TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 2015

March 11, 2015

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Trading symbols
TSX: TRZ.B, TRZ.A

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended January 31, 2015, compared with the quarter ended January 31, 2014, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2014 and the accompanying notes and the 2014 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 2014 Annual Report. The risks and uncertainties set out in the MD&A of the 2014 Annual Report are herein incorporated by reference and remain unchanged. The information contained herein is dated as of March 11, 2015. 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, 2015 and the Annual Information Form for the year ended October 31, 2014.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "would," the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

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

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

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

Examples of such forward-looking statements include, but are not limited to, statements concerning:

- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that the second-quarter results may be lower than those posted for the same quarter last winter.
- The outlook whereby the Corporation expects an increase in operating expenses of 2.2% for the second quarter and a decrease of 3.8 % for the second semester, compared with the same periods last year.

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 derivative financial instruments used for aircraft fuel purchases, 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.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of derivative financial instruments used for aircraft fuel purchases, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before change in fair value of derivative financial instruments used for aircraft fuel purchases, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items, net of related taxes.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Adjusted operating leases	Aircraft rental expense for the past four quarters multiplied by 5.
Total debt	Long-term debt plus the amount for adjusted operating leases.
Total net debt	Total debt (described above) less cash and cash equivalents.

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	
	2015 $	2014 $
Operating income (loss)	(47,491)	(33,614)
Amortization	11,738	9,722
Adjusted operating income (loss)	(35,753)	(23,892)
Income (loss) before income tax expense	(87,874)	(34,367)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	43,771	3,218
Adjusted pre-tax income (loss)	(44,103)	(31,149)
Net income (loss) attributable to shareholders	(64,314)	(25,649)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	43,771	3,218
Tax impact	(11,904)	(857)
Adjusted net income (loss)	(32,447)	(23,288)
Adjusted net income (loss)	(32,447)	(23,288)
Adjusted weighted average number of outstanding shares used in computing earnings per share	38,754	38,536
Adjusted net income (loss) per share	(0.84)	(0.60)

	As at January 31, 2015 $	As at October 31, 2014 $
Aircraft rent for the past four quarters	91,226	87,229
Multiple	5	5
Adjusted operating leases	456,130	436,145
Long-term debt	—	—
Adjusted operating leases	456,130	436,145
Total debt	456,130	436,145
Total debt	456,130	436,145
Cash and cash equivalents	(393,631)	(308,887)
Total net debt	62,499	127,258

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	Quarters ended January 31 2015 $	2014 $	Difference $	Difference %
Consolidated Statements of Loss				
Revenues	788,581	847,222	(58,641)	(6.9)
Adjusted operating loss[1]	(35,753)	(23,892)	(11,861)	49.6
Net loss attributable to shareholders	(64,314)	(25,649)	(38,665)	150.7
Basic loss per share	(1.66)	(0.67)	(0.99)	147.8
Diluted loss per share	(1.66)	(0.67)	(0.99)	147.8
Adjusted net income (loss)[1]	(32,447)	(23,288)	(9,159)	39.3
Adjusted net income (loss) per share[1]	(0.84)	(0.60)	(0.24)	40.0
Consolidated Statements of Cash Flows				
Operating activities	97,492	97,738	(246)	(0.3)
Investing activities	(15,074)	(8,644)	(6,430)	74.4
Financing activities	(18)	1,489	(1,507)	(101.2)
Effect of exchange rate changes on cash and cash equivalents	2,344	3,195	(851)	(26.6)
Net change in cash and cash equivalents	84,744	93,778	(9,034)	(9.6)

	As at January 31, 2015 $	As at October 31, 2014 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	393,631	308,887	84,744	27.4
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	432,496	380,184	52,312	13.8
	826,127	689,071	137,056	19.9
Total assets	1,683,365	1,375,030	308,335	22.4
Long-term debt	—	—	—	—
Total debt[1]	456,130	436,145	19,985	4.6
Total net debt[1]	62,499	127,258	(64,759)	(50.9)

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 Caribbean Investments B.V. (operating under the Ocean Hotels banner), a hotel business which owns, operates or manages properties in Mexico, the Dominican Republic and Cuba.

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 and particularly from its position as both a major producer and distributor in Canada, which distinguishes it from several of its rivals; growing its market share in France, where it ranks among the largest tour operators; and tapping into new markets or expanding operations in markets not yet fully served. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

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

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 2015, Transat has set the following objectives:

1. Transat remains committed under a cost reduction and unit margin improvement program, which it expects to generate $20 million in savings in fiscal 2015, compared with fiscal 2014. The Corporation aims to improve its winter results and maintain its summer profitability in fiscal 2015, in particular through improved efficiency.

2. Transat intends to develop new markets by launching new routes, entering new source markets, building out its existing source market offering and expanding its overall offering, including where applicable, by marketing third-party products.

3. Building on the successful launch of the Transat Travel banner as a Canadian distributor, Transat intends to improve its multi-channel distribution strategy, and particularly its online presence, to extend its consumer reach and enhance customer loyalty.

4. In fiscal 2015, Transat will begin structuring its sustainable development project to secure a certification for its tour operator and travel agency businesses.

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			
	2015	2014	Difference	Difference
(in thousands of dollars)	$	$	$	%
Americas	678,881	722,207	(43,326)	(6.0)
Europe	109,700	125,015	(15,315)	(12.3)
	788,581	847,222	(58,641)	(6.9)

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, 2015 were down $58.6 million from the same period of fiscal 2014, resulting primarily from an 8.1% decrease in total travellers as the capacity we deployed for sun destinations decreased 6.5%. For the first quarter, the impacts of the decrease were not fully offset by average selling price increases.

OPERATING EXPENSES

	Quarters ended January 31			
	2015	2014	Difference	Difference
(in thousands of dollars)	$	$	$	%
Costs of providing tourism services	458,373	537,499	(79,126)	(14.7)
Aircraft fuel	91,453	70,958	20,495	28.9
Salaries and employee benefits	87,894	83,327	4,567	5.5
Commissions	36,308	47,028	(10,720)	(22.8)
Aircraft maintenance	29,361	24,045	5,316	22.1
Aircraft rent	23,167	19,170	3,997	20.9
Airport and navigation fees	21,568	14,769	6,799	46.0
Other	76,813	74,238	2,575	3.5
Share of net (income) loss of an associate	(603)	80	(683)	(853.8)
Amortization	11,738	9,722	2,016	20.7
Total	836,072	880,836	(44,764)	(5.1)

Total operating expenses for the quarter were down $44.8 million (5.0%) in fiscal 2015 compared with fiscal 2014, owing primarily to the 6.5% decrease in our sun destination market product offering for the first quarter. Further, the full effect of insourcing narrow-body aircraft to sun destinations in addition to the shift toward a flexible fleet at Air Transat, maximizing the use of narrow-body aircraft with more aircraft in winter while minimizing fixed costs of wide-body aircraft, was felt in the first quarter of fiscal 2015. Apart from the anticipated cost savings, this initiative will prompt lower costs of providing tourism services (previously those flights were operated by an external air carrier) and higher other operating expenses, excluding commissions. These cost savings were partially offset by the dollar's depreciation 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. Compared with the corresponding period of the previous fiscal year, these costs were down $79.1 million (14.7%) in the first quarter of fiscal 2015. The year-over-year decline was triggered primarily by reduction in our flight purchases from other air carriers than Air Transat, owing to the addition of our narrow-body Boeing 737 operations and our reduction in our sun destination product offering, partially offset by weaker Canadian currency relative to the U.S. dollar, and to a lesser degree, to higher hotel room costs.

AIRCRAFT FUEL

Aircraft fuel expense for the quarter was up compared with the corresponding quarter in 2014, rising $20.5 million (28.9%), due primarily to commissioning our narrow-body Boeing 737s. Despite sharp declines in fuel price indicators in financial markets, the Corporation was unable to fully benefit from these movements due to the fuel price hedging program it has in place and to fuel vendors at destination which have not passed on the full savings arising from financial market price declines. The weakening of the dollar versus its U.S. counterpart (fuel is primarily paid in U.S. dollars) also tempered the decline in aircraft fuel costs.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the quarter rose $4.6 million (5.5%), compared with the period of 2014. This increase resulted mainly from the pilot and cabin crew hires following the insourcing of narrow-body aircraft, and annual salary reviews.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the first quarter was down $10.7 million (22.8%) compared with the same period of 2014. As a percentage, commissions decreased and accounted for 4.6% of revenues for the quarter compared with 5.6% in fiscal 2014. This decrease stemmed from the lower revenue base used in calculating commissions.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Expenses for the quarter were up $5.3 million (22.1%) year over year. Growth was driven by the beginning of narrow-body operations and the dollar's weakening against its U.S. counterpart.

AIRCRAFT RENT

Aircraft rent for the quarter rose $4.0 million (20.9%) from the same period a year earlier, due to the addition to our permanent fleet of four Boeing 737s and eight 737s for the fiscal 2015 winter season, and a weaker dollar relative to the U.S. currency.

AIRPORT AND NAVIGATION FEES

For the quarter ended January 31, 2015, airport and navigation fees, consisting mainly of fees charged by airports and air traffic control entities, were up $6.8 million (46.0%) from the corresponding period last year as a result of narrow-body aircraft additions to our fleet and our currency's depreciation against the U.S. dollar.

OTHER

Other expenses for the first quarter grew $2.6 million (3.5%) in 2015 compared with 2014, owing mainly to higher other air costs following the commissioning of our Boeing 737s.

SHARE OF NET INCOME (LOSS) OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. The Corporation reported a $0.6 million share of net income of an associate for the first quarter compared with a $0.1 million share of net loss for the corresponding quarter of fiscal 2014. The improvement in share of net income resulted from higher operating profitability than in the same period last year.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense, including the depreciation of property, plant and equipment, and the amortization of intangible assets subject to amortization and deferred incentive benefits, increased $2.0 million in the first quarter, compared with the same period of fiscal 2014. The increase resulted from improvements made to our aircraft fleet, mainly for the reconfiguration of our Airbus A330s.

OPERATING INCOME (LOSS)

In light of the foregoing, the Corporation recorded a first-quarter operating loss of $47.5 million (6.0%) in fiscal 2015 compared with $33.6 million (4.0%) in fiscal 2014. The decline in operating income was attributable to the dollar's weakening against the U.S. dollar and higher operating expenses, the impact of which was not fully offset by our efforts in cost reduction and selling price increase. The dollar's depreciation resulted in a $24.0 million increase in operating expenses for the quarter, compared with the first quarter of 2014.

The Corporation reported an adjusted operating loss for the first quarter of $35.8 million (4.5%) in fiscal 2015 compared with a $23.9 million (2.8%) in fiscal 2014.

GEOGRAPHIC AREAS

AMERICAS

Americas			Quarters ended January 31	
	2015	2014	Difference	Difference
(in thousands of dollars)	$	$	$	%
Revenues	678,881	722,207	(43,326)	(6.0)
Operating expenses	709,915	747,261	(37,346)	(5.0)
Operating loss	(31,034)	(25,054)	(5,980)	23.9
Operating loss (%)	(4.6)	(3.5)	(1.1)	31.8

First-quarter revenues at our North American subsidiaries from sales in Canada and abroad were down $43.3 million (6.0%) in 2015 compared with 2014, owing mainly to our decision to reduce our sun destination product offering by 6.5% and transatlantic routes by 0.2%, which resulted in a 7.6% decline in total travellers across all markets, while average selling prices were higher. The Corporation reported a first-quarter operating loss of $31.0 million (4.6%) in 2015 compared with $25.1 million (3.5%) in 2014. The higher operating loss was mainly attributable to the weakening of the dollar against the U.S. dollar, which, even combined with the decrease in fuel prices, led to a rise in operating expenses of $15.0 million, as well as the lower revenues from aircraft subleasing. The combination of higher selling prices and cost reduction initiatives was not sufficient to offset the impact of increased costs.

EUROPE

Europe			Quarters ended January 31	
	2015	2014	Difference	Difference
(in thousands of dollars)	$	$	$	%
Revenues	109,700	125,015	(15,315)	(12.3)
Operating expenses	126,157	133,575	(7,418)	(5.6)
Operating loss	(16,457)	(8,560)	(7,897)	92.3
Operating loss (%)	(15.0)	(6.8)	(8.2)	119.1

Revenues for the first quarter at our European subsidiaries from sales in Europe and Canada were down $15.3 million (12.3%) from the same period of fiscal 2014, owing to a decrease in total travellers. In local currency terms, revenues of our European entities declined. This was due to a decrease in sales to destinations in North Africa and Senegal, which translated into a 12.4% decrease in total travellers for the quarter, compared with 2014, while our average selling prices were lower than those for the same period of 2014. Our European operations reported a first-quarter operating loss of $16.5 million (15.0%) in 2015 compared with $8.6 million (6.8%) in 2014. The wider operating loss was mainly attributable to a decrease in total travellers, rising operating expenses driven by the depreciation in Canada's currency against the U.S. dollar, as well as to lower average selling prices.

OTHER EXPENSES (REVENUES)

	Quarters ended January 31			
(in thousands of dollars)	2015 $	2014 $	Difference $	Difference %
Financing costs	527	484	43	8.9
Financing income	(2,018)	(2,044)	26	(1.3)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	43,771	3,218	40,553	1,260.2
Foreign exchange gain on non-current monetary items	(1,897)	(905)	(992)	109.6

FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs for the first quarter remained unchanged from a year earlier.

FINANCING INCOME

Financing income for the first quarter remained unchanged from the year-ago period.

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 fluctuations in fuel prices. During the first quarter, the fair value of derivative financial instruments used for aircraft fuel purchases was down $43.8 million, compared with a $3.2 million decline in fair value in the same period of fiscal 2014, in light of the recent slump in fuel prices.

FOREIGN EXCHANGE LOSS (GAIN) ON NON-CURRENT MONETARY ITEMS

Foreign exchange gains and losses on non-current monetary items result mainly from the exchange effect on foreign currency deposits. The Corporation posted a foreign exchange gain on long-term monetary items for the first quarter of $1.9 million in 2015 compared with $0.9 million in 2014.

INCOME TAXES

Income tax recovery for the first quarter totalled $24.8 million, compared with $9.5 million for the corresponding period of the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 28.4% for the first quarter, compared with 27.7% for the same period of 2014. The change in tax rates for the quarter resulted from differences between countries and in the statutory tax rates applied to taxable income or losses.

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

In light of the items discussed in the Consolidated operations section, the Corporation reported a net loss of $63.1 million for the quarter ended January 31, 2015, compared with a net loss of $24.9 million for the corresponding period of 2014. Net loss attributable to shareholders for the quarter stood at $64.3 million or $1.66 per share (basic and diluted) in 2015 compared to $25.6 million or $0.67 per share (basic and diluted) in 2014. For the first quarter of 2015, the weighted average number of outstanding shares used to compute basic earnings per share was 38,754,000 (basic and diluted), compared with 38,536,000 (basic and diluted) for the corresponding quarter of 2014.

For the first quarter, the Corporation posted an adjusted net loss of $32.4 million ($0.84 per share) in 2015 compared $23.3 million ($0.60 per share) in 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

Given the seasonal nature of the Corporation's operations, interim operating results do not proportionately reflect the operating results for a full year. Revenues rose compared with corresponding quarters, with the exception of the first quarter of 2015. Average selling prices were up while total travellers declined for both the winter and summer seasons. In terms of operating results, increases in average selling prices coupled with cost reduction and margin improvement initiatives were insufficient to offset the foreign exchange effect arising from the strength of the 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)	T2-2013 $	T3-2013 $	T4-2013 $	T1-2014 $	T2-2014 $	T3-2014 $	T4-2014 $	T1-2015 $
Revenues	1,106,824	927,004	808,616	847,222	1,118,620	941,702	844,654	788,581
Aircraft rent	20,556	20,530	19,765	19,170	19,853	23,350	24,856	23,167
Operating income (loss)	(6,348)	41,713	70,238	(33,614)	(13,029)	36,091	57,392	(47,491)
Adjusted operating income (loss)	6,507	54,281	80,704	(23,892)	4	47,789	76,028	(35,753)
Net income (loss)	(21,556)	41,469	55,229	(24,860)	(6,606)	26,296	31,236	(63,088)
Net income (loss) attributable to shareholders	(22,760)	41,129	54,723	(25,649)	(7,903)	25,820	30,607	(64,314)
Basic earnings (loss) per share	(0.59)	1.07	1.42	(0.67)	(0.20)	0.67	0.79	(1.66)
Diluted earnings (loss) per share	(0.59)	1.07	1.40	(0.67)	(0.20)	0.66	0.79	(1.66)
Adjusted net income (loss)	(1,432)	30,759	54,804	(23,288)	(7,553)	26,730	49,353	(32,447)
Adjusted net income (loss) per share	(0.04)	0.80	1.40	(0.60)	(0.19)	0.69	1.27	(0.84)

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2015, cash and cash equivalents totalled $393.6 million compared with $308.9 million as at October 31, 2014. As at the end of the first quarter of fiscal 2015, cash and cash equivalents in trust or otherwise reserved amounted to $432.5 million compared with $380.2 million as at October 31, 2014. The Corporation's statement of financial position reflects working capital of $53.9 million and a ratio of 1.05, compared with working capital of $96.0 million and a ratio of 1.12 as at October 31, 2014.

Total assets increased by $308.3 million to $1,683.4 million as at January 31, 2015 from $1,375.0 million as at October 31, 2014, primarily due to increases of $84.7 million in cash and cash equivalents, $71.1 million in derivative financial instruments, $52.3 million in cash and cash equivalents in trust or otherwise reserved, and $40.3 million in prepaid expenses. These changes and changes in other main assets reflect the seasonal nature of our operations. The Corporation recorded an $18.5 million decline in equity to $464.5 million as at January 31, 2015 from $482.9 million as at October 31, 2014, owing primarily to the $64.3 million net loss attributable to shareholders, offset in part by the $44.2 million unrealized loss on cash flow hedges, and $3.0 million in foreign exchange gains on translation of financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended January 31		
	2015	2014	Difference
(in thousands of dollars)	$	$	$
Cash flows related to operating activities	97,492	97,738	(246)
Cash flows related to investing activities	(15,074)	(8,644)	(6,430)
Cash flows related to financing activities	(18)	1,489	(1,507)
Effect of exchange rate changes on cash	2,344	3,195	(851)
Net change in cash	84,744	93,778	(9,034)

OPERATING ACTIVITIES

Cash flows generated by operating activities in the first quarter amounted to $97.5 million in 2015 compared with $97.7 million in 2014. This $0.2 million decrease resulted from a $15.5 million decrease in the net change in other assets and liabilities related to operations and from an $8.8 million decrease in profitability, offset by a $23.8 million increase in net change in non-cash working capital balances related to operations.

INVESTING ACTIVITIES

Cash flows used in investing activities in the first quarter amounted to $15.1 million in 2015 compared with $8.6 million in 2014. Additions to property, plant and equipment and other intangible assets totalled $15.1 million compared with $11.6 million a year earlier. In the first quarter of 2014, we also received a $3.0 million balance of sale receivable related to the disposal of a subsidiary in 2012.

FINANCING ACTIVITIES

Cash flows used in financing activities were nil for the first quarter of 2015, compared with $1.5 million a year earlier, following lower proceeds from share issuance than in the same quarter of fiscal 2014.

CONSOLIDATED FINANCIAL POSITION

	January 31, 2015 $	October 31, 2014 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	393,631	308,887	84,744	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	432,496	380,184	52,312	Seasonal nature of operations and foreign exchange difference
Trade and other receivables	128,583	123,489	5,094	Increase in security deposit receivables to lessors following aircraft maintenance
Income taxes receivable	30,938	3,329	27,609	Increase in income taxes recoverable given subsidiaries' taxable income and partial payment of assessments received related to ABCPs
Inventories	10,090	10,434	(344)	No significant difference
Prepaid expenses	115,258	74,932	40,326	Increase in prepayments to certain service providers due to the seasonal nature of operations
Derivative financial instruments	87,658	16,596	71,062	Favourable change in the dollar compared with the U.S. currency with respect to forward contracts entered into
Deposits	58,111	43,932	14,179	Increase in deposits paid to certain service providers due to the seasonal nature of operations
Deferred tax assets	35,775	30,051	5,724	Increase in deferred tax arising from fuel-related derivative financial instruments
Property, plant and equipment	131,812	128,560	3,252	Additions during the year, partially offset by depreciation
Goodwill	98,031	95,601	2,430	Foreign exchange difference
Intangible assets	74,243	72,769	1,474	Additions during the year, partially offset by depreciation
Investment in an associate	85,322	83,949	1,373	Share of net income of an associate and foreign exchange difference
Other assets	1,417	2,317	(900)	No significant difference
Liabilities				
Trade and other payables	402,516	338,633	63,883	Seasonal nature of operations and foreign exchange difference
Provision for overhaul of leased aircraft	36,955	36,312	643	Impact of the repair schedule
Income taxes payable	897	1,721	(824)	Settlement of balances due
Customer deposits and deferred revenues	636,303	424,468	211,835	Seasonal nature of operations and foreign exchange difference
Derivative financial instruments	70,543	24,679	45,864	Unfavourable change in fuel prices with respect to forward contracts entered into
Other liabilities	53,163	53,926	(763)	Decrease in deferred lease inducements and foreign exchange difference
Deferred tax liabilities	18,493	12,345	6,148	Increase in deferred tax arising from derivative financial instruments related to foreign currencies
Equity				
Share capital	224,904	224,679	225	Issued from treasury
Share-based payment reserve	15,850	15,444	406	Share-based payment expense
Retained earnings	163,558	227,872	(64,314)	Net income (loss)
Unrealized gain (loss) on cash flow hedges	53,934	11,712	42,222	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	6,249	3,239	3,010	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at January 31, 2015, 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 November 14, 2014, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2019, 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 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, 2015, all the financial ratios and criteria were met and the credit facility was undrawn.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$16.5 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 $718.1 million as at January 31, 2015 ($690.3 million as at October 31, 2014) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at January 31, 2015 $	As at October 31, 2014 $
Guarantees		
Irrevocable letters of credit	32,165	31,267
Collateral security contracts	1,427	1,361
Operating leases		
Obligations under operating leases	684,551	657,639
	718,143	690,267

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 for issuing letters of credit 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, 2015, $59.5 million had been drawn down.

In addition, the Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at January 31, 2015, $21.2 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 €20.1 million [$28.9 million], of which €7.3 million [$10.5 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, 2015, €5.3 million had been drawn down [$7.6 million].

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £17.0 million [$32.5 million], which has been fully drawn down.

As at January 31, 2015, off-balance sheet arrangements were up $27.9 million, up to $690.3 million as at October 31, 2014 to $718.1 million as at January 31, 2015. This decrease resulted from repayments made during the three-month period, offset by the weakening of Canada's currency against the U.S. dollar and the pound sterling.

We believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

DEBT LEVELS

The Corporation did not report any debt on its statement of financial position while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, amounted to $718.1 million as at January 31, 2015.

The Corporation's total debt rose $20.0 million to $456.1 million from its October 31, 2014 level, while its total net debt of $127.3 million as at October 31, 2014 underwent a favourable change of $64.8 million, resulting in a total net debt of $62.5 million as at January 31, 2015. The decline in total net debt resulted from higher cash and cash equivalent balances than at October 31, 2014.

OUTSTANDING SHARES

As at January 31, 2015, 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 6, 2015, there were 1,623,974 Class A Variable Voting Shares outstanding and 37,169,594 Class B Voting Shares outstanding.

STOCK OPTIONS

As at March 6, 2015, there were a total of 2,885,674 stock options outstanding, 1,922,138 of which were exercisable.

OTHER

FLEET

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

The Corporation also has seasonal winter rentals for six Boeing 737-800s (189 seats) and two Boeing 737-700s (149 seats).

2015-2017 STRATEGIC PLAN

At its annual and special meeting of shareholders on March 12, 2015, the Corporation will present its three-year 2015-2017 Strategic Plan, aimed at continuing the Corporation's efforts to improve efficiency and margins as well as develop markets and foster growth. The plan comprises four key components.

A program to reduce costs and improve margins totalling $100 million over three years, specifically $45 million in 2015 (including the impact of narrow-body aircraft), $30 million in 2016 and $25 million in 2017. The main initiatives and projects are:

- Reduce air costs by decreasing the number of wide-body aircraft operated in winter, following the successful implementation of a flexible narrow-body aircraft fleet.
- Implement a connecting flights strategy, starting next summer in Canada, using Air Transat's narrow-body aircraft to expand the destination offering in certain source markets. Implement a similar strategy in 2016 in Europe, with an air partner, paving the way for new destinations and source markets.
- Increase density of three wide-body Airbus A330 to be dedicated to the London and Paris routes.
- Increase ancillary revenues from the sale of optional services to travellers and from other sources such as freight.
- Continue technological upgrade projects of reservation systems, primarily to improve efficiency and reduce time-to-market of new products.

A program to improve the offering, focused on growth in existing source markets. The main efforts in this respect will be to:

- Introduce new destinations in Europe, starting with Budapest in summer 2015.
- Fine-tune the sun destinations offering through exclusive partnerships with hotels and the continued improvement of collections, based on customer expectations.
- Continue to develop Lookea clubs in France, as well as the tour market.

A program to significantly transform the Corporation's distribution ecosystem in a fully integrated fashion. Concretely:

- Continue developing the Transat Travel brand, and in particular complete its implementation in the Corporation's own agencies.
- Develop a new distribution website as part of a strategy for transparently integrating the customer relations centres and travel agencies.

A program to develop markets and continue the integration strategy, with the aim of ensuring growth, namely to:

- Penetrate new source markets that can generate synergies with current operations, through acquisitions.
- Enhance presence in destinations as an incoming tour operator, particularly by leveraging Jonview Canada, Tourgreece and Trafic Tours.
- Develop and grow Ocean Hotels, increasing the number of rooms from the current 2,200 to potentially 5,000 over the duration of the plan.

NORMAL COURSE ISSUER BID

The Corporation announced its intention to launch a normal-course issuer bid share buyback program, subject to approval from regulatory authorities.

Pursuant to its normal course issuer bid, the Corporation intends to purchase for cancellation a number of Class A Variable Voting Shares and a number of Class B Voting Shares, representing up to 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 of its excess of cash.

Subject to approval from regulatory authorities, the purchases under the Corporation's normal course issuer bid will be made on the open market through the facilities of the TSX in accordance with its policy on normal course issuer bids. The price which the Corporation will pay for repurchased shares will be the market price at the time of acquisition plus brokerage fees.

CHANGE IN ACCOUNTING POLICIES

PRESENTATION OF THE SHARE OF NET INCOME (LOSS) OF AN ASSOCIATE

The Corporation has modified the presentation of the share of net income (loss) of an associate to include it under operating results in the consolidated statements of loss. In the past, operating results did not consider the share of net income (loss) of an associate, i.e. CIBV, which owns and operates hotels in Mexico, the Dominican Republic and Cuba. However, hotel operations are part of the Corporation's activities. As a result, operating results more accurately reflect the Corporation's ongoing activities by including the share of net income (loss) of an associate. The retrospective application of this policy change had no impact on the Corporation's net loss.

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 (loss) rather than in the statement of income (loss).

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 from when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

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

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 informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2017, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at January 31, 2015 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, 2015 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 – The Sun destinations market outbound from Canada accounts for a substantial portion of the Corporation's business during the winter season, and on that market, margins are particularly slim and volatile.

On the Sun destinations market, the Corporation's capacity is approximately 6% lower than that offered last year. To date, 75% of that capacity has been sold, load factors are similar and selling prices are up 1% compared with last year at the same date.

On the transatlantic market, currently in low season, the Corporation's capacity is 6% lower than that marketed last winter. To date, 74% of that capacity has been sold, and load factors and selling prices are similar.

In France, where winter corresponds to low season, bookings are lower by 8% and selling prices are similar compared to last year at this time.

The weakened Canadian dollar, net of the decline in fuel cost, will result in an increase in operating expenses of 2.2%, if the dollar and the cost of fuel remain at their current levels. The increase was 0.1% as of last December.

Given the significant and recent decline in the value of the Canadian currency, the Corporation believes that its second-quarter results may be lower than those posted for the same quarter last winter.

Summer 2015 – With regard to summer 2015, it is too soon to draw firm conclusions. To date, 32% of seats have been sold. When compared with the summer of 2014, which ranked as the Corporation's second best, the capacity we deployed on the transatlantic market is down 2%. Load factors are higher by 2%, and prices are down by 3.5%, but operating expenses are expected to be lower by 3.8% 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, 2015 $	As at October 31, 2014 $
ASSETS		
Cash and cash equivalents	393,631	308,887
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	394,896	340,704
Trade and other receivables	128,583	123,489
Income taxes receivable	17,716	3,329
Inventories	10,090	10,434
Prepaid expenses	115,258	74,932
Derivative financial instruments	82,001	16,596
Current portion of deposits	34,724	17,833
Current assets	1,176,899	896,204
Cash and cash equivalents reserved *[note 5]*	37,600	39,480
Deposits	23,387	26,099
Income taxes receivable	13,222	—
Deferred tax assets	35,775	30,051
Property, plant and equipment	131,812	128,560
Goodwill	98,031	95,601
Intangible assets	74,243	72,769
Derivative financial instruments	5,657	—
Investment in an associate *[note 6]*	85,322	83,949
Other assets	1,417	2,317
Non-current assets	506,466	478,826
	1,683,365	1,375,030
LIABILITIES		
Trade and other payables	402,516	338,633
Current portion of provision for overhaul of leased aircraft	12,799	10,674
Income taxes payable	897	1,721
Customer deposits and deferred revenues	636,303	424,468
Derivative financial instruments	70,441	24,679
Current liabilities	1,122,956	800,175
Provision for overhaul of leased aircraft *[note 7]*	24,156	25,638
Other liabilities *[note 9]*	53,163	53,926
Derivative financial instruments	102	—
Deferred tax liabilities	18,493	12,345
Non-current liabilities	95,914	91,909
EQUITY		
Share capital *[note 10]*	224,904	224,679
Share-based payment reserve	15,850	15,444
Retained earnings	163,558	227,872
Unrealized gain on cash flow hedges	53,934	11,712
Cumulative exchange differences	6,249	3,239
	464,495	482,946
	1,683,365	1,375,030

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 2015 $	 2014 $
Revenues	788,581	847,222
Operating expenses		
Costs of providing tourism services	458,373	537,499
Aircraft fuel	91,453	70,958
Salaries and employee benefits	87,894	83,327
Commissions	36,308	47,028
Aircraft maintenance	29,361	24,045
Aircraft rent	23,167	19,170
Airport and navigation fees	21,568	14,769
Other	76,813	74,238
Share of net (income) loss of an associate	(603)	80
Depreciation and amortization	11,738	9,722
	836,072	880,836
Operating results	(47,491)	(33,614)
Financing costs	527	484
Financing income	(2,018)	(2,044)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	43,771	3,218
Foreign exchange gain on non-current monetary items	(1,897)	(905)
Loss before income tax expense	(87,874)	(34,367)
Income taxes (recovery)		
Current	(9,829)	(5,974)
Deferred	(14,957)	(3,533)
	(24,786)	(9,507)
Net loss for the period	(63,088)	(24,860)
Net loss attributable to:		
Shareholders	(64,314)	(25,649)
Non-controlling interests	1,226	789
	(63,088)	(24,860)
Loss per share *[note 10]*		
Basic	(1.66)	(0.67)
Diluted	(1.66)	(0.67)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars)	Quarters ended January 31 2015 $	 2014 $
Net loss for the period	(63,088)	(24,860)
Other comprehensive income (loss)		
Items that will be reclassified to net loss		
Change in fair value of derivatives designated as cash flow hedges	45,839	8,722
Reclassification to net loss	11,768	3,352
Deferred taxes	(15,385)	(3,198)
	42,222	8,876
Foreign exchange gain on translation of financial statements of foreign subsidiaries	3,010	11,099
Total other comprehensive income	45,232	19,975
Comprehensive loss for the period	(17,856)	(4,885)
Attributable to:		
Shareholders	(18,444)	(5,438)
Non-controlling interests	588	553
	(17,856)	(4,885)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Share capital	Share-based payment reserve	Retained earnings	Accumulated other comprehensive income (loss): Unrealized gain (loss) on cash flow hedges	Accumulated other comprehensive income (loss): Cumulative exchange differences	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
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) for the period	—	—	(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
Net income for the period	—	—	48,524	—	—	48,524	2,402	50,926
Other comprehensive income (loss)	—	—	(2,519)	456	(4,549)	(6,612)	1,608	(5,004)
Comprehensive income for the period	—	—	46,005	456	(4,549)	41,912	4,010	45,922
Issued from treasury	613	—	—	—	—	613	—	613
Exercise of options	282	(90)	—	—	—	192	—	192
Share-based payment expense	—	249	—	—	—	249	—	249
Dividends	—	—	—	—	—	—	(2,782)	(2,782)
Other changes in non-controlling interest liabilities	—	—	681	—	—	681	(681)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,061	1,061
Reclassification of non-controlling interest exchange difference	—	—	—	—	1,608	1,608	(1,608)	—
	895	159	681	—	1,608	3,343	(4,010)	(667)
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	—	—	—	—	—	—	881	881
Reclassification of non-controlling interest exchange difference	—	—	—	—	(638)	(638)	638	—
	225	406	—	—	(638)	(7)	1,276	1,269
Balance as at January 31, 2015	224,904	15,850	163,558	53,934	6,249	464,495	1,864	466,359

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended January 31	
	2015	2014
(in thousands of Canadian dollars)	$	$
OPERATING ACTIVITIES		
Net loss for the period	(63,088)	(24,860)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	11,738	9,722
Change in fair value of derivative financial instruments used for aircraft fuel purchases	43,771	3,218
Foreign exchange gain on non-current monetary items	(1,897)	(905)
Share of net (income) loss of an associate	(603)	80
Deferred taxes	(14,957)	(3,533)
Employee benefits	600	563
Share-based payment expense	406	483
	(24,030)	(15,232)
Net change in non-cash working capital balances related to operations	129,470	105,691
Net change in other assets and liabilities related to operations	(8,591)	6,874
Net change in provision for overhaul of leased aircraft	643	405
Cash flows related to operating activities	97,492	97,738
INVESTING ACTIVITIES		
Additions to property, plant and equipment and other intangible assets	(15,074)	(11,644)
Proceeds from disposal of subsidiary	—	3,000
Cash flows related to investing activities	(15,074)	(8,644)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	225	1,489
Dividends paid by a subsidiary to a non-controlling shareholder	(243)	—
Cash flows related to financing activities	(18)	1,489
Effect of exchange rate changes on cash and cash equivalents	2,344	3,195
Net change in cash and cash equivalents	84,744	93,778
Cash and cash equivalents, beginning of period	308,887	265,818
Cash and cash equivalents, end of period	393,631	359,596
Supplementary information (as reported in operating activities)		
Income taxes paid	18,631	21,261
Interest paid	73	26

See accompanying notes to unaudited interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"] is incorporated under the *Canada Business Corporations Act*. The Corporation's head office is located at 300 Léo-Pariseau Street, Montréal, Québec, Canada. The Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange.

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended January 31, 2015 were approved by the Corporation's Board of Directors on March 11, 2015.

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, 2014.

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 CHANGES IN ACCOUNTING POLICIES

PRESENTATION OF THE SHARE OF NET INCOME (LOSS) OF AN ASSOCIATE

The Corporation has modified the presentation of the share of net income (loss) of an associate to include it under operating results in the consolidated statements of loss. In the past, operating results did not consider the share of net income (loss) of an associate, i.e. CIBV, which owns and operates hotels in Mexico, the Dominican Republic and Cuba. However, hotel operations are part of the Corporation's activities. As a result, operating results more accurately reflect the Corporation's ongoing activities by including the share of net income (loss) of an associate. The retrospective application of this policy change had no impact on the Corporation's net loss.

Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9, *FINANCIAL INSTRUMENTS*

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

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach 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 (loss) rather than in the statement of income (loss).

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 from when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

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

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 informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2017, with earlier adoption permitted. The Corporation is currently assessing 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, 2015, cash and cash equivalents in trust or otherwise reserved included $332,304 [$276,964 as at October 31, 2014] 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 $100,192, of which $37,600 was recorded as non-current assets [$103,220 as at October 31, 2014, of which $39,480 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 INVESTMENT IN AN ASSOCIATE

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

	$
Balance as at October 31, 2014	83,949
Share of net income	603
Translation adjustment	770
Balance as at January 31, 2015	85,322

Note 7 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, 2014	36,312
Additional provisions	2,647
Utilization of provisions	(3,813)
Exchange difference	1,809
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

	$
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	20,124
Balance as at January 31, 2014	28,463

Note 8 LONG-TERM DEBT

On November 14, 2014, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2019, 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, 2015, 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 100% of the amount of the letters of credit as collateral security. As at January 31, 2015, $59,485 had been drawn down [$59,545 as at October 31, 2014].

Operating lines of credit totalling €11,500 [$16,511] [€11,500 [$16,246] in 2014] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at January 31, 2015 and October 31, 2014.

Note 9 OTHER LIABILITIES

	As at January 31, 2015	As at October 31, 2014
	$	$
Employee benefits	36,279	35,872
Deferred lease inducements	15,764	16,934
Non-controlling interests	28,542	24,900
	80,585	77,706
Less non-controlling interests included in Trade and other payables	(27,422)	(23,780)
	53,163	53,926

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 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, 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
Issued from treasury	75,376	613
Exercise of options	29,302	282
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

As at January 31, 2015, the number of Class A Shares and Class B Shares stood at 1,626,349 and 37,143,996, respectively [at 1,663,027 and 37,078,500 as at October 31, 2014].

OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2014	2,654,817	12.39
Granted	236,447	8.73
Cancelled	(5,590)	13.27
Balance as at January 31, 2015	2,885,674	12.14
Options exercisable as at January 31, 2015	1,905,926	13.31

LOSS PER SHARE

Basic and diluted loss per share were computed as follows:

	Quarters ended January 31	
	2015	2014
(in thousands of dollars, except per share data)	$	$
NUMERATOR		
Net loss attributable to shareholders of the Corporation used in computing basic and diluted earnings per share	(64,314)	(25,649)
DENOMINATOR		
Adjusted weighted average number of outstanding shares	38,754	38,536
Effect of dilutive securities		
Stock options	—	—
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,754	38,536
Loss per share		
Basic	(1.66)	(0.67)
Diluted	(1.66)	(0.67)

In light of the net loss recognized for quarters ended January 31, 2015 and 2014, respectively, 2,885,674 and 2,784,187 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 conducts its activities in a single industry segment, namely holiday travel. Therefore, the statements of 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.

	Quarters ended January 31		
	Americas	Europe	Total
	$	$	$
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)
2014			
Revenues from third parties	722,207	125,015	847,222
Operating expenses	747,261	133,575	880,836
	(25,054)	(8,560)	(33,614)

	Revenues [1]		Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended January 31		As at January 31,	As at October 31,
	2015	2014	2015	2014
	$	$	$	$
Canada	662,154	708,205	204,081	200,863
France	104,213	118,965	48,402	46,965
United Kingdom	4,995	5,557	36,412	34,273
Other	17,219	14,495	15,191	14,829
	788,581	847,222	304,086	296,930

[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 6, 15, 16, 22 and 23 to the financial statements for the fiscal year ended October 31, 2014 provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These contracts typically cover a one-year period and are renewable annually. As at January 31, 2015, these guarantees totalled $1,427. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2015, 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, 2015, $21,173 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €20,120 [$28,886]. As at January 31, 2015, letters of guarantee had been issued totalling €7,304 [$10,486].

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