TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2016

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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, 2016, compared with the quarter ended January 31, 2015, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2015 and the accompanying notes and the 2015 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 2015 Annual Report. The risks and uncertainties set out in the MD&A of the 2015 Annual Report are herein incorporated by reference and remain unchanged. The information contained herein is dated as of March 9, 2016. 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, 2016 and the Annual Information Form for the year ended October 31, 2015.

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 an increase in operating expenses of 5.1% on the sun destinations market and a decrease of 7.4% on the transatlantic market for the second quarter, as well as a 4.6% decrease in operating expenses for the second semester, compared with the same periods last year.
- The outlook whereby second-quarter results may be lower than those posted for the same quarter last winter.

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year and that fuel prices, foreign exchange rates and hotel and other destination-based costs will remain steady. 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 assess the Corporation's operational performance. It is likely that the non-IFRS financial measures used by the Corporation will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Corporation are 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 with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to 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 fuel-related derivatives and other derivatives, restructuring charges, impairment of goodwill, depreciation and 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 assess 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, including premiums for fuel-related derivatives and other derivatives matured during the period.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items, including premiums for fuel-related derivatives and other derivatives matured during the period.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before change in fair value of fuel-related derivatives and other derivatives, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items, including premiums for fuel-related derivatives and other derivatives matured during the period, 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.

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	
	2016 $	2015 $
Operating income (loss)	(50,546)	(47,491)
Premium related to fuel-related derivatives and other derivatives matured during the period	(2,739)	—
Depreciation and amortization	12,657	11,738
Adjusted operating income (loss)	(40,628)	(35,753)
Income (loss) before income tax expense	(83,600)	(87,874)
Change in fair value of fuel-related derivatives and other derivatives	35,542	43,771
Premium related to fuel-related derivatives and other derivatives matured during the period	(2,739)	—
Adjusted pre-tax income (loss)	(50,797)	(44,103)
Net income (loss) attributable to shareholders	(61,155)	(64,314)
Change in fair value of fuel-related derivatives and other derivatives	35,542	43,771
Premium related to fuel-related derivatives and other derivatives matured during the period	(2,739)	—
Tax impact	(8,915)	(11,904)
Adjusted net income (loss)	(37,267)	(32,447)
Adjusted net income (loss)	(37,267)	(32,447)
Adjusted weighted average number of outstanding shares used in computing earnings per share	37,260	38,754
Adjusted net income (loss) per share	(1.00)	(0.84)

	As at January 31, 2016 $	As at October 31, 2015 $
Aircraft rent for the past four quarters	107,967	98,859
Multiple	5	5
Adjusted operating leases	539,835	494,295
Long-term debt	—	—
Adjusted operating leases	539,835	494,295
Total debt	539,835	494,295
Total debt	539,835	494,295
Cash and cash equivalents	(431,411)	(336,423)
Total net debt	108,424	157,872

FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
(in thousands of Canadian dollars, except per share amounts)	2016 $	2015 $	Difference $	Difference %
Consolidated Statements of Income (Loss)				
Revenues	846,928	788,581	58,347	7.4
Adjusted operating income (loss)[1]	(40,628)	(35,753)	(4,875)	(13.6)
Net income (loss) attributable to shareholders	(61,155)	(64,314)	3,159	4.9
Basic earnings (loss) per share	(1.64)	(1.66)	0.02	1.2
Diluted earnings (loss) per share	(1.64)	(1.66)	0.02	1.2
Adjusted net income (loss)[1]	(37,267)	(32,447)	(4,820)	(14.9)
Adjusted net income (loss) per share[1]	(1.00)	(0.84)	(0.16)	(19.0)

Consolidated Statements of Cash Flows				
Operating activities	116,479	97,492	18,987	19.5
Investing activities	(16,780)	(15,074)	(1,706)	(11.3)
Financing activities	(4,674)	(18)	(4,656)	N/A
Effect of exchange rate changes on cash and cash equivalents	(37)	2,344	(2,381)	(101.6)
Net change in cash and cash equivalents	94,988	84,744	10,244	12.1

	As at January 31, 2016 $	As at October 31, 2015 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	431,411	336,423	94,988	28.2
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	440,523	412,099	28,424	6.9
	871,934	748,522	123,412	16.5
Total assets	1,781,584	1,513,764	267,820	17.7
Long-term debt	—	—	—	—
Total debt[1]	539,835	494,295	45,540	9.2
Total net debt[1]	108,424	157,872	(49,448)	(31.3)

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 primarily 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 in Canada, Mexico, the Dominican Republic and Greece. Transat holds an interest in a hotel business which owns, operates or manages properties in Mexico, Cuba and the Dominican Republic.

VISION

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

STRATEGY

To deliver on its vision, the Corporation intends to continue to maximize synergies from its vertical integration model in a targeted manner, according to tourism industry trends. In this respect, in recent years, the Corporation has considerably improved the effectiveness of its airline operations and launched a certain number of actions, including technological initiatives, to become more efficient and improve its performance as a distributor. The strategy also includes entry into new source markets and the launch of new destinations, targeting new markets for its traditional destinations and increasing its buying power for these routes. Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure and a cost reduction and unit margin improvement program to improve its operating income and maintain or grow market share in all its markets. Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. Given this trend, Transat has undertaken to adopt avant-garde policies on corporate responsibility and sustainable tourism.

For fiscal 2016, Transat has set the following objectives:

1. Implement an integrated distribution and brand strategy, including an enhanced online shopping experience, higher controlled sales, deployment of the Transat brand and finalization of required technological projects.

2. Increase capacity and improve the competitiveness of our sun destination offering, strengthen our presence and increase our capacity in the transatlantic market, and continue deploying the Lookéa club offering.

3. Reduce winter financial losses and maintain summer profitability, in particular by continuing our cost reduction and unit margin improvement program, with gains of $30 million expected in 2016.

4. Enter a new market via acquisition and optimize our hotel strategy, particularly through our interest in Ocean Hotels.

5. Simplify the organizational structure and optimize the succession management plan.

6. Obtain Travelife Partner status.

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 January 31			
	2016	2015	Difference	Difference
(in thousands of dollars)	$	$	$	%
Americas	721,281	678,881	42,400	6.2
Europe	125,647	109,700	15,947	14.5
	846,928	788,581	58,347	7.4

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

Revenues were up $58.4 million (7.4%) from the quarter ended January 31, 2015. The increase in revenues is due to the 8.7% overall increase in total travellers and higher average selling prices for package-type products to sun destinations, our main market for the period. The increase in total travellers during the quarter resulted from the higher number of passengers on both sun destinations and transatlantic markets. Compared with 2015, our sun destination and transatlantic markets product offerings were up 9.6% and 18.8%, respectively.

OPERATING EXPENSES

	Quarters ended January 31			
	2016	2015	Difference	Difference
(in thousands of dollars)	$	$	$	%
Costs of providing tourism services	509,348	458,373	50,975	11.1
Salaries and employee benefits	96,517	87,894	8,623	9.8
Aircraft fuel	61,410	91,453	(30,043)	(32.9)
Aircraft maintenance	39,953	29,361	10,592	36.1
Commissions	36,937	36,308	629	1.7
Aircraft rent	32,275	23,167	9,108	39.3
Airport and navigation fees	24,808	21,568	3,240	15.0
Other	85,501	76,813	8,688	11.3
Share of net income of an associate	(1,932)	(603)	(1,329)	220.4
Depreciation and amortization	12,657	11,738	919	7.8
Total	897,474	836,072	61,402	7.3

Total operating expenses for the quarter increased $61.4 million (7.3%) compared with fiscal 2015. This increase is mainly attributable to the higher number of total travellers during the quarter, driven by our decision to increase our sun destination product offering by 9.6% and the weakening of the Canadian dollar against the U.S. dollar.

COSTS OF PROVIDING TOURISM SERVICES

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 $51.0 million (11.1%) increase resulted from the increase in our sun destination product offering during the winter season and the dollar's weakening against the U.S. dollar, partially offset by lower hotel room costs.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits rose $8.6 million (9.8%) to $96.5 million for the quarter ended January 31, 2016. The increase resulted mainly from pilot and cabin crew hires following the addition of Boeing 737s to our aircraft fleet and annual salary reviews.

AIRCRAFT FUEL

Aircraft fuel expense was down $30.0 million (32.9%) for the quarter, mainly as a result of lower fuel price indicators in financial markets. However, the Corporation was unable to fully benefit from this decrease due to the fuel price hedging program it has in place. The dollar's weakening against the U.S. dollar (fuel is paid mainly in U.S. dollars) and the addition of seven Boeing 737s to our aircraft fleet compared with winter 2015 also contributed to mitigate the decrease in aircraft fuel prices.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Compared with 2015, these expenses rose $10.6 million (36.1%) during the quarter. This increase was due to the dollar's weakening against the U.S. dollar and the addition of seven Boeing 737s to our aircraft fleet compared with winter 2015.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense increased $0.6 million (1.7%) in the first quarter compared with 2015. As a percentage of our revenues, commissions decreased and accounted for 4.4% of revenues for the quarter compared with 4.6% in 2015. This decrease is attributable to the lower revenue base used in calculating commissions.

AIRCRAFT RENT

Aircraft rent was up $9.1 million (39.3%) for the quarter. This increase was due to the addition of seven Boeing 737s to our aircraft fleet compared with winter 2015 and the dollar's weakening against the U.S. dollar. In line with our strategic plan, particularly the implementation of a flexible aircraft fleet, we are temporarily operating fifteen Boeing 737s for the winter 2016 season, in addition to our permanent fleet of four Boeing 737s.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the quarter, these fees rose $3.2 million (15.0%) compared with 2015. This increase was due to the addition of seven Boeing 737s to our aircraft fleet compared with winter 2015 and the dollar's weakening against the U.S. dollar.

OTHER

Other expenses rose $8.7 million (11.3%) during the quarter, compared with 2015. The increase resulted primarily from a rise in other air costs following the addition of seven Boeing 737s to our aircraft fleet compared with winter 2015 and higher marketing costs.

SHARE OF NET INCOME 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"]. Our share of net income of an associate for the current quarter totalled $1.9 million, up from $0.6 million for the corresponding quarter of 2015. The increase was due to higher operating profitability compared with the corresponding period of 2015.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes the depreciation of property, plant and equipment, and the amortization of intangible assets subject to amortization and deferred incentive benefits. Depreciation and amortization expense rose $0.9 million during the first quarter of 2016. The increase resulted primarily from additions and improvements to our aircraft fleet and our IT systems.

OPERATING RESULTS

In light of the foregoing, we recorded an operating loss of $50.5 million (6.0%) for the quarter compared with an operating loss of $47.5 million (6.0%) in 2015. This decrease in operating results was due to a $6.6 million decrease in operating results in the Americas, partially offset by a $3.5 million improvement in operating results in Europe. In addition, our cost reduction initiatives combined with the decrease in fuel prices were insufficient to offset the dollar's significant weakening against the U.S. dollar, which contributed to a $51.0 million increase in operating expenses for the quarter compared with 2015.

For the quarter, the Corporation reported an adjusted operating loss of $40.6 million (4.8%) compared with an adjusted operating loss of $35.8 million (4.5%) in 2015.

GEOGRAPHIC AREAS

AMERICAS

Americas	Quarters ended January 31			
	2016	2015	Difference	Difference
(in thousands of dollars)	$	$	$	%
Revenues	721,281	678,881	42,400	6.2
Operating expenses	758,907	709,915	48,992	6.9
Operating income (loss)	(37,626)	(31,034)	(6,592)	(21.2)
Operating income (loss) (%)	(5.2)	(4.6)	(0.6)	(14.1)

Revenues of our North American subsidiaries from sales in Canada and abroad were up $42.4 million (6.2%) compared with 2015. The increase resulted from our decision to increase our sun destination product offering by 9.6% and transatlantic routes by 18.8%, which contributed to the 10.7% increase in total travellers across our markets, while average selling prices for package-type products were higher. The increase in total travellers during the quarter resulted from the higher number of passengers on both sun destinations and transatlantic markets. For the quarter, we reported an operating loss of $37.6 million (5.2%), compared with $31.0 million (4.6%) in 2015. The higher operating loss resulted primarily from a decline in our aircraft subleasing revenues and increases in our marketing costs and salaries. For the quarter, the dollar's weakening against the U.S. dollar combined with the decrease in fuel prices led to a $24.0 million rise in operating expenses related to sun packages, two-thirds of which was compensated by the increase in average selling prices.

EUROPE

Europe	Quarters ended January 31			
	2016	2015	Difference	Difference
(in thousands of dollars)	$	$	$	%
Revenues	125,647	109,700	15,947	14.5
Operating expenses	138,567	126,157	12,410	9.8
Operating income (loss)	(12,920)	(16,457)	3,537	21.5
Operating income (loss) (%)	(10.3)	(15.0)	4.7	31.5

Compared with 2015, revenues of our European subsidiaries from sales in Europe and Canada were up $15.9 million (14.5%). The increase in revenues resulted from higher average selling prices and the euro's strengthening against the dollar, partially offset by lower revenues due to the introduction during fiscal 2015 of a new reservation platform, which for European travellers, favours purchasing seats directly from our Air Transat subsidiary instead of through our European subsidiaries, which contributed to a 9.7% decrease in total travellers for the quarter compared with 2015. In local currency terms, revenues at our European entities increased. Our European operations reported an operating loss of $12.9 million (10.3%) for the quarter, compared with an operating loss of $16.5 million (15.0%) in 2015. The lower operating loss was mainly attributable to the higher margins on revenues from package-type products and tours.

OTHER EXPENSES AND REVENUES

	Quarters ended January 31			
(in thousands of dollars)	2016 $	2015 $	Difference $	Difference %
Financing costs	473	527	(54)	(10.2)
Financing income	(1,781)	(2,018)	237	11.7
Change in fair value of fuel-related derivatives and other derivatives	35,542	43,771	(8,229)	(18.8)
Foreign exchange gain on non-current monetary items	(1,180)	(1,897)	717	37.8

FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs were down $0.1 million in 2016 compared with 2015.

FINANCING INCOME

Financing income decreased $0.2 million during the quarter, compared with 2015.

CHANGE IN FAIR VALUE OF FUEL-RELATED DERIVATIVES AND OTHER DERIVATIVES

The change in fair value of fuel-related derivatives and other derivatives 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 fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives declined by $35.5 million, compared with a $43.8 million decrease in fair value in 2015, in light of the significant decrease in fuel prices.

FOREIGN EXCHANGE GAIN ON NON-CURRENT MONETARY ITEMS

The foreign exchange gain on non-current monetary items, amounting to $1.2 million for the quarter compared with $1.9 million in 2015, resulted mainly from a favourable foreign exchange effect on our foreign currency deposits.

INCOME TAXES

Income tax recovery for the first quarter totalled $23.8 million compared with $24.8 million for the corresponding quarter of the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 27.8% for the first quarter compared with 28.0% for the corresponding period of 2015. The change in tax rates for the quarter resulted from differences between countries in the statutory tax rates applied to taxable income.

NET INCOME AND NET INCOME ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed in the Consolidated operations section, the Corporation reported a net loss of $59.8 million for the quarter ended January 31, 2016, compared with $63.1 million in 2015. Net loss attributable to shareholders stood at $61.2 million or $1.64 per share (basic and diluted) compared with $64.3 million or $1.66 per share (basic and diluted) for the corresponding quarter of the previous fiscal year. For the first quarter of 2016, the weighted average number of outstanding shares used to compute earnings per share was 37,260,000 (basic and diluted), compared with 38,754,000 (basic and diluted) for the corresponding quarter of 2015.

For the first quarter, the Corporation posted an adjusted net loss of $37.3 million ($1.00 per share) compared with $32.4 million ($0.84 per share) in 2015.

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 decreased compared with corresponding quarters, with the exception of the first quarter of 2016, which recorded an increase. Average selling prices for the winter season (Q1 and Q2) were higher while total travellers increased in Q1-2016 and decreased in Q2-2015. For the summer season (Q3 and Q4), average selling prices were lower in 2015 due to the decline in fuel prices while total travellers were higher. In terms of operating results, increases in average selling prices in winter combined with cost reduction and margin improvement initiatives were insufficient to offset the foreign exchange effect on our costs arising from the strength of the U.S. dollar. For the summer season, the decline in fuel prices more than offset the stronger U.S. dollar. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q2-2014 $	Q3-2014 $	Q4-2014 $	Q1-2015 $	Q2-2015 $	Q3-2015 $	Q4-2015 $	Q1-2016 $
Revenues	1,118,620	941,702	844,654	788,581	1,018,498	920,123	839,166	846,928
Aircraft rent	19,853	23,350	24,856	23,167	24,684	24,702	26,306	32,275
Operating income (loss)	(13,029)	36,091	57,392	(47,491)	(9,744)	34,913	72,276	(50,546)
Adjusted operating income (loss)	4	47,789	76,028	(35,753)	3,395	46,472	86,707	(40,628)
Net income (loss)	(6,606)	26,296	31,236	(63,088)	26,267	13,820	69,965	(59,803)
Net income (loss) attributable to shareholders	(7,903)	25,820	30,607	(64,314)	24,704	13,067	69,108	(61,155)
Basic earnings per share	(0.20)	0.67	0.79	(1.66)	0.64	0.34	1.82	(1.64)
Diluted earnings per share	(0.20)	0.66	0.79	(1.66)	0.64	0.34	1.82	(1.64)
Adjusted net income (loss)	(7,553)	26,730	49,353	(32,447)	(6,623)	27,216	54,797	(37,267)
Adjusted net income (loss) per share	(0.19)	0.69	1.27	(0.84)	(0.17)	0.71	1.44	(1.00)

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2016, cash and cash equivalents totalled $431.4 million compared with $336.4 million as at October 31, 2015. As at the end of the first quarter of fiscal 2016, cash and cash equivalents in trust or otherwise reserved amounted to $440.5 million compared with $412.1 million as at October 31, 2015. The Corporation's statement of financial position reflected $8.3 million in working capital, for a ratio of 1.01, compared with $80.4 million in working capital and a ratio of 1.09 as at October 31, 2015.

Total assets increased by $267.8 million (17.7%) from $1,513.8 million as at October 31, 2015 to $1,781.6 million as at January 31, 2016. This increase is mainly attributable to a $95.0 million increase in cash and cash equivalents, a $56.6 million increase in prepaid expenses, a $28.4 million increase in cash and cash equivalents in trust or otherwise reserved, a $21.5 million increase in derivative financial instruments and an $18.4 million increase in income taxes receivable. Equity decreased $55.3 million, from $537.3 million as at October 31, 2015 to $481.9 million as at January 31, 2016. This decrease resulted essentially from the $61.2 million net loss attributable to shareholders and the repurchase of shares totalling $4.9 million, partially offset by the $5.8 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries and the $4.3 million unrealized gain on cash flow hedges.

CASH FLOWS

	Quarters ended January 31		
(in thousands of dollars)	2016 $	2015 $	Difference $
Cash flows related to operating activities	116,479	97,492	18,987
Cash flows related to investing activities	(16,780)	(15,074)	(1,706)
Cash flows related to financing activities	(4,674)	(18)	(4,656)
Effect of exchange rate changes on cash	(37)	2,344	(2,381)
Net change in cash	94,988	84,744	10,244

OPERATING ACTIVITIES

Operating activities generated $116.5 million in cash flows during the first quarter, compared with $97.5 million in 2015. This $19.0 million increase during the quarter resulted primarily from a $17.0 million increase in the net change in other assets and liabilities related to operations.

INVESTING ACTIVITIES

Cash flows used in investing activities in the first quarter amounted to $16.8 million compared with $15.1 million in 2015 due to an increase in additions to property, plant and equipment and intangible assets of $1.7 million. The additions made during the first quarter are mainly related to aircraft equipment and maintenance as well as computer hardware and software.

FINANCING ACTIVITIES

Cash flows used in financing activities rose $4.7 million from $0.0 million in the first quarter of 2015 to $4.7 million in 2016. Higher utilization of cash flows than in 2015 resulted from the $4.9 million repurchase of shares during the quarter.

CONSOLIDATED FINANCIAL POSITION

	January 31, 2016 $	October 31, 2015 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	431,411	336,423	94,988	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	440,523	412,099	28,424	Seasonal nature of operations
Trade and other receivables	134,483	129,223	5,260	Seasonal nature of operations and foreign exchange difference
Income taxes receivable	35,328	16,900	18,428	Increase in income taxes recoverable given subsidiaries' taxable income
Inventories	11,855	9,079	2,776	Increase in inventory purchases for the airline
Prepaid expenses	136,928	80,318	56,610	Increase in prepayments to hotel operators due to the seasonal nature of operations
Derivative financial instruments	47,037	25,573	21,464	Favourable change in the dollar compared with the U.S. currency with respect to forward contracts entered into
Deposits	72,305	58,901	13,404	Increase in deposits paid to certain service providers due to the seasonal nature of operations
Deferred tax assets	43,381	32,939	10,442	Increase in deferred tax arising from derivative financial instruments
Property, plant and equipment	137,245	133,502	3,743	Additions during the period, partially offset by depreciation
Goodwill	101,101	99,527	1,574	Foreign exchange difference
Intangible assets	81,676	79,863	1,813	Additions during the period, partially offset by depreciation
Investment in an associate	107,317	97,897	9,420	Share of net income of an associate and foreign exchange difference
Other assets	994	1,520	(526)	No significant difference
Liabilities				
Trade and other payables	459,162	355,656	103,506	Seasonal nature of operations and foreign exchange difference
Provision for overhaul of leased aircraft	46,272	42,962	3,310	Foreign exchange difference and impact of the repair schedule
Income taxes payable	689	1,431	(742)	Settlement of balances due
Customer deposits and deferred revenues	658,197	489,622	168,575	Seasonal nature of operations and foreign exchange difference
Derivative financial instruments	71,773	23,203	48,570	Unfavourable change in fuel prices with respect to forward contracts entered into
Other liabilities	51,567	52,026	(459)	No significant difference
Deferred tax liabilities	12,015	11,612	403	No significant difference
Equity				
Share capital	214,382	218,134	(3,752)	Repurchase of shares, net of shares issued from treasury
Share-based payment reserve	17,562	17,105	457	Share-based payment expense
Retained earnings	201,735	263,812	(62,077)	Net income (loss)
Unrealized gain (loss) on cash flow hedges	19,215	14,960	4,255	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	29,015	23,241	5,774	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at January 31, 2016, 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.

On February 19, 2016, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2020, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes 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 the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is 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, 2016, 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 €10.0 million [$15.3 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 interim condensed consolidated financial statements and others in the notes to the financial statements. The Corporation did not report any obligations in the statements of financial position as at January 31, 2016 and October 31, 2015.

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 suppliers and other obligations, amounted to approximately $709.6 million as at January 31, 2016 ($713.7 million as at October 31, 2015) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at January 31, 2016 $	As at October 31, 2015 $
Guarantees		
Irrevocable letters of credit	36,966	36,838
Collateral security contracts	562	1,490
Operating leases		
Obligations under operating leases	672,066	675,385
	709,594	713,713

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 has a $75.0 million annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at January 31, 2016, $67.3 million had been drawn down, of which $44.9 million is to insure the benefits to participants under senior executives defined benefit pension agreements; such irrevocable letters of credit are held by a third party trustee. In the event of a change of control, the irrevocable letters of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be 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, 2016, $22.2 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 €17.6 million [$26.9 million], of which €9.7 million [$14.8 million] had been drawn down.

For its French operations, the Corporation also has access to bank lines of credit for issuing letters of credit secured by deposits. As at January 31, 2016, €2.7 million [$4.0 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 £14.8 million [$29.6 million], which has been fully drawn down.

As at January 31, 2016, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $4.1 million. This decrease resulted from repayments made during the quarter, partially offset by the weakening of the Canadian currency against the U.S. dollar.

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 by $4.1 million, from $713.7 million as at October 31, 2015 to $709.6 million as at January 31, 2016.

The Corporation's total debt stood at $539.8 million, up $45.5 million from October 31, 2015, due to the addition of Boeing 737s to our aircraft fleet and the strengthening of the U.S. dollar against the dollar.

Total net debt decreased $49.5 million from $157.9 million as at October 31, 2015 to $108.4 million as at January 31, 2016. The decrease in total net debt results from higher cash and cash equivalent balances than in 2015, partially offset by the increase in total debt.

OUTSTANDING SHARES

As at January 31, 2016, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at March 4, 2016, there were 36,667,481 total voting shares outstanding.

Since November 16, 2015 Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single symbol, namely "TRZ."

STOCK OPTIONS

As at March 4, 2016, there were a total of 2,740,523 stock options outstanding, 2,479,817 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of twelve Airbus A330s (345 or 375 seats), nine Airbus A310s (249 seats) and four Boeing 737-800s (189 seats)

During winter 2016, the Corporation also has seasonal rentals for thirteen Boeing 737-800s (189 seats) and two Boeing 737-700s (149 seats).

NORMAL COURSE ISSUER BID

On April 10, 2015, the Corporation announced that it had received the required regulatory approvals to go forward with a normal course issuer bid for a 12-month period.

Pursuant to its normal course issuer bid, the Corporation is authorised to purchase for cancellation up to a maximum of 2,274,921 Class A Variable Voting Shares and Class B Voting Shares, representing approximately 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares.

The normal course issuer bid is designed to allow the Corporation proper utilization, depending on the circumstances and in a wise manner, of a portion of the Corporation's excess cash.

Purchases under the Corporation's normal course issuer bid will be made on the open market through the TSX in accordance with its policy on normal course issuer bids. The price paid by the Corporation for repurchased shares will be the market price at the time of acquisition plus brokerage fees, where applicable. Purchases began as of April 15, 2015 and will terminate no later than April 14, 2016.

During the quarter ended January 31, 2016, the Corporation repurchased 692,400 Class B Variable Voting Shares for a cash consideration of $4.9 million.

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; the Corporation repurchased a total of 2,274,921 Class B Voting Shares as of March 4, 2016, for a total cash consideration of $16,5 million.

RENEWAL OF COLLECTIVE AGREEMENTS

On February 23, 2016, the Corporation reached a tentative agreement to renew the pilots' collective agreement, expired on April 30, 2015. The agreement will be submitted to the pilots in March 2016, with a recommendation from the union authorities.

SEARCH FOR POTENTIAL BUYERS FOR TOUR OPERATOR SUBSIDIARIES IN FRANCE AND GREECE

The Corporation announced on January 12, 2016 that it had initiated a process to seek interest from third parties that could potentially lead to the sale of certain assets held by the Corporation outside Canada, namely its tour operations in France and Greece. Negotiations in this respect are yet to take place and there is no assurance that negotiations will result in a transaction.

If the potential transaction materializes, it will have no impact on the Corporation's transatlantic program or on Air Transat's operations and development in France or in Europe. Transat maintains its growth objectives for its air carrier services between Europe and Canada.

This project results from the 2015-2017 strategic plan, which emphasizes profitable growth in the Americas by developing tour operating, distribution and hotel businesses.

FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

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 recommended by 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 or 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 will be required to account for expected credit losses 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.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting 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 relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable 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. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under current standard IAS 17, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single, comprehensive recognition model for the lessee under which all lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

The application of IFRS 16 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted subsequent to the application date of the new IFRS 15 standard on revenue. The Corporation is currently assessing the impact of adopting IFRS 16 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, 2016 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and 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, 2016 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Second quarter – On the Sun destinations market outbound from Canada, the Corporation's principal market segment during the winter season, Transat's capacity for the second quarter is 1% higher than that marketed last year. To date, 77% of that capacity has been sold, and load factors are 1.7% higher. The impact of the weakened Canadian dollar, net of the decline in fuel cost, will result in an increase in operating expenses of 5.1%, if the dollar and the cost of fuel remain at their current levels. Margins are currently lower by 2.4% than last year at this time.

On the transatlantic market, currently in low season, Transat's capacity is 18% greater than that offered last winter. To date, 72% of that capacity has been sold, load factors are 1.2% lower, and selling prices are lower by 4.7%. The impact of lower fuel cost will translate to a decrease in operating expenses of 7.4% if fuel cost remains at its current level.

In France, where winter is low season, bookings are higher by 10% and selling prices are higher by 2% compared with last year at this time.

Given the recent sharp decline in the value of the Canadian currency, consumer fears about the Zika virus, and the risk of strike action by Air Transat pilots, now averted, the Corporation believes that its second-quarter results may be lower than those posted for the same quarter last winter.

Summer 2016 – It is too soon to draw firm conclusions about summer 2016. To date, 30% of seats have been sold. When compared with the summer of 2015, which ranked as the second-best in the Corporation's history, Transat's capacity on the transatlantic market is higher by 8%. Load factors are lower by 2.2% and prices are down by 2.5%, but operating expenses are expected to decrease by 4.6% if the dollar and the cost of fuel remain at their current levels.

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

(in thousands of Canadian dollars)	As at January 31, 2016 $	As at October 31, 2015 $
ASSETS		
Cash and cash equivalents	431,411	336,423
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	395,623	367,199
Trade and other receivables	134,483	129,223
Income taxes receivable	20,228	1,800
Inventories	11,855	9,079
Prepaid expenses	136,928	80,318
Derivative financial instruments	45,785	25,277
Current portion of deposits	37,582	18,298
Current assets	1,213,895	967,617
Cash and cash equivalents reserved *[note 4]*	44,900	44,900
Deposits	34,723	40,603
Income taxes receivable	15,100	15,100
Deferred tax assets	43,381	32,939
Property, plant and equipment	137,245	133,502
Goodwill	101,101	99,527
Intangible assets	81,676	79,863
Derivative financial instruments	1,252	296
Investment in an associate *[note 5]*	107,317	97,897
Other assets	994	1,520
Non-current assets	567,689	546,147
	1,781,584	1,513,764
LIABILITIES		
Trade and other payables	459,162	355,656
Current portion of provision for overhaul of leased aircraft	22,219	17,281
Income taxes payable	689	1,431
Customer deposits and deferred revenues	658,197	489,622
Derivative financial instruments	65,353	23,188
Current liabilities	1,205,620	887,178
Provision for overhaul of leased aircraft *[note 6]*	24,053	25,681
Other liabilities *[note 8]*	51,567	52,026
Derivative financial instruments	6,420	15
Deferred tax liabilities	12,015	11,612
Non-current liabilities	94,055	89,334
EQUITY		
Share capital *[note 9]*	214,382	218,134
Share-based payment reserve	17,562	17,105
Retained earnings	201,735	263,812
Unrealized gain on cash flow hedges	19,215	14,960
Cumulative exchange differences	29,015	23,241
	481,909	537,252
	1,781,584	1,513,764

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.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

(in thousands of Canadian dollars, except per share amounts)	Quarters ended January 31 2016 $	 2015 $
Revenues	846,928	788,581
Operating expenses		
Costs of providing tourism services	509,348	458,373
Salaries and employee benefits	96,517	87,894
Aircraft fuel	61,410	91,453
Aircraft maintenance	39,953	29,361
Commissions	36,937	36,308
Aircraft rent	32,275	23,167
Airport and navigation fees	24,808	21,568
Other	85,501	76,813
Share of net income of an associate	(1,932)	(603)
Depreciation and amortization	12,657	11,738
	897,474	836,072
Operating results	(50,546)	(47,491)
Financing costs	473	527
Financing income	(1,781)	(2,018)
Change in fair value of fuel-related derivatives and other derivatives	35,542	43,771
Foreign exchange gain on non-current monetary items	(1,180)	(1,897)
Income (loss) before income tax expense	(83,600)	(87,874)
Income taxes (recovery)		
Current	(12,914)	(9,829)
Deferred	(10,883)	(14,957)
	(23,797)	(24,786)
Net income (loss) for the period	(59,803)	(63,088)
Net income (loss) attributable to:		
Shareholders	(61,155)	(64,314)
Non-controlling interests	1,352	1,226
	(59,803)	(63,088)
Earnings (loss) per share *[note 10]*		
Basic	(1.64)	(1.66)
Diluted	(1.64)	(1.66)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended January 31	
	2016	2015
(in thousands of Canadian dollars)	$	$
Net income (loss) for the period	(59,803)	(63,088)
Other comprehensive income (loss)		
Items that will be reclassified to net loss		
Change in fair value of derivatives designated as cash flow hedges	(6,541)	45,839
Reclassification to net income (loss)	12,306	11,768
Deferred taxes	(1,510)	(15,385)
	4,255	42,222
Foreign exchange gain on translation of financial statements of foreign subsidiaries	5,774	3,010
Total other comprehensive income	10,029	45,232
Comprehensive income (loss) for the period	(49,774)	(17,856)
Attributable to:		
Shareholders	(53,237)	(18,444)
Non-controlling interests	3,463	588
	(49,774)	(17,856)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2014	224,679	15,444	227,872	11,712	3,239	482,946	—	482,946
Net income (loss) for the period	—	—	(64,314)	—	—	(64,314)	1,226	(63,088)
Other comprehensive income (loss)	—	—	—	42,222	3,648	45,870	(638)	45,232
Comprehensive income (loss) for the period	—	—	(64,314)	42,222	3,648	(18,444)	588	(17,856)
Issued from treasury	225	—	—	—	—	225	—	225
Share-based payment expense	—	406	—	—	—	406	—	406
Dividends	—	—	—	—	—	—	(243)	(243)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(983)	(983)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(638)	(638)	638	—
	225	406	—	—	(638)	(7)	(588)	(595)
Balance as at January 31, 2015	224,904	15,850	163,558	53,934	6,249	464,495	—	464,495
Net income for the period	—	—	106,879	—	—	106,879	3,173	110,052
Other comprehensive income (loss)	—	—	(537)	(38,974)	12,814	(26,697)	4,178	(22,519)
Comprehensive income (loss) for the period	—	—	106,342	(38,974)	12,814	80,182	7,351	87,533
Issued from treasury	748	—	—	—	—	748	—	748
Share-based payment expense	—	1,255	—	—	—	1,255	—	1,255
Repurchase of shares	(7,518)	—	(1,906)	—	—	(9,424)	—	(9,424)
Dividends	—	—	—	—	—	—	(3,978)	(3,978)
Other changes in non-controlling interest liabilities	—	—	(4,182)	—	—	(4,182)	4,182	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(3,377)	(3,377)
Reclassification of non-controlling interest exchange difference	—	—	—	—	4,178	4,178	(4,178)	—
	(6,770)	1,255	(6,088)	—	4,178	(7,425)	(7,351)	(14,776)
Balance as at October 31, 2015	218,134	17,105	263,812	14,960	23,241	537,252	—	537,252
Net income (loss) for the period	—	—	(61,155)	—	—	(61,155)	1,352	(59,803)
Other comprehensive income (loss)	—	—	—	4,255	3,663	7,918	2,111	10,029
Comprehensive income (loss) for the period	—	—	(61,155)	4,255	3,663	(53,237)	3,463	(49,774)
Issued from treasury	266	—	—	—	—	266	—	266
Exercise of options	—	—	—	—	—	—	—	—
Share-based payment expense	—	457	—	—	—	457	—	457
Repurchase of shares	(4,018)	—	(922)	—	—	(4,940)	—	(4,940)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(1,352)	(1,352)
Reclassification of non-controlling interest exchange difference	—	—	—	—	2,111	2,111	(2,111)	—
	(3,752)	457	(922)	—	2,111	(2,106)	(3,463)	(5,569)
Balance as at January 31, 2016	214,382	17,562	201,735	19,215	29,015	481,909	—	481,909

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended January 31	
	2016	2015
(in thousands of Canadian dollars)	$	$
OPERATING ACTIVITIES		
Net income (loss) for the period	(59,803)	(63,088)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	12,657	11,738
Change in fair value of fuel-related derivatives and other derivatives	35,542	43,771
Foreign exchange gain on non-current monetary items	(1,180)	(1,897)
Share of net income of an associate	(1,932)	(603)
Deferred taxes	(10,883)	(14,957)
Employee benefits	670	600
Share-based payment expense	457	406
	(24,472)	(24,030)
Net change in non-cash working capital balances related to operations	129,244	129,470
Net change in other assets and liabilities related to operations	8,397	(8,591)
Net change in provision for overhaul of leased aircraft	3,310	643
Cash flows related to operating activities	116,479	97,492
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(16,780)	(15,074)
Cash flows related to investing activities	(16,780)	(15,074)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	266	225
Repurchase of shares	(4,940)	—
Dividends paid by a subsidiary to a non-controlling shareholder	—	(243)
Cash flows related to financing activities	(4,674)	(18)
Effect of exchange rate changes on cash and cash equivalents	(37)	2,344
Net change in cash and cash equivalents	94,988	84,744
Cash and cash equivalents, beginning of period	336,423	308,887
Cash and cash equivalents, end of period	431,411	393,631
Supplementary information (as reported in operating activities)		
Income taxes paid	5,004	18,631
Interest paid	125	73

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*. Since November 16, 2015, Class A Variable Voting Shares and Class B Voting Shares of the Corporation are listed on the Toronto Stock Exchange and traded under a single ticker, namely "TRZ."

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, 2016 were approved by the Corporation's Board of Directors on March 9, 2016.

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

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

The 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, 2015.

These interim condensed consolidated financial statements have been prepared on a going concern basis, at historical cost, except for certain financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

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 recommended by 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 or 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 will be required to account for expected credit losses 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.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting 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 relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable 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. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under current standard IAS 17, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single, comprehensive recognition model for the lessee under which all lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

The application of IFRS 16 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted subsequent to the application date of the new IFRS 15 standard on revenue. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

Note 4 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at January 31, 2016, cash and cash equivalents in trust or otherwise reserved included $339,087 [$310,883 as at October 31, 2015] in funds received from customers, consisting primarily of Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $101,436, of which $44,900 was recorded as non-current assets [$101,216 as at October 31, 2015, of which $44,900 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 5 INVESTMENTS AND OTHER ASSETS

The change in the investment in an associate, Caribbean Investments B.V. ["CIBV"], is detailed as follows:

	$
Balance as at October 31, 2015	97,897
Share of net income	1,932
Translation adjustment	7,488
Balance as at January 31, 2016	107,317

Note 6 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under 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, 2015	42,962
Additional provisions	7,419
Utilization of provisions	(3,030)
Unused amounts released	(1,079)
Balance as at January 31, 2016	46,272
Current provisions	22,219
Non-current provisions	24,053
Balance as at January 31, 2016	46,272

	$
Balance as at October 31, 2014	36,312
Additional provisions	4,456
Utilization of provisions	(3,813)
Balance as at January 31, 2015	36,955
Current provisions	12,799
Non-current provisions	24,156
Balance as at January 31, 2015	36,955

Note 7 LONG-TERM DEBT

On February 19, 2016, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2020, the Corporation may increase the credit limit to $100,000, with the approval of lenders. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes 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 is 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, 2016, 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 in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at January 31, 2016, $67,264 had been drawn down under the facility [$66,943 as at October 31, 2015], of which $44,900 is to insure the benefits to participants under senior executives defined benefit pension agreements; such irrevocable letters of credit are held by a third-party trustee. In the event of a change of control, the irrevocable letters of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

Operating lines of credit totalling €10,000 ($15,251) [€10,000 (€14,446) as at October 31, 2015] have been granted to the Corporation's French operations. These operating lines of credit are renewable annually and were undrawn as at January 31, 2016 and October 31, 2015.

Note 8 OTHER LIABILITIES

	As at January 31, 2016	As at October 31, 2015
	$	$
Employee benefits	39,742	39,265
Deferred lease inducements	11,825	12,761
Non-controlling interests	36,257	32,800
	87,824	84,826
Less non-controlling interests included in Trade and other payables	(36,257)	(32,800)
	51,567	52,026

Note 9 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

An unlimited number of 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	$
Balance as at October 31, 2014	38,741,527	224,679
Issued from treasury	28,788	225
Balance as at January 31, 2015	38,770,315	224,904
Issued from treasury	116,522	748
Repurchase and cancellation of shares	(1,296,090)	(7,518)
Balance as at October 31, 2015	37,590,747	218,134
Issued from treasury	40,838	266
Repurchase and cancellation of shares	(692,400)	(4,018)
Balance as at January 31, 2016	36,939,185	214,382

On April 10, 2015, the Corporation announced that it had received the required regulatory approvals to go forward with a normal course issuer bid for a 12-month period.

Pursuant to its normal course issuer bid, the Corporation is authorised to purchase for cancellation up to a maximum of 2,274,921 Class A Variable Voting Shares and Class B Voting Shares, representing approximately 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares.

During the quarter ended January 31, 2016, the Corporation repurchased 692,400 Class B Voting Shares for a cash consideration of $4,940.

As at January 31, 2016, the number of Class A Shares and Class B Shares stood at 2,361,821 and 34,577,364, respectively [1,410,985 and 36,179,762 as at October 31, 2015].

Since November 16, 2015, Class A Variable Voting Shares and Class B Voting Shares of the Corporation trade under a single ticker, TRZ, on the Toronto Stock Exchange. The change does not involve any amendment to the Corporation's articles of incorporation, by-laws or share capital structure, nor to the terms and conditions or the voting and ownership restrictions attaching to the Class A Variable Voting Shares and the Class B Voting Shares.

STOCK OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2015	2,741,856	11.81
Cancelled	(1,333)	(19.24)
Balance as at January 31, 2016	2,740,523	11.80
Options exercisable as at January 31, 2016	2,479,817	11.96

EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

	Quarters ended January 31	
	2016	2015
(in thousands of dollars, except per share data)	$	$
NUMERATOR		
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings per share	(61,155)	(64,314)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	37,260	38,754
Effect of dilutive securities		
Stock options	—	—
Adjusted weighted average number of outstanding shares used in computing diluted income (loss) per share	37,260	38,754
Earnings (loss) per share		
Basic	(1.64)	(1.66)
Diluted	(1.64)	(1.66)

In light of the net loss recognized for the quarters ended January 31, 2016 and 2015, respectively, 2,740,523 and 2,885,674 outstanding stock options were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 10 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 6, 15, 16, 22 and 23 to the financial statements for the fiscal year ended October 31, 2015 provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases expire at various dates through 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance coverage in such circumstances.

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2016, the total amount of these guarantees unsecured by deposit totalled $562. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2016, 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 January 31, 2016, $22,206 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €17,620 [$26,872]. As at January 31, 2016, letters of guarantee had been issued totalling €9,678 [$14,760].

Note 11 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely 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.

	Quarters ended January 31		
	Americas $	Europe $	Total $
2016			
Revenues from third parties	721,281	125,647	846,928
Operating expenses	758,907	138,567	897,474
	(37,626)	(12,920)	(50,546)
2015			
Revenues from third parties	678,881	109,700	788,581
Operating expenses	709,915	126,157	836,072
	(31,034)	(16,457)	(47,491)

	Revenues [(1)]		Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended January 31			
	2016 $	2015 $	As at January 31, 2016 $	As at October 31, 2015 $
Canada	704,098	662,154	215,562	210,702
France	120,884	104,213	50,693	48,401
United Kingdom	4,416	4,995	37,282	37,962
Other	17,530	17,219	16,485	15,827
	846,928	788,581	320,022	312,892

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

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