TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2013

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TSX: TRZ.B, TRZ.A

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2013, compared with the quarter ended July 31, 2012, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2012 and the accompanying notes and the 2012 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2012 Annual Report. The risks and uncertainties set out in the MD&A of the 2012 Annual Report are herein incorporated by reference and remain unchanged. The information contained herein is dated as of September 11, 2013. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2013 and the Annual Information Form for the year ended October 31, 2012.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

- The outlook whereby the Corporation expects to record better results than last year for the fourth quarter.

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31		Nine-month periods ended July 31	
	2013 $	2012 $	2013 $	2012 $
Gross margin (operating loss)	41,803	12,498	1,742	(65,569)
Depreciation and amortization	11,250	9,576	29,109	29,578
Operating margin (loss) before depreciation and amortization	53,053	22,074	30,851	(35,991)
Income (loss) before income tax expense	58,623	12,011	8,193	(47,546)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(15,431)	7,455	1,009	1,430
Restructuring charge	1,318	—	5,233	—
Loss (gain) on investments in ABCP	—	1,621	—	(6,411)
Gain on disposal of a subsidiary	—	(5,655)	—	(5,655)
Adjusted income (loss)	44,510	15,432	14,435	(58,182)
Net income (loss) attributable to shareholders	41,129	9,405	3,232	(33,283)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(15,431)	7,455	1,009	1,430
Restructuring charge	1,318	—	5,233	—
Loss (gain) on investments in ABCP	—	1,621	—	(6,411)
Gain on disposal of a subsidiary	—	(5,655)	—	(5,655)
Tax impact	3,743	(2,305)	(1,711)	(37)
Adjusted after-tax income (loss)	30,759	10,521	7,763	(43,956)
Adjusted after-tax income (loss)	30,759	10,521	7,763	(43,956)
Adjusted weighted average number of outstanding shares used in computing diluted income (loss) per share	38,575	38,199	38,370	38,104
Diluted adjusted after-tax income (loss) per share	0.80	0.28	0.20	(1.15)

	As at July 31, 2013 $	As at October 31, 2012 $
Long–term debt	—	—
Off-balance sheet arrangements, excluding agreements with service providers	684,721	557,133
Total debt	684,721	557,133
Total debt	684,721	557,133
Cash and cash equivalents	(389,337)	(171,175)
Investments in ABCP	—	(27,350)
Total net debt	295,384	358,608

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars, except per share data)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	927,004	909,056	17,948	2.0	2,839,542	2,950,778	(111,236)	(3.8)
Operating margin (loss) before depreciation and amortization[1]	53,053	22,074	30,979	140.3	30,851	(35,991)	66,842	185.7
Net income (loss) attributable to shareholders	41,129	9,405	31,744	337.5	3,232	(33,283)	36,515	109.7
Basic earnings (loss) per share	1.07	0.25	0.82	328.0	0.08	(0.87)	0.95	109.2
Diluted earnings (loss) per share	1.07	0.25	0.82	328.0	0.08	(0.87)	0.95	109.2
Adjusted after-tax income (loss)[1]	30,759	10,521	20,238	192.4	7,763	(43,956)	51,719	117.7
Diluted adjusted after-tax income (loss) per share[1]	0.80	0.28	0.52	189.5	0.20	(1.15)	1.35	117.5
Consolidated Statements of Cash Flows								
Operating activities	67,608	(6,859)	74,467	1,085.7	236,616	115,238	121,378	105.3
Investing activities	(16,146)	40,613	(56,759)	(139.8)	(17,785)	5,928	(23,713)	(400.0)
Financing activities	(111)	(917)	806	87.9	(1,443)	(4,540)	3,097	68.2
Effect of exchange rate changes on cash and cash equivalents	1,838	(4,166)	6,004	(144.1)	774	(5,459)	6,233	114.2
Net change in cash and cash equivalents	53,189	28,671	24,518	85.5	218,162	111,167	106,995	96.2

	As at July 31, 2013 $	As at October 31, 2012 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	389,337	171,175	218,162	127.4
Cash and cash equivalents in trust or otherwise reserved (current)	290,558	331,172	(40,614)	(12.3)
Investments in ABCP	—	27,350	(27,350)	(100.0)
	679,895	529,697	150,198	28.4
Total assets	1,387,914	1,163,301	224,613	19.3
Debt	—	—	—	—
Total debt[1]	684,721	557,133	127,588	22.9
Total net debt[1]	295,384	358,608	(63,224)	(17.6)

[1] SEE SECTION ON NON-IFRS FINANCIAL MEASURES

OVERVIEW

CORE BUSINESS

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

VISION

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

STRATEGY

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

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

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

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

For fiscal 2013, Transat has set the following targets:

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

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

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

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended July 31				Nine-month periods ended July 31			
	2013	2012	Difference	Difference	2013	2012	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Americas	688,046	608,768	79,278	13.0	2,323,174	2,336,589	(13,415)	(0.6)
Europe	238,958	300,288	(61,330)	(20.4)	516,368	614,189	(97,821)	(15.9)
	927,004	909,056	17,948	2.0	2,839,542	2,950,778	(111,236)	(3.8)

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

Revenues for the quarter ended July 31, 2013 were up $17.9 million from fiscal 2012, driven primarily by higher average selling prices, which more than offset the impact on revenues of our decision to reduce our offering. During the quarter, total travellers fell 7.3%. Revenues for the nine-month period were down $111.2 million, following our decision to reduce our offering in all our markets for both winter and summer seasons. Total travellers declined 10.4%, while average selling prices were higher compared with 2012. The lower revenues for the nine-month period was partly offset by the $32.6 million in revenues generated by Tours Mont-Royal Holidays ("TMR"), acquired on February 1, 2012, at the beginning of the second quarter of fiscal 2012.

OPERATING EXPENSES

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Cost of providing tourism services	444,248	424,399	19,849	4.7	1,645,368	1,699,687	(54,319)	(3.2)
Aircraft fuel	129,960	159,003	(29,043)	(18.3)	293,286	371,892	(78,606)	(21.1)
Salaries and employee benefits	98,088	92,620	5,468	5.9	273,639	286,091	(12,452)	(4.4)
Commissions	30,055	29,062	993	3.4	137,766	134,400	3,366	2.5
Aircraft maintenance	31,063	31,458	(395)	(1.3)	79,960	94,274	(14,314)	(15.2)
Airport and navigation fees	29,416	33,714	(4,298)	(12.7)	66,566	76,970	(10,404)	(13.5)
Aircraft rent	20,530	22,361	(1,831)	(8.2)	61,505	63,832	(2,327)	(3.6)
Other	90,591	94,365	(3,774)	(4.0)	250,601	259,623	(9,022)	(3.5)
Depreciation and amortization	11,250	9,576	1,674	(17.5)	29,109	29,578	(469)	(1.6)
Total	885,201	896,558	(11,357)	(1.3)	2,837,800	3,016,347	(178,547)	(5.9)

Total operating expenses for the quarter and nine-month period were down $11.4 million (1.3%) and $178.5 million, respectively, from the same periods of fiscal 2012, owing primarily to our decision to reduce our offering in all our markets. Compared with the nine-month period of the previous fiscal year, two Airbus A310 aircraft were retired from our fleet (two Airbus A330s were gradually added to the fleet in the first quarter of fiscal 2012). Also, operating expenses, primarily comprising the cost of providing tourism services, reflected increases following the February 1, 2012 acquisition of TMR.

As a result, operating expenses increased by 8.8% in the Americas but declined 22.4% in Europe for the third quarter, and were down 3.0% and 17.0%, respectively, in the Americas and Europe for the nine-month period.

COST OF PROVIDING TOURISM SERVICES

The costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. The cost of providing tourism services rose $19.8 million (4.7%) for the quarter but declined $54.3 million (3.2%) for the nine-month period, compared with the corresponding periods of the previous fiscal year. The higher cost for the quarter stemmed primarily from the increase in hotel room costs and the dollar's weakening against the euro. Since the Corporation sells a large number of seats without any related travel products during the summer season, the impact of our decision to reduce our offering on the cost of providing tourism services was not significant. The lower cost for the nine-month period resulted from the reduction of our offering during the winter season, partly offset by higher hotel room costs and the extra costs stemming from the TMR acquisition.

AIRCRAFT FUEL

Aircraft fuel expense for the quarter and nine-month period was down $29.0 million (18.3%) and $78.6 million, respectively, from the same periods of fiscal 2012, resulting primarily from a drop in flight hours logged by our aircraft fleet, and also from lower fuel prices compared with the corresponding periods a year earlier.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $5.5 million (5.9%) for the quarter but declined $12.5 million (4.4%) for the nine-month period, compared with 2012. The higher expense for the quarter is attributable to the recognition of costs related to the short- and long-term incentive programs. The decrease for the nine-month period owed mainly to the sale of our Handlex subsidiary and, to a lesser extent, to our reduced offering. Salaries and employee benefits also factored in a restructuring charge of $1.3 million for the quarter and $5.2 million for the nine-month period, consisting primarily of termination benefits.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Year over year, commission expense was up $1.0 million (3.4%) for the third quarter and $3.4 million (2.5%) for the nine-month period. As a percentage of revenues, commissions were stable at 3.2% compared with the corresponding quarter of 2012. Commissions for the nine-month period grew to 4.9% of our revenues compared with 4.6% in fiscal 2012, stemming primarily from the redefinition of the commission program at the Corporation's travel agencies to include fuel surcharges and service fees for package reservations of certain brands of the Corporation in the amounts on which commissions are calculated.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs, consisting mainly of engine and airframe maintenance expenses incurred by Air Transat, were down $0.4 million (1.3%) and $14.3 million (15.2%) for the third quarter and nine-month period, respectively, compared with fiscal 2012. These decreases stemmed primarily from the drop in flight hours logged by our fleet. However, certain costs incurred by the Corporation during the quarter exceeded the amounts initially estimated and recorded.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees, consisting mainly of fees charged by airports and air traffic control entities, were down $4.3 million (12.7%) and $10.4 million (13.5%) for the third quarter and nine-month period ended July 31, 2013, respectively, due to fewer flights logged by our fleet.

AIRCRAFT RENT

Aircraft rent was down $1.8 million (8.2%) and $2.3 million (3.6%) for the third quarter and nine-month period, respectively, compared with fiscal 2012, mainly following the renewal of two Airbus A310 leases on better terms and conditions and the retirement of two Airbus A310 aircraft at the beginning of the fiscal year.

OTHER

Other expenses for the third quarter and nine-month period declined by $3.8 million (4.0%) and $9.0 million (3.5%), respectively, compared with the same periods of fiscal 2012, owing mainly to lower other air costs as a result of our reduced product offering. Other expenses also reflect a rise in other air costs resulting from the June 12, 2012 sale of our subsidiary Handlex, as these services must now be purchased from a third party.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense, comprising of the depreciation of property, plant and equipment and the amortization of intangible assets subject to amortization and deferred incentive benefits, was up $1.7 million for the third quarter but declined $0.5 million for the nine-month period, respectively, compared with the corresponding periods of fiscal 2012. The higher expense for the quarter resulted from adjustments to reduce the amortization period for certain assets.

GROSS MARGIN (OPERATING LOSS)

In light of the foregoing, we recorded a gross margin of $41.8 million (4.5%) for the third quarter, which includes a restructuring charge of $1.3 million, compared with $12.5 million (1.4%) in 2012. For the nine-month period, the Corporation reported a gross margin of $1.7 million (0.1%) compared with an operating loss of $65.6 million (2.2%) in fiscal 2012. The improvement in gross margin was driven primarily by higher average selling prices.

We reported a margin before depreciation and amortization of $53.1 million (5.7%) for the third quarter, taking into account a $1.3 million restructuring charge, compared with a margin before depreciation and amortization of $22.1 million (2.4%) for the same period of fiscal 2012. For the nine-month period, the Corporation reported a margin before depreciation and amortization of $30.9 million (1.1%) compared with an operating loss before depreciation and amortization of $36.0 million (1.2%) in fiscal 2012. The improvement in margin before depreciation and amortization was driven primarily by higher average selling prices.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Revenues	688,046	608,768	79,278	13.0	2,323,174	2,336,589	(13,415)	(0.6)
Operating expenses	659,924	606,290	53,634	8.8	2,318,657	2,390,918	(72,261)	(3.0)
Gross margin (operating loss)	28,122	2,478	25,644	1,034.9	4,517	(54,329)	58,846	108.3

Third-quarter revenues at our North American subsidiaries from sales in Canada and abroad were up $79.3 million (13.0%) compared with a year earlier. The higher revenues resulted from the reallocation of certain sales from Europe to the Americas geographic area, following the reorganization of some of our activities. These sales were previously attributed to the Europe geographic area. Excluding these sales, our offering for transatlantic markets and sun destinations was reduced 12% and 3%, respectively, compared with fiscal 2012. As a result, total travellers rose 6.4%. We reported a gross margin of $28.1 million (4.1%) for the third quarter, taking into account a $1.3 million restructuring charge, compared with a gross margin of $2.5 million (0.4%) for the same period of fiscal 2012. The improvement in gross margin was driven primarily by higher average selling prices and cost reduction initiatives.

Year over year, revenues at our North American subsidiaries for the nine-month period ended July 31, 2013 decreased by $13.4 million (0.6%), resulting mainly from our decision to reduce our offering for sun destinations and transatlantic markets. The foregoing translated into a 4.7% drop in total travellers. However, the decline in revenues for the period was curbed by higher selling prices, $32.6 million in revenues generated by TMR and the reallocation of certain sales made in Europe to the Americas. For the nine-month period, the Corporation reported a gross margin of $4.5 million (0.2%) compared with an operating loss of $54.3 million (2.3%) in fiscal 2012. The improvement in gross margin was driven primarily by higher average selling prices and cost reduction initiatives.

EUROPE

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Revenues	238,958	300,288	(61 330)	(20.4)	516,368	614,189	(97,821)	(15.9)
Operating expenses	225,277	290,268	(64,991)	(22.4)	519,143	625,429	(106,286)	(17.0)
Gross margin (operating loss)	13,681	10,020	3,661	36.5	(2,775)	(11,240)	8,465	75.3

Year over year, revenues for the third quarter at our European subsidiaries from sales in Europe and Canada were down $61.3 million (20.4%) owing primarily to our decision to reduce our offering and the reallocation of certain sales from Europe to the Americas geographic area, following the reorganization of some of our activities. These sales were previously attributed to the Europe geographic area. As a result, total travellers for the quarter were down 40.7% compared with a year earlier, while average selling prices were higher. Our European operations reported a gross margin of $13.7 million (5.7%) for the third quarter compared with $10.0 million (3.3%) in fiscal 2012.

For the nine-month period, revenues at our European subsidiaries were down $97.8 million (15.9%) owing primarily to our decision to reduce our offering and the reallocation of certain sales from Europe to the Americas geographic area, following the reorganization of some of our activities. These sales were previously attributed to the Europe geographic area. As a result, total travellers for the nine-month period were down 35.2% compared with a year earlier, while average selling prices were higher. Our European operations reported an operating loss of $2.8 million (0.5%) for the nine-month period compared with $11.2 million (1.8%) in fiscal 2012.

OTHER EXPENSES (REVENUES)

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Financing costs	721	974	(253)	(26.0)	2,095	2,316	(221)	(9.5)
Financing income	(2,003)	(1,847)	(156)	(8.4)	(5,618)	(5,389)	(229)	(4.2)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(15,431)	7,455	(22,886)	(307.0)	1,009	1,430	(421)	(29.4)
Foreign exchange gain on long-term monetary items	(197)	(181)	(16)	(8.8)	(403)	(95)	(308)	(324.2)
Gain on investments in ABCP	—	(1,621)	1,621	100.0	—	(6,411)	6,411	100.0
Gain on disposal of a subsidiary	—	(5,655)	5,655	100.0	—	(5,655)	5,655	100.0
Share of net loss (income) of an associate	90	(1,880)	1,970	104.8	(3,534)	(4,219)	685	16.2

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Financing costs were down $0.3 million and $0.2 million for the third quarter and the nine-month period, respectively, compared with fiscal 2012.

FINANCING INCOME

Financing income for the third quarter and nine-month period rose $0.2 million compared with the corresponding periods of fiscal 2012.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fuel price instability. The change in fair value of derivative financial instruments used for aircraft fuel purchases during the third quarter reflected a $15.4 million increase compared with a $7.5 million decline in fiscal 2012. The change in fair value of derivative financial instruments used for aircraft fuel purchases during the nine-month period reflected a $1.0 million decrease compared with a $1.4 million decline in fiscal 2012.

FOREIGN EXCHANGE GAIN ON LONG-TERM MONETARY ITEMS

Foreign exchange gains and losses on long-term monetary items result mainly from the exchange effect on foreign currency deposits. The Corporation posted a $0.2 million foreign exchange gain on long-term monetary items for the third quarter compared with $0.2 million in the same period of fiscal 2012. For the nine-month period, the Corporation recorded a $0.4 million foreign exchange gain compared with $0.1 million in fiscal 2012.

GAIN ON INVESTMENTS IN ABCP

The gain on investments in ABCP results from the change in the fair value of investments in ABCP during the period. During the first quarter ended January 31, 2013, the Corporation sold all of its investments in ABCP. The transaction triggered neither a gain nor a loss. In fiscal 2012, the Corporation posted gains on investments in ABCP for the third quarter and the nine-month period of $1.6 million and $6.4 million, respectively, (See *Investments in ABCP* for further details).

SHARE OF NET INCOME (LOSS) OF AN ASSOCIATE

Our share of net income (loss) of an associate represents our share of the net income (loss) of our hotel business, Caribbean Investments B.V. ["CIBV"]. The Corporation reported $0.1 million as its share of the net loss of an associate for the third quarter compared with a $1.9 million share of the net income for the same quarter of 2012. The share of the net income for the nine-month period was $3.5 million compared with $4.2 million in fiscal 2012. The lowers shares of net income resulted from foreign exchange losses, despite improved operating profitability compared with fiscal 2012.

INCOME TAXES

The income tax expense totalled $17.2 million for the third quarter compared with $2.3 million for the corresponding period a year earlier. For the nine-month period, the income tax expense amounted to $2.2 million compared with an income tax recovery of $16.9 million in fiscal 2012. Excluding the share in net income (loss) of an associate, the effective tax rate for the third quarter and the nine-month period stood at 29.2% and 47.6%, respectively, compared with 23.2% and 32.6% for the respective periods of fiscal 2012. Changes in tax rates for the quarter and nine-month period arose from differences between countries in the statutory tax rates applied to taxable income and the fiscal treatment of gains on investments in ABCP, where applicable.

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

In light of the items discussed in *Consolidated operations*, net income for the quarter ended July 31, 2013 amounted to $41.5 million compared with net income of $9.7 million a year earlier. Net income attributable to shareholders for the quarter stood at $41.1 million or $1.07 per share (basic and diluted) compared with $9.4 million or $0.25 per share (basic and diluted) for the corresponding quarter of prior year. The weighted average number of outstanding shares used to compute per share amounts for the third quarter of fiscal 2013 was 38,575,000 compared with 38,199,000 for the corresponding period of fiscal 2012.

The Corporation reported a net income of $6.0 million for the nine-month period ended July 31, 2013 compared with a net loss of $30.7 million in fiscal 2012. Net income attributable to shareholders stood at $3.2 million or $0.08 per share (basic and diluted) compared with a net loss attributable to shareholders of $33.3 million or $0.87 per share (basic and diluted) for the corresponding nine-month period of prior year. The weighted average number of outstanding shares used to compute per share amounts for the nine-month period ended July 31, 2013 was 38,370,000 compared with 38,104,000 for the corresponding period of fiscal 2012.

Adjusted after-tax income for the third quarter stood at $30.8 million ($0.80 per share) compared with $10.5 million ($0.28 per share) in fiscal 2012. Adjusted after-tax income for the nine-month period stood at $7.8 million ($0.20 per share) compared with an adjusted after-tax loss of $44.0 million ($1.15 per share) for the corresponding period of 2012.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues were down for both the winter and summer seasons (compared with quarters for the corresponding periods in previous fiscal years), following our decision to reduce our offering in all our markets. Overall, average selling prices were up while total travellers declined for both the winter and summer seasons. Margins have fluctuated from quarter to quarter, mainly due to competitive price pressures. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

(in thousands of dollars, except per share data)	Q4-2011 $	Q1-2012 $	Q2-2012 $	Q3-2012 $	Q4-2012 $	Q1-2013 $	Q2-2013 $	Q3-2013 $
Revenues	805,930	829,296	1,212,426	909,056	763,441	805,714	1,106,824	927,004
Gross margin (operating loss)	6,227	(41,747)	(36,320)	12,498	41,731	(29,936)	(10,125)	41,803
Operating margin (loss) before depreciation and amortization	16,984	(31,839)	(26,226)	22,074	52,946	(21,017)	(1,185)	53,053
Net income (loss)	(6,655)	(28,580)	(11,774)	9,664	17,154	(13,940)	(21,556)	41,469
Net income (loss) attributable to shareholders	(7,266)	(29,489)	(13,199)	9,405	16,614	(15,137)	(22,760)	41,149
Basic earnings (loss) per share	(0.19)	(0.77)	(0.35)	0.25	0.43	(0.39)	(0.59)	1.07
Diluted earnings (loss) per share	(0.19)	(0.77)	(0.35)	0.25	0.43	(0.39)	(0.59)	1.07
Adjusted after-tax income (loss)	7,343	(29,941)	(24,536)	10,521	28,684	(21,564)	(1,432)	30,759
Adjusted after-tax income (loss) per share	0.19	(0.79)	(0.64)	0.28	0.75	(0.56)	(0.04)	0.80

LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2013, cash and cash equivalents totalled $389.3 million compared with $171.2 million as at October 31, 2012. As at the end of the third quarter of fiscal 2013, cash and cash equivalents held in trust or otherwise reserved amounted to $332.7 million compared with $370.3 million as at October 31, 2012. The Corporation's statement of financial position reflects working capital of $20.8 million and a ratio of 1.02 compared with a working capital deficiency of $1.2 million and a ratio of 1.0 as at October 31, 2012.

Total assets grew $224.6 million (19.3%) to $1,387.9 million as at July 31, 2013 from $1,163.3 million as at October 31, 2012, driven primarily by the increase in cash and cash equivalents of $218.2 million (including $27.4 million in proceeds from the sale of investments in ABCP). This change and changes in other main monetary asset items reflect the seasonal nature of our operations. The Corporation recorded an $8.6 million increase in equity to $374.9 million as at July 31, 2013 from $366.3 million as at October 31, 2012. This increase resulted mainly from our net income attributable to shareholders of $3.2 million, unrealized gain on cash flow hedges of $1.7 million and a $1.3 million gain on translation of financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2013	2012	Difference	2013	2012	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	67,608	(6,859)	74,467	236,616	115,238	121,378
Cash flows related to investing activities	(16,146)	40,613	(56,759)	(17,785)	5,928	(23,713)
Cash flows related to financing activities	(111)	(917)	806	(1,443)	(4,540)	3,097
Effect of exchange rate changes on cash	1,838	(4,166)	6,004	774	(5,459)	6,233
Net change in cash and cash equivalents	53,189	28,671	24,518	218,162	111,167	106,995

OPERATING ACTIVITIES

Cash flows generated by operating activities in the third quarter amounted to $67.6 million compared with $6.9 million in cash flows used for the corresponding period of fiscal 2012. The $74.5 million increase from the year-over-year quarter resulted from improved profitability of $24.4 million and a $38.5 million increase in the net change in non-cash working capital balances related to operations. The $38.5 million increase stemmed primarily from a larger increase in trade and other payables during the quarter, compared with fiscal 2012.

Cash flows from operating activities increased by $121.4 million to $236.6 million for the nine-month period in fiscal 2013 from $115.2 million in fiscal 2012. The increase resulted from $71.0 million in improved profitability, a $38.8 million increase in the net change in non-cash working capital balances related to operations and a $13.9 million increase in the net change in other assets and liabilities related to operations. The increase in the net change in non-cash working capital balances related to operations stemmed mainly from a greater increase in trade and other payables during the nine-month period, compared with fiscal 2012.

INVESTING ACTIVITIES

Cash flows used in investing activities in the third quarter amounted to $16.1 million compared with cash flows generated of $40.6 million in fiscal 2012. Additions to property, plant and equipment and other intangible assets totalled $19.9 million compared with $19.4 million in fiscal 2012. We also received a $3.0 million balance of sale price receivable related to the disposal of a subsidiary in 2012 and a $0.7 million dividend from an associate company. During the third quarter of fiscal 2012, we had received cash proceeds of $57.4 million from the sale of investments in ABCP as well as $2.1 million in net cash proceeds from the sale of one of our subsidiaries.

Cash flows used in investing activities totalled $17.8 million for the nine-month period compared with cash flows generated of $5.9 million in 2012. Additions to property, plant and equipment and other intangible assets decreased by $2.6 million to $45.0 million and the cash and cash equivalents reserved (non-current) balance rose by $3.9 million. During the nine-month period, we also received $27.4 million in proceeds from the sale of ABCP investments as well as a $3.0 million balance of sale price receivable related to the disposal of a subsidiary in 2012. During the corresponding period of fiscal 2012, we received cash proceeds of $57.4 million from the sale of investments in ABCP as well as $1.8 million in principal repayments. We also acquired certain assets and assumed certain liabilities of TMR for a total consideration of $5.0 million, net of cash acquired.

FINANCING ACTIVITIES

Cash flows used in financing activities amounted to $0.1 million for the third quarter of fiscal 2013, down $0.8 million from $0.9 million for the same quarter of fiscal 2012. The decrease resulted mainly from the dividends paid to a non-controlling interest, which were lower in the current quarter compared with the same period of fiscal 2012.

Cash flows used in financing activities totalled $1.4 million for the nine-month period, down $3.1 million from $4.5 million in fiscal 2012, due primarily to a lower dividend payout to a non-controlling interest compared with fiscal 2012.

CONSOLIDATED FINANCIAL POSITION

(in thousands of dollars, except per share data)	July 31, 2013 $	October 31, 2012 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	389,337	171,175	218,162	See the Cash flows section above
Cash and cash equivalents in trust or otherwise reserved	332,749	370,291	(37,542)	Seasonal nature of operations
Trade and other receivables	139,263	111,525	27,738	Extension of the collection period for the balance receivable from a credit card processor and the seasonal nature of operations
Income taxes receivable	11,878	14,690	(2,812)	Decrease in income taxes recoverable given subsidiaries' taxable income
Inventories	12,762	11,469	1,293	No significant difference
Prepaid expenses	72,627	57,234	15,393	Increase in prepayments to certain service providers due to the seasonal nature of operations
Derivative financial instruments	6,754	7,460	(706)	No significant difference
Deposits	53,024	43,703	9,321	Seasonal nature of operations
Investment in ABCP	—	27,350	(27,350)	Disposal of investments in ABCP
Deferred tax assets	25,945	24,338	1,607	No significant difference
Property, plant and equipment	114,741	96,415	18,326	Additions during the period, offset by depreciation
Goodwill	92,543	91,494	1,049	Exchange rate difference
Intangible assets	64,368	66,531	(2,163)	Amortization expense, offset by additions during the period
Investments and other assets	71,923	69,626	2,297	Share of net income (loss) of an associate
Liabilities				
Trade and other payables	443,189	307,219	135,970	Seasonal nature of operations
Provision for overhaul of leased aircraft	34,477	31,869	2,608	No significant difference
Income taxes payable	6,380	932	5,448	Increase in income taxes payable given subsidiaries' taxable income
Customer deposits and deferred income	456,215	382,823	73,392	Seasonal nature of operations
Derivative financial instruments	5,491	8,416	(2,925)	Favourable change in fuel prices and the Canadian dollar compared with the U.S. currency with respect to forward contracts entered into and maturities of certain contracts
Other liabilities	54,047	54,448	(401)	No significant difference
Deferred tax liabilities	13,230	11,268	1,962	No significant difference
Equity				
Share capital	221,486	220,736	750	Issued from treasury
Share-based payment reserve	14,907	13,336	1,571	Share-based payment expense
Retained earnings	148,430	145,198	3,232	Net income
Unrealized gain (loss) on cash flow hedges	1,219	(475)	1,694	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	(11,157)	(12,469)	1,312	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

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

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

The Corporation also has a $60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at July 31, 2013, $54.7 million had been drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$15.7 million].

OFF-BALANCE SHEET ARRANGEMENTS

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

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

- Guarantees
- Operating leases

Estimated off-balance sheet debt, excluding agreements with service providers, amounted to approximately $684.7 million as at July 31, 2013 ($557.1 million as at October 31, 2012) and is detailed as follows:

(in thousands of dollars)	As at July 31, 2013 $	As at October 31, 2012 $
Guarantees		
Irrevocable letters of credit	24,703	25,118
Collateral security contracts	1,133	1,108
Operating leases		
Obligations under operating leases	658,885	530,907
	684,721	557,133

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

In addition, the Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at July 31, 2013, $19.4 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its French operations, the Corporation has guarantee lines of credit amounting to €11.2 million [$14.9 million], of which €3.8 million had been drawn down [$5.2 million].

As at July 31, 2013, off-balance sheet arrangements rose $127.6 million owing to the entering into leases for four Boeing 737-800s and the extension of leases for six Airbus A330s, offset by repayments made during the year.

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

DEBT LEVELS

The Corporation did not report any debt on its statement of financial position while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, increased $127.6 million to $684.7 million as at July 31, 2013 from $557.1 million as at October 31, 2012, collectively representing a $127.6 million increase in total debt compared with October 31, 2012. The increase in total debt resulted from entering into aircraft leases and lease extensions, offset by repayments made during the nine-month period ended July 31, 2013.

Net of cash and cash equivalents and investments in ABCP, total net debt fell $63.2 million to $295.4 million as at July 31, 2013 from $358.6 million as at October 31, 2012.

OUTSTANDING SHARES

As at July 31, 2013, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at July 31, 2013, there were 662,299 Class A Variable Voting Shares outstanding and 37,778,792 Class B Voting Shares outstanding.

STOCK OPTIONS

As at September 11, 2013, there were a total of 2,758,594 stock options outstanding, 929,819 of which were exercisable.

INVESTMENTS IN ABCP

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

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

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2011	116,414	(37,663)	78,751	
Increase in value of investments in ABCP	—	8,032	8,032	(8,032)
Principal repayments	(1,398)	—	(1,398)	—
Balance as at April 30, 2012 / Impact on results for the period ended April 30, 2012	115,016	(29,631)	85,385	(8,032)
Writedown of investments in ABCP	—	(1,621)	(1,621)	1,621
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Principal repayments	(367)	—	(367)	—
Balance as at July 31, 2012 / Impact on results for the period ended July 31, 2012	34,649	(8,700)	25,949	(6,411)
Increase in value of investments in ABCP	—	1,525	1,525	(1,525)
Principal repayments	(124)	—	(124)	—
Balance as at October 31, 2012 / Impact on results for the period ended October 31, 2012	34,525	(7,175)	27,350	(7,936)
Disposal of investments in ABCP	(34,525)	7,175	(27,350)	—
Balance as at January 31, 2013 / Impact on results for the period ended January 31, 2013	—	—	—	—
Balance as at July 31, 2013 / Impact on results for the period ended July 31, 2013	—	—	—	—

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

OTHER

FLEET

On July 24, 2013, we entered into a eight-year lease in respect of four short-haul Boeing 737-800s, which will be commissioned in summer 2014, and extended until 2020 and 2021 leases for six Airbus A330s. During three-month period ended January 31, 2013, two A310s were retired from the fleet. Air Transat's fleet currently consists of nine Airbus A310s (250 seats) and twelve Airbus A330s (345 seats).

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements in annual consolidated financial statements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 13, *FAIR VALUE MEASUREMENT*

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

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income (loss) that may be reclassified to the statement of income (loss). The amendments also reaffirm existing requirements that items in other comprehensive income (loss) and net income (loss) should be presented as either a single statement or two consecutive statements. The amendments made to IAS 1 became effective on November 1, 2012. The amendments have had no impact on the presentation of the Corporation's consolidated financial statements as the items within other comprehensive income (loss) that may be reclassified to the statement of income (loss) are already grouped together.

IAS 19, *EMPLOYEE BENEFITS*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which will improve comparability and faithfulness of presentation. The amendments will also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (loss), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. The amendments also require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations. Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on plan assets. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2013 the design of:

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2013 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

The transatlantic market, outbound from Canada and Europe, accounts for a very significant portion of Transat's business in the summer. From August to October 2013, Transat's capacity on that market is 9% lower than that for the previous year. To date, 81% of that capacity has been sold, load factors are 1.1% lower and selling prices are approximately 6% higher compared to 2012.

On the Sun destinations market outbound from Canada, Transat's capacity is higher by 1.0% than that for the previous year. To date, 70% of that capacity has been sold, and load factors and selling prices are similar.

In France, compared with 2012, medium-haul bookings are slightly ahead, and long-haul bookings are somewhat behind. Selling prices are slightly higher.

To the extent the aforementioned trends hold, Transat expects to record better results than last year for the fourth quarter, but to a lesser extent than in the third quarter, in part because of last year's favourable impact of the strong momentum at the end of the fourth quarter.

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

(in thousands of Canadian dollars) (unaudited)	As at July 31, 2013 $	As at October 31, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents	389,337	171,175
Cash and cash equivalents in trust or otherwise reserved *[note 6]*	290,558	331,172
Trade and other receivables	139,263	111,525
Income taxes receivable	11,878	14,690
Inventories	12,762	11,469
Prepaid expenses	72,627	57,234
Derivative financial instruments	6,754	7,460
Current portion of deposits	28,314	12,968
Current assets	951,493	717,693
Cash and cash equivalents reserved	42,191	39,119
Investments in ABCP *[note 7]*	—	27,350
Deposits	24,710	30,735
Deferred tax assets	25,945	24,338
Property, plant and equipment	114,741	96,415
Goodwill	92,543	91,494
Intangible assets	64,368	66,531
Investments and other assets *[note 8]*	71,923	69,626
Non-current assets	436,421	445,608
	1,387,914	1,163,301
LIABILITIES		
Trade and other payables	443,189	307,219
Current portion of provision for overhaul of leased aircraft *[note 9]*	19,392	19,513
Income taxes payable	6,380	932
Customer deposits and deferred income	456,215	382,823
Derivative financial instruments	5,491	8,416
Current liabilities	930,667	718,903
Provision for overhaul of leased aircraft *[note 9]*	15,085	12,356
Other liabilities *[note 11]*	54,047	54,448
Deferred tax liabilities	13,230	11,268
Non-current liabilities	82,362	78,072
EQUITY		
Share capital *[note 12]*	221,486	220,736
Share-based payment reserve	14,907	13,336
Retained earnings	148,430	145,198
Unrealized gain (loss) on cash flow hedges	1,219	(475)
Cumulative exchange differences	(11,157)	(12,469)
	374,885	366,326
	1,387,914	1,163,301

See accompanying notes to interim condensed consolidated financial statements

NOTICE

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

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

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended July 31, 2013 $	Quarters ended July 31, 2012 $	Nine-month periods ended July 31, 2013 $	Nine-month periods ended July 31, 2012 $
Revenues	927,004	909,056	2,839,542	2,950,778
Operating expenses				
Cost of providing tourism services	444,248	424,399	1,645,368	1,699,687
Aircraft fuel	129,960	159,003	293,286	371,892
Salaries and employee benefits	98,088	92,620	273,639	286,091
Commissions	30,055	29,062	137,766	134,400
Aircraft maintenance	31,063	31,458	79,960	94,274
Airport and navigation fees	29,416	33,714	66,566	76,970
Aircraft rent	20,530	22,361	61,505	63,832
Other	90,591	94,365	250,601	259,623
Depreciation and amortization	11,250	9,576	29,109	29,578
	885,201	896,558	2,837,800	3,016,347
Gross margin (operating loss)	41,803	12,498	1,742	(65,569)
Financing costs	721	974	2,095	2,316
Financing income	(2,003)	(1,847)	(5,618)	(5,389)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(15,431)	7,455	1,009	1,430
Foreign exchange loss (gain) on long-term monetary items	(197)	(181)	(403)	(95)
Loss (gain) on investments in ABCP *[note 7]*	—	1,621	—	(6,411)
Gain on disposal of a subsidiary *[note 5]*	—	(5,655)	—	(5,655)
Share of net loss (income) of an associate	90	(1,880)	(3,534)	(4,219)
Income (loss) before income tax expense	58,623	12,011	8,193	(47,546)
Income taxes (recovery)				
Current	10,383	3,443	1,862	5,654
Deferred	6,771	(1,096)	358	(22,510)
	17,154	2,347	2,220	(16,856)
Net income (loss)	41,469	9,664	5,973	(30,690)
Net income (loss) attributable to:				
Shareholders	41,129	9,405	3,232	(33,283)
Non-controlling interests	340	259	2,741	2,593
	41,469	9,664	5,973	(30,690)
Earnings (loss) per share attributable to shareholders *[note 12]*				
Basic	1.07	0.25	0.08	(0.87)
Diluted	1.07	0.25	0.08	(0.87)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended July 31, 2013 $	2012 $	Nine-month periods ended July 31, 2013 $	2012 $
Net income (loss) for the period	41,469	9,664	5,973	(30,690)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	858	5,902	2,918	(3,123)
Reclassification to net income (loss)	752	(514)	(672)	2,165
Deferred taxes	(387)	(1,606)	(552)	216
	1,223	3,782	1,694	(742)
Foreign exchange gains (losses) on translation of financial statements of foreign subsidiaries	2,112	(3,452)	1,312	(5,477)
Total other comprehensive income (loss)	3,335	330	3,006	(6,219)
Comprehensive income (loss) for the period	44,804	9,994	8,979	(36,909)
Attributable to:				
Shareholders	44,553	9,708	6,345	(39,580)
Non-controlling interests	251	286	2,634	2,671
	44,804	9,994	8,979	(36,909)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Attributable to shareholders							
				Accumulated other comprehensive income (loss)				
(in thousands of Canadian dollars) (unaudited)	Share capital $	Share-based payment reserve $	Retained earnings $	Unrealized gain (loss) on cash flow hedges $	Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at October 31, 2011	219,462	11,063	161,726	1,948	(9,958)	384,241	—	384,241
Net income (loss) for the period	—	—	(33,283)	—	—	(33,283)	2,593	(30,690)
Other comprehensive income (loss)	—	—	—	(742)	(5,555)	(6,297)	78	(6,219)
Comprehensive income (loss)	—	—	(33,283)	(742)	(5,555)	(39,580)	2,671	(36,909)
Issued from treasury	973	—	—	—	—	973	—	973
Share-based payment expense	—	1,736	—	—	—	1,736	—	1,736
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(2,593)	(2,593)
Reclassification of non-controlling interest exchange difference	—	—	—	—	78	78	(78)	—
	973	1,736	—	—	78	2,787	(2,671)	116
Balance as at July 31, 2012	220,435	12,799	128,443	1,206	(15,435)	347,448	—	347,448
Net income for the period	—	—	16,614	—	—	16,614	540	17,154
Other comprehensive income (loss)	—	—	(1,970)	(1,681)	2,963	(688)	3	(685)
Comprehensive income (loss)	—	—	14,644	(1,681)	2,963	15,926	543	16,469
Issued from treasury	301	—	—	—	—	301	—	301
Share-based payment expense	—	537	—	—	—	537	—	537
Other changes in non-controlling interest liabilities	—	—	2,111	—	—	2,111	(2,111)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	1,571	1,571
Reclassification of non-controlling interest exchange difference	—	—	—	—	3	3	(3)	—
	301	537	2,111	—	3	2,952	(543)	2,409
Balance as at October 31, 2012	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326
Net income for the period	—	—	3,232	—	—	3,232	2,741	5,973
Other comprehensive income (loss)	—	—	—	1,694	1,419	3,113	(107)	3,006
Comprehensive income	—	—	3,232	1,694	1,419	6,345	2,634	8,979
Issued from treasury	745	—	—	—	—	745	—	745
Options exercised	5	—	—	—	—	5	—	5
Share-based payment expense	—	1,571	—	—	—	1,571	—	1,571
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(2,741)	(2,741)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(107)	(107)	107	—
	750	1,571	—	—	(107)	2,214	(2,634)	(420)
Balance as at July 31, 2013	221,486	14,907	148,430	1,219	(11,157)	374,885	—	374,885

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars) (unaudited)	Quarters ended July 31, 2013 $	2012 $	Nine-month periods ended July 31, 2013 $	2012 $
OPERATING ACTIVITIES				
Net income (loss) for the period	41,469	9,664	5,973	(30,690)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	11,250	9,576	29,109	29,578
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(15,431)	7,455	1,009	1,430
Foreign exchange gain on long-term monetary items	(197)	(181)	(403)	(95)
Loss (gain) on investments in ABCP	—	1,621	—	(6,411)
Gain on disposal of a subsidiary	—	(5,655)	—	(5,655)
Share of net loss (income) of an associate	90	(1,880)	(3,534)	(4,219)
Deferred taxes	6,771	(1,096)	358	(22,510)
Employee benefits	536	521	1,611	1,564
Share-based payment expense	484	538	1,571	1,736
	44,972	20,563	35,694	(35,272)
Net change in non-cash working capital balances related to operations	20,122	(18,406)	200,036	161,190
Net change in other assets and liabilities related to operations	(1,968)	(12,695)	(1,722)	(15,630)
Net change in provision for overhaul of leased aircraft	4,482	3,679	2,608	4,950
Cash flows related to operating activities	67,608	(6,859)	236,616	115,238
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(19,877)	(19,409)	(44,953)	(47,563)
Increase in cash and cash equivalents reserved	—	—	(3,913)	(2,871)
Consideration paid for an acquired business	—	—	—	(5,778)
Cash and cash equivalents of an acquired business	—	97	—	817
Consideration received on disposal of a subsidiary	3,000	3,000	3,000	3,000
Dividend received from an associate	731	—	731	—
Cash and cash equivalents in a subsidiary over which control was lost	—	(890)	—	(890)
Proceeds from sale of investments in ABCP	—	57,448	27,350	57,448
Realization of principal of investments in ABCP	—	367	—	1,765
Cash flows related to investing activities	(16,146)	40,613	(17,785)	5,928
FINANCING ACTIVITIES				
Proceeds from issuance of shares	266	333	750	973
Dividends paid to a non-controlling interest	(377)	(1,250)	(2,193)	(5,513)
Cash flows related to financing activities	(111)	(917)	(1,443)	(4,540)
Effect of exchange rate changes on cash and cash equivalents	1,838	(4,166)	774	(5,459)
Net change in cash and cash equivalents	53,189	28,671	218,162	111,167
Cash and cash equivalents, beginning of period	336,148	264,072	171,175	181,576
Cash and cash equivalents, end of period	389,337	292,743	389,337	292,743
Supplementary information (as reported in operating activities)				
Income taxes paid (recovered)	(1,610)	(5,463)	525	(4,362)
Interest paid	151	389	576	1,114

See accompanying notes to unaudited interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2013 were approved by the Corporation's Board of Directors on September 11, 2013.

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

Note 2 BASIS OF PREPARATION

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

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

The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2012.

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

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements in annual consolidated financial statements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 13, *FAIR VALUE MEASUREMENT*

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

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income (loss) that may be reclassified to the statement of income (loss). The amendments also reaffirm existing requirements that items in other comprehensive income (loss) and net income (loss) should be presented as either a single statement or two consecutive statements. The amendments made to IAS 1 became effective on November 1, 2012. The amendments have had no impact on the presentation of the Corporation's consolidated financial statements as the items within other comprehensive income (loss) that may be reclassified to the statement of income (loss) are already grouped together.

IAS 19, *EMPLOYEE BENEFITS*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which will improve comparability and faithfulness of presentation. The amendments will also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (loss), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. The amendments also require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations. Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on plan assets. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

Note 4 BUSINESS ACQUISITION

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

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

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

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

The results of the acquired business have been consolidated as of the date of acquisition. For the year ended October 31, 2012, TMR generated revenues of $97,241 ($17,443 and $86,943 for the quarter and nine-month period ended July 31, 2012, respectively) with a pre-tax loss of $5,372 ($187 and $3,690 for the quarter and nine-month period ended July 31, 2012, respectively), which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated loss would have included additional revenues of $37,200 and a pre-tax loss of $863.

Note 5 DISPOSAL OF A SUBSIDIARY

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

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

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

Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2013, cash and cash equivalents in trust or otherwise reserved included $233,410 [$288,789 as at October 31, 2012] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulators and the Corporation's business agreement with one of its credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $99,339, of which $42,191 was recorded as non-current assets [$81,502 as at October 31, 2012, of which $39,119 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 INVESTMENTS IN ABCP

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

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

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2011	116,414	(37,663)	78,751	
Increase in value of investments in ABCP	—	8,032	8,032	(8,032)
Principal repayments	(1,398)	—	(1,398)	—
Balance as at April 30, 2012 / Impact on results for the period ended April 30, 2012	115,016	(29,631)	85,385	(8,032)
Writedown of investments in ABCP	—	(1,621)	(1,621)	1,621
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Principal repayments	(367)	—	(367)	—
Balance as at July 31, 2012 / Impact on results for the period ended July 31, 2012	34,649	(8,700)	25,949	(6,411)
Increase in value of investments in ABCP	—	1,525	1,525	(1,525)
Principal repayments	(124)	—	(124)	—
Balance as at October 31, 2012 / Impact on results for the period ended October 31, 2012	34,525	(7,175)	27,350	(7,936)
Disposal of investments in ABCP	(34,525)	7,175	(27,350)	—
Balance as at January 31, 2013 / Impact on results for the period ended January 31, 2013	—	—	—	—
Balance as at July 31, 2013 / Impact on results for the period ended July 31, 2013	—	—	—	—

Note 8 INVESTMENT IN ASSOCIATES AND OTHER ASSETS

	As at July 31, 2013 $	As at October 31, 2012 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	69,281	64,189
Balance of sale price receivable	—	3,000
Deferred costs, unamortized balance	677	793
Sundry	1,965	1,644
	71,923	69,626

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

	$
Balance as at October 31, 2012	64,189
Share of net income	3,534
Dividend received	(731)
Exchange difference	2,289
Balance as at July 31, 2013	69,281

Note 9 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

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

	$
Balance as at October 31, 2011	33,318
Additional provisions	11,210
Utilization of provisions	(8,851)
Unused amounts released	(1,065)
Exchange difference	(23)
Balance as at April 30,2012	34,589
Additional provisions	5,495
Utilization of provisions	(760)
Unused amounts released	(1,435)
Exchange difference	379
Balance as at July 31, 2012	38,268
Current provisions	21,813
Non-current provisions	16,455
Balance as at July 31, 2012	38,268

Note 10 LONG-TERM DEBT

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

The Corporation also has a $60,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at July 31, 2013, $54,733 had been drawn down.

Operating lines of credit totalling €11,500 [$15,726] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at July 31, 2013.

Note 11 OTHER LIABILITIES

	As at July 31, 2013 $	As at October 31, 2012 $
Employee benefits	33,015	31,961
Deferred lease inducements	17,254	19,685
Non-controlling interests	25,169	24,193
	75,438	75,839
Less: non-controlling interests included in Trade and other payables	21,391	21,391
	54,047	54,448

Note 12 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

An unlimited number of participating Class B Voting Shares ["Class B Shares"], which may be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation.

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

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	Amount ($)
Balance as at October 31, 2011	38,021,720	219,462
Issued from treasury	187,846	973
Balance as at July 31, 2012	38,209,566	220,435
Issued from treasury	86,102	301
Balance as at October 31, 2012	38,295,668	220,736
Issued from treasury	144,107	745
Options exercised	1,316	5
Balance as at July 31, 2013	38,441,091	221,486

As at July 31, 2013, the number of Class A Shares and Class B Shares stood at 662,299 and 37,778,792, respectively.

OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2012	2,199,810	13.99
Granted	766,620	6.01
Exercised	(1,316)	3.80
Cancelled	(206,520)	9.73
Balance as at July 31, 2013	2,758,594	12.10
Options exercisable as at July 31, 2013	929,819	18.33

EARNINGS (LOSS) PER SHARE

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2013	2012	2013	2012
(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 (loss) per share	41,128	9,405	3,231	(33,283)
DENOMINATOR				
Weighted average number of outstanding shares	38,519	38,199	38,370	38,104
Effect of dilutive securities				
Stock options	56	—	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	38,575	38,199	38,370	38,104
Earnings (loss) per share				
Basic	1.07	0.25	0.08	(0.87)
Diluted	1.07	0.25	0.08	(0.87)

For the purposes of calculating diluted earnings per share for the quarter ended July 31, 2013, 2,048,820 outstanding stock options [2,199,810 stock options for the quarter ended July 31, 2012] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price. For the purposes of calculating diluted earnings per share for the nine-month period ended July 31, 2013, 2,758,594 outstanding stock options were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price. In light of the net loss recognized for nine-month period ended July 31, 2012, 2,199,810 stock options for the nine-month ended July 31, 2012 were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 13 SEGMENTED INFORMATION

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

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

	Quarter ended July 31, 2012 Americas $	Europe $	Total $	Nine-month period ended July 31, 2012 Americas $	Europe $	Total $
Revenues	608,768	300,288	909,056	2,336,589	614,189	2,950,778
Operating expenses	597,683	289,299	886,982	2,364,241	622,528	2,986,769
Gross margin (operating loss)	11,085	10,989	22,074	(27,652)	(8,339)	(35,991)

	Revenues[1]				Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended July 31,		Nine-month periods ended July 31,		As at July 31,	As at October 31,
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Canada	676,260	594,921	2,277,154	2,284,000	187,525	174,262
France	203,403	193,952	465,311	469,827	38,476	33,166
United Kingdom	27,994	99,935	41,690	136,323	31,127	32,984
Other	19,347	20,248	55,387	60,628	14,524	14,028
	927,004	909,056	2,839,542	2,950,778	271,652	254,440

[1] Revenues are allocated based on the subsidiary's country of domicile.

Note 14 GUARANTEES

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

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

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

OPERATING LEASES

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

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers at the request of regulatory agencies for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2013, these guarantees totalled $1,133. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2013, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at July 31, 2013, $19,429 had been drawn down under the facility.

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