses	747,199	133,575	880,774
Operating loss	(24,992)	(8,560)	(33,552)

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

	Revenues(1) Quarters ended January 31,		Property, plant and equipment, goodwill and other intangible assets	
	2014 $	2013 $	As at January 31, 2014 $	As at October 31, 2013 $
Canada	708,205	677,358	188,570	187,103
France	118,965	109,224	45,176	42,059
United Kingdom	5,557	5,236	35,916	33,073
Other	14,495	13,896	15,658	14,846
	847,222	805,714	285,320	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 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 agreements typically cover a one-year period and are renewable annually. As at January 31, 2014, these guarantees totalled $1,172. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2014, no amounts have been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at January 31, 2014, $16,257 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €11,000 [$16,512]. As at January 31, 2014, letters of guarantee had been issued totalling €3,900 [$5,854].

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