TRANSAT A.T. INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2013

June 12, 2013

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Trading symbols
TSX: TRZ.B, TRZ.A

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended April 30, 2013, compared with the quarter ended April 30, 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 second-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 June 12, 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 April 30, 2013 and 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 second half, and an after-tax adjusted income for the year..

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

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

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

NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. 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:

Margin (operating 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 earnings (loss) per share	Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
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 margin (operating 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 April 30		Six-month periods ended April 30	
	2013 $	2012 $	2013 $	2012 $
Operating loss	(10,125)	(36,320)	(40,061)	(78,067)
Depreciation and amortization	8,940	10,094	17,859	20,002
Operating loss before depreciation and amortization	(1,185)	(26,226)	(22,202)	(58,065)
Loss before income tax expense	(30,288)	(19,504)	(50,430)	(59,557)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	25,236	(4,403)	16,440	(6,025)
Restructuring charge	3,915	—	3,915	—
Loss on investments in ABCP	—	(8,812)	—	(8,032)
Adjusted loss	(1,137)	(32,719)	(30,075)	(73,614)
Net loss attributable to shareholders	(22,760)	(13,199)	(37,897)	(42,688)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	25,236	(4,403)	16,440	(6,025)
Restructuring charge	3,915	—	3,915	—
Loss on investments in ABCP	—	(8,812)	—	(8,032)
Tax impact	(7,823)	1,878	(5,454)	2,268
Adjusted after-tax loss	(1,432)	(24,536)	(22,996)	(54,477)
Adjusted after-tax loss	(1,432)	(24,536)	(22,996)	(54,477)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,427	38,104	38,323	38,079
Adjusted after-tax loss per share	(0.04)	(0.64)	(0.60)	(1.43)

	As at April 30, 2013 $	As at October 31, 2012 $
Long-term debt	—	—
Off-balance sheet arrangements, excluding agreements with service providers	508,961	557,133
Total debt	508,961	557,133
Total debt	508,961	557,133
Cash and cash equivalents	(336,148)	(171,175)
Investments in ABCP	—	(27,350)
Total net debt	172,813	358,608

FINANCIAL HIGHLIGHTS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars, except per share data)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Consolidated Statements of Loss								
Revenues	1,106,824	1,212,426	(105,602)	(8.7)	1,912,538	2,041,722	(129,184)	(6.3)
Operating loss before depreciation and amortization[1]	(1,185)	(26,226)	25,041	95.5	(22,202)	(58,065)	35,863	61.8
Net loss attributable to shareholders	(22,760)	(13,199)	(9,561)	(72.4)	(37,897)	(42,688)	4,791	11.2
Basic loss per share	(0.59)	(0.35)	(0.24)	(68.6)	(0.99)	(1.12)	0.13	11.6
Diluted loss per share	(0.59)	(0.35)	(0.24)	(68.6)	(0.99)	(1.12)	0.13	11.6
Adjusted after-tax income (loss)[1]	(1,432)	(24,536)	23,104	94.2	(22,996)	(54,477)	31,481	57.8
Diluted adjusted after-tax earnings (loss) per share[1]	(0.04)	(0.64)	0.60	93.8	(0.60)	(1.43)	0.83	58.0
Consolidated Statements of Cash Flows								
Operating activities	107,634	71,359	36,275	50.8	169,008	122,097	46,911	38.4
Investing activities	(16,351)	(20,323)	3,972	19.5	(1,639)	(34,685)	33,046	95.3
Financing activities	(1,590)	(1,361)	(229)	(16.8)	(1,332)	(3,623)	2,291	63.2
Effect of exchange rate changes on cash and cash equivalents	(1,422)	422	(1,844)	(437.0)	(1,064)	(1,293)	229	17.7
Net change in cash and cash equivalents	88,271	50,097	38,174	76.2	164,973	82,496	82,477	100.0

	As at April 30, 2013 $	As at October 31, 2012 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	336,148	171,175	164,973	96.4
Cash and cash equivalents in trust or otherwise reserved (current)	296,747	331,172	(34,425)	(10.4)
Investments in ABCP	—	27,350	(27,350)	(100.0)
	632,895	529,697	103,198	19.5
Total assets	1,339,859	1,163,301	176,558	15.2
Debt	—	—	—	—
Total debt[1]	508,961	557,133	(48,172)	(8.6)
Total net debt[1]	172,813	358,608	(185,795)	(51.8)

[1] SEE 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 multi-channel distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat offers destination services to Canada, Mexico, Dominican Republic and Greece. Transat holds an interest in a hotel business that owns and operates properties in Mexico and 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 market share, and growth in revenues and margin before depreciation and amortization, 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 April 30				Six-month periods ended April 30			
	2013	2012	Difference	Difference	2013	2012	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Americas	944,411	1,026,984	(82,573)	(8.0)	1,635,128	1,727,821	(92,693)	(5.4)
Europe	162,413	185,442	(23,029)	(12.4)	277,410	313,901	(36,491)	(11.6)
	1,106,824	1,212,426	(105,602)	(8.7)	1,912,538	2,041,722	(129,184)	(6.3)

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 and six-month period ended April 30, 2013 were down $105.6 million and $129.2 million, respectively, owing primarily to our decision to reduce our offering in all our markets. During the quarter, total travellers decreased 13.7%, while average selling prices were higher than in the corresponding period of fiscal 2012. For the six-month period, total travellers were down 12.0%, while average selling prices were higher year over year. However, the decline in revenues for the six-month period was offset by the $32.6 million in revenues generated by Tours Mont-Royal Holidays ("TMR"), acquired on February 1, 2012, in the second quarter of fiscal 2012.

OPERATING EXPENSES

	Quarters ended April 30				Six-month periods ended April 30			
	2013	2012	Difference	Difference	2013	2012	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Cost of providing tourism services	702,200	781,162	(78,962)	(10.1)	1,201,120	1,275,288	(74,168)	(5.8)
Salaries and employee benefits	93,186	98,357	(5,171)	(5.3)	175,551	193,471	(17,920)	(9.3)
Aircraft fuel	97,101	123,898	(26,797)	(21.6)	163,326	212,889	(49,563)	(23.3)
Commissions	64,830	65,267	(437)	(0.7)	107,711	105,338	2,373	2.3
Aircraft maintenance	28,145	35,247	(7,102)	(20.1)	48,897	62,816	(13,919)	(22.2)
Airport and navigation fees	21,776	25,282	(3,506)	(13.9)	37,150	43,256	(6,106)	(14.1)
Aircraft rent	20,556	21,589	(1,033)	(4.8)	40,975	41,471	(496)	(1.2)
Other	80,215	87,850	(7,635)	(8.7)	160,010	165,258	(5,248)	(3.2)
Depreciation and amortization	8,940	10,094	(1,154)	(11.4)	17,859	20,002	(2,143)	(10.7)
Total	1,116,949	1,248,746	(131,797)	(10.6)	1,952,599	2,119,789	(167,190)	(7.9)

Total operating expenses for the quarter and six-month period were down $131.8 million (10.6%) and $167.2 million, respectively, from the same periods of fiscal 2012, primarily as a result of our decision to reduce our offering in all our markets. Compared with the first half of the previous fiscal year, two Airbus A310 aircraft were retired from our fleet (in the first quarter of fiscal 2012, two Airbus A330s were gradually added to the fleet). 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 in the Americas and Europe declined by 9.8% and 14.4%, respectively, for the second quarter, while for the six-month period, they were down 7.1% and 12.3%, respectively,

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 for the quarter and six-month period fell $79.0 million (10.1%) and $74.2 million (5.8%), respectively, compared with the corresponding periods of the previous fiscal year, owing to our reduced offering, offset in part by higher hotel room costs. However the six-month period decline was affected by the addition of costs arising from the acquisition of TMR.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employees benefits for the quarter and the six-month period decreased by $5.2 million (5.3%) and $17.9 million (9.3%), respectively, year over year, owing 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 $3.9 million restructuring charge consisting primarily of termination benefits paid during the quarter.

AIRCRAFT FUEL

Aircraft fuel expense for the quarter and six-month period was down $26.8 million (21.6%) and $49.6 million, respectively, from the same periods of fiscal 2012, resulting primarily from a drop in flight hours logged by our aircraft fleet, but also from lower fuel prices compared with the corresponding periods a year earlier.

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 for the first quarter was down $0.4 million (0.7%), while for the six-month period, it rose $2.4 million (2.3%). As a percentage of revenues, commissions for the second quarter were higher, representing 5.9% of revenues, compared with 5.4% for the same period of fiscal 2012. Commissions for the six-month period also grew, representing 5.6% of our revenues compared with 5.2% in the same period of fiscal 2012. These increases resulted 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 Corporations 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 $7.1 million (20.1%) and $13.9 million (22.2%) for the quarter and sixth month period, respectively, compared with the same periods a year earlier. These decreases stemmed primarily from the drop in flight hours logged by our fleet.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees, consisting mainly of fees charged by airports and air traffic control entities, were down $3.5 million (13.9%) and $6.1 million (14.1%) for the second quarter and six-month period ended April 30, 2013, respectively, due to fewer flights logged by our fleet.

AIRCRAFT RENT

Year over year, aircraft rent for the quarter and six-month period fell $1.0 million (4.8%) and $0.5 million (1.2%), respectively, following the retirement of two Airbus A310s at beginning of the fiscal year.

OTHER

Other expenses for the second quarter and six-month period declined by $7.6 million (8.7%) and $5.2 million (3.2%), 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 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 down $1.2 million and $2.1 million in the second quarter and six-month period, respectively, compared with the corresponding periods of fiscal 2012. These declines originated from additions to property, plant and equipment and intangible assets over the past few years which are amortizable over longer periods.

OPERATING LOSS

In light of the foregoing, the Corporation recorded an operating loss for the second quarter of $10.1 million (0.9%) compared with an operating loss of $36.3 million (3.0%) for the same period a year earlier. For the six-month period, the Corporation recorded an operating loss of $40.1 million (2.1%) compared with $78.1 million (3.8%), year over year. The narrowing in our operating loss was driven primarily by higher average selling prices.

We reported an operating loss before depreciation and amortization for the second quarter of $1.2 million (0.1%), taking into account a $3.9 million restructuring charge, compared with an operating loss before depreciation and amortization of $26.2 million (2.2%) for the same period of fiscal 2012. For the six-month period, the Corporation recorded an operating loss before depreciation and amortization of $22.2 million (1.2%) compared with $58.1 million in the corresponding fiscal 2012 period. The narrowing in our operating loss resulted primarily from higher average selling prices.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Revenues	944,411	1,026,984	(82,573)	(8.0)	1,635,128	1,727,821	(92,693)	(5.4)
Operating expenses	951,745	1,055,720	(103,975)	(9.8)	1,658,733	1,784,628	(125,895)	(7.1)
Operating loss	(7,334)	(28,736)	21,402	74.5	(23,605)	(56,807)	33,202	58.4

Second-quarter revenues at our North American subsidiaries from sales in Canada and abroad were down $82.6 million (8.0%) compared with a year earlier, owing mainly to our decision to reduce capacity for sun destinations and transatlantic routes. For the quarter, the capacity for sun destinations and transatlantic routes declined 14% and 24%, respectively, compared with 2012. Total travellers for the quarter fell 11.1% from a year ago. We reported an operating loss for the quarter of $7.3 million (0.8%), taking into account a $3.9 million restructuring charge, compared with an operating loss of $28.7 million (2.8%) for the same period of fiscal 2012. The narrowing in our operating loss was driven primarily by higher average selling prices and cost reduction initiatives.

Year over year, revenues at our North American subsidiaries for the six-month period ended April 30, 2013 decreased by $92.7 million (5.4%), resulting mainly from our decision to reduce capacity for sun destinations and transatlantic routes. The foregoing translated into a 9.5% drop in total travellers. However, the decline in revenues for the period was curbed by higher selling prices and $32.6 million in revenues generated by TMR. The Corporation reported an operating loss for the six-month period of $23.6 million (1.4%) compared with an operating loss of $56.8 million (3.3%) for the fiscal 2012 period. The narrowing in our operating loss was driven primarily by higher average selling prices and cost reduction initiatives.

EUROPE

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Revenues	162,413	185,442	(23,029)	(12.4)	277,410	313,901	(36,491)	(11.6)
Operating expenses	165,204	193,026	(27,822)	(14.4)	293,866	335,161	(41,295)	(12.3)
Operating loss	(2,791)	(7,584)	4,793	63.2	(16,456)	(21,260)	4,804	22.6

Year over year, revenues for the second quarter at our European subsidiaries from sales in Europe and Canada were down $23.0 million (12.4%) owing primarily to our decision to reduce capacity. Traveller volumes for the quarter were down 14.6% compared with a year earlier, while average selling prices were higher. Our European operations reported a second-quarter operating loss of $2.8 million (1.7%) compared with $7.6 million (4.1%) for same the period of fiscal 2012.

Revenues for the six-month period at our European subsidiaries came in $36.5 million (11.6%) lower than in the comparative period of the previous fiscal year as a result of our decision to reduce capacity. Total travellers for first half of the fiscal year were down 13.4% year over year. Our average selling prices for that six-month period were higher than a year earlier. Our European operations reported an operating loss for the six-month period of $16.5 million (5.9%) compared with $21.3 million (6.8%) for the same period of fiscal 2012.

OTHER EXPENSES (REVENUES)

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2013 $	2012 $	Difference $	Difference %	2013 $	2012 $	Difference $	Difference %
Financing costs	706	838	(132)	(15.8)	1,374	1,342	32	2.4
Financing income	(1,790)	(1,705)	85	5.0	(3,615)	(3,542)	73	2.1
Change in fair value of derivative financial instruments used for aircraft fuel purchases	25,236	(4,403)	29,639	673.2	16,440	(6,025)	22,465	(372.9)
Foreign exchange loss (gain) on long-term monetary items	(212)	242	(454)	(187.6)	(206)	86	(292)	(339.5)
Gain on investments in ABCP	—	(8,812)	(8,812)	(100.0)	—	(8,032)	8,032	(100.0)
Share of net income of an associate	(3,777)	(2,976)	801	26.9	(3,624)	(2,339)	1,285	54.9

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Year over year, financing costs for the second quarter eased $0.1 million and were unchanged for the six-month period.

FINANCING INCOME

Financing income for the second quarter and six-month period rose $0.1 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 for the second quarter reflected a $25.2 million decline compared with $4.4 million increase a year earlier. The change in fair value of derivative financial instruments used for aircraft fuel purchases for the six-month period consisted of a $16.4 million decrease compared with a $6.0 million increase in first half of fiscal 2012.

FOREIGN EXCHANGE LOSS (GAIN) ON LONG-TERM MONETARY ITEMS

Foreign exchange gain 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 second quarter compared with a $0.2 million foreign exchange loss in the same period of fiscal 2012. The Corporation recognized a $0.2 million foreign exchange gain for the six-month period compared with a $0.1 million foreign exchange loss for the first half of fiscal 2012.

GAIN ON INVESTMENTS IN ABCP

The gain/loss on investments in ABCP reflects the change in 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. The Corporation posted year-over-year gains on investments in ABCP for the second quarter and first half of fiscal 2012 of $8.8 million and $8.0 million, respectively, (See *Investments in ABCP* for further details).

SHARE OF NET INCOME OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Transat reported a share of net income for the second quarter amounting to $3.8 million compared with $3.0 million for the corresponding quarter of fiscal 2012. The share for the six-month period was $3.6 million compared with $2.3 million for the first half of fiscal 2012. The increases in share of net income resulted from improved operating profitability compared with the year-over-year periods.

INCOME TAXES

Income tax recovery for the second quarter totalled $8.7 million compared with $7.7 million for the corresponding period of the previous fiscal year. Income tax recovery for the six-month period amounted to $14.9 million compared with $19.2 million for the first half of fiscal 2012. Excluding the share in net income of an associate, the effective tax rate for the second quarter and six-month period stood at 25.6% and 27.6%, respectively, compared with 34.3% and 31.0% for the respective periods of fiscal 2012. Changes in tax rates for the quarter and six-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 LOSS AND NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed in *Consolidated operations*, net loss for the quarter ended April 30, 2013 amounted to $21.6 million compared with a net loss of $11.8 million a year earlier. Net loss attributable to shareholders for the quarter stood at $22.8 million or $0.59 per share (basic and diluted) compared with $13.2 million or $0.35 per share (basic and diluted) year over year. The weighted average number of outstanding shares used to compute per share amounts for the second quarter was 38,427,000 compared with 38,104,000 for the corresponding period of fiscal 2012.

The Corporation reported a net loss for the six-month period ended April 30, 2013 amounting to $35.5 million compared with $40.4 million for the first half of fiscal 2012. Net loss attributable to shareholders for the first half of fiscal 2013 stood at $37.9 million or $0.99 per share (basic and diluted) compared with $42.7 million or $1.12 per share (basic and diluted) year over year. The weighted average number of outstanding shares used to compute per share amounts for the six-month period was 38,345,000 compared with 38,079,000 for the corresponding period of fiscal 2012.

Adjusted after-tax loss for the second quarter stood at $1.4 million ($0.04 per share) compared with an adjusted after-tax loss of $24.5 million ($0.64 per share) in the same period of fiscal 2012. The Corporation reported an adjusted after-tax loss for the six-month period amounting to $23.0 million ($0.60 per share) compared with $54.5 million ($1.43 per share) for the first half of fiscal 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 are up for the winter season and down for the summer season (compared with the quarters for corresponding periods in previous fiscal years). Overall, average selling prices rise during the winter season when traveller volumes rise, and decline during the summer season. 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)	Q3-2011 $	Q4-2011 $	Q1-2012 $	Q2-2012 $	Q3-2012 $	Q4-2012 $	Q1-2013 $	Q2-2013 $
Revenues	936,974	805,930	829,296	1,212,426	909,056	763,441	805,714	1,106,824
Operating margin (loss)	3,936	6,227	(41,747)	(36,320)	12,498	41,731	(29,936)	(10,125)
Operating margin (loss) before depreciation and amortization	14,736	16,984	(31,839)	(26,226)	22,074	52,946	(21,017)	(1,185)
Net income (loss)	(2,567)	(6,655)	(28,580)	(11,774)	9,664	17,154	(13,940)	(21,556)
Net income (loss) attributable to shareholders	(2,782)	(7,266)	(29,489)	(13,199)	9,405	16,614	(15,137)	(22,760)
Basic earnings (loss) per share	(0.07)	(0.19)	(0.77)	(0.35)	0.25	0.43	(0.39)	(0.59)
Diluted earnings (loss) per share	(0.07)	(0.19)	(0.77)	(0.35)	0.25	0.43	(0.39)	(0.59)
Adjusted after-tax income (loss)	2,849	7,343	(29,941)	(24,536)	10,521	28,684	(21,564)	(1,432)
Adjusted after-tax earnings (loss) per share	0.07	0.19	(0.79)	(0.64)	0.28	0.75	(0.56)	(0.04)

LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2013, cash and cash equivalents totalled $336.1 million compared with $171.2 million as at October 31, 2012. As at the end of the second quarter of fiscal 2013, cash and cash equivalents held in trust or otherwise reserved amounted to $339.3 million compared with $370.3 million as at October 31, 2012. The Corporation's statement of financial position reflects a working capital deficiency of $20.4 million and a ratio of 0.98 compared with a working capital deficiency of $1.2 million and a ratio of 1.0 as at October 31, 2012.

Total assets grew $176.6 million (15.2%) to $1,339.9 million as at April 30, 2013 from $1,163.3 million as at October 31, 2012. This increase was generated primarily by a $165.0 million increase in cash and cash equivalents (including $27.4 million from the sale of investments in ABCP) and trade and other receivables of $29.5 million, offset by a $31.0 million decrease in cash and cash equivalents in trust or otherwise reserved. These changes reflect the seasonal nature of our operations. The Corporation recorded a $36.7 million decline in equity to $329.7 million as at April 30, 2013 from $366.3 million as at October 31, 2012, owing primarily to the $37.9 million net loss attributable to shareholders.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
	2013	2012	Difference	2013	2012	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	107,634	71,359	36,275	169,008	122,097	46,911
Cash flows related to investing activities	(16,351)	(20,323)	3,972	(1,639)	(34,685)	33,046
Cash flows related to financing activities	(1,590)	(1,361)	(229)	(1,332)	(3,623)	2,291
Effect of exchange rate changes on cash	(1,422)	422	(1,844)	(1,064)	(1,293)	229
Net change in cash and cash equivalents	88,271	50,097	38,174	164,973	82,496	82,477

OPERATING ACTIVITIES

Cash flows generated by operating activities in the second quarter amounted to $107.6 million compared with $71.4 million for the corresponding period of fiscal 2012. The $36.3 million increase from the year-over-year quarter resulted from improved profitability.

Cash flows from operating activities increased by $46.9 million to $169.0 million for the six-month period from $122.1 million in 2012. The increase is attributable primarily to our improved profitability.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $16.4 million for the second quarter, up $4.0 million from $20.3 million in 2012. Capital expenditures and investments in other intangible assets totalled $12.4 million, down $0.6 million from $13.1 million in 2012 and the cash and cash equivalents reserved (non-current) balance rose by $3.9 million.

Cash flows used in investing activities totalled $1.6 million for the six-month period, down $33.0 million from $34.7 million in 2012. Capital expenditures and investments in other intangible assets decreased by $3.1 million to $25.1 million and the cash and cash equivalents reserved (non-current) balance rose by $3.9 million. We received $27.4 million during the six-month period following the sale of investments in ABCP.

FINANCING ACTIVITIES

Cash flows used in financing activities amounted to $1.6 million for the second quarter of 2013, up $0.2 million from $1.4 million for the second quarter of 2013, owing mainly to the payment of dividends to a non-controlling interest.

Cash flows used in financing activities totalled $1.3 million for the six-month period, down $2.3 million from $3.6 million in 2012, due primarily to a lower dividend payout to a non-controlling interest compared with 2012.

CONSOLIDATED FINANCIAL POSITION

(in thousands of dollars, except per share data)	April 30, 2013 $	October 31, 2012 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	336,148	171,175	164,973	See the Cash flows section above
Cash and cash equivalents in trust or otherwise reserved	339,306	370,291	(30,985)	Seasonal nature of operations
Trade and other receivables	141,038	111,525	29,513	Extension of the collection period for the balance receivable from a credit card processor and the seasonal nature of operations
Income taxes receivable	27,060	14,690	12,370	Increase in income taxes recoverable given subsidiaries' deductible losses
Inventories	10,090	11,469	(1,379)	No significant difference
Prepaid expenses	66,677	57,234	9,443	Increase in prepayments to certain service providers due to the seasonal nature of operations
Derivative financial instruments	3,700	7,460	(3,760)	Decrease in fair value of derivative financial instruments following lower fuel prices and weakening of the dollar against the US currency
Deposits	47,943	43,703	4,240	Seasonal nature of operations
Investments in ABCP	—	27,350	(27,350)	Disposal of investments in ABCP
Deferred tax assets	32,600	24,338	8,262	Increase due to the change, during the period, in fair value of derivative financial instruments used for aircraft fuel purchases
Property, plant and equipment	106,173	96,415	9,758	Additions during the period, offset by depreciation
Goodwill	91,673	91,494	179	Exchange rate difference
Intangible assets	64,007	66,531	(2,524)	Amortization expense, offset by additions during the period
Investments and other assets	73,444	69,626	3,818	Share of net income of an associate
Liabilities				
Trade and other payables	372,094	307,219	64,875	Seasonal nature of operations
Provision for overhaul of leased aircraft	29,995	31,869	(1,874)	No significant difference
Income taxes payable	6,169	932	5,237	Increase in income taxes payable given subsidiaries' taxable income
Customer deposits and deferred income	514,674	382,823	131,851	Seasonal nature of operations
Derivative financial instruments	19,928	8,416	11,512	Decrease in fair value of derivative financial instruments following lower fuel prices and weakening of the dollar against the US currency
Other liabilities	54,334	54,448	(114)	No significant difference
Deferred tax liabilities	12,994	11,268	1,726	No significant difference
Equity				
Share capital	221,220	220,736	484	Issued from treasury
Share-based payment reserve	14,423	13,336	1,087	Share-based payment expense
Retained earnings	107,301	145,198	(37,897)	Net loss
Unrealized gain (loss) on cash flow hedges	(4)	(475)	471	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	(13,269)	(12,469)	(800)	Foreign exchange loss on translation of financial statements of foreign subsidiaries

FINANCING

As at April 30, 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 April 30, 2013, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation 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 April 30, 2013, $54.8 million had been drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$15.6 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 $509.0 million as at April 30, 2013 ($557.1 million as at October 31, 2012) and is detailed as follows:

(in thousands of dollars)	As at April 30, 2013 $	As at October 31, 2012 $
Guarantees		
Irrevocable letters of credit	27,640	25,118
Collateral security contracts	1,122	1,108
Operating leases		
Obligations under operating leases	480,199	530,907
	508,961	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 April 30, 2013, $22.6 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 €3.7 million had been drawn down [$4.9 million].

As at April 30, 2013, off-balance sheet arrangements were down $48.2 million following 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's debt levels as at April 30, 2013 were no higher than as at October 31, 2012.

The Corporation did not report any debt on its statement of financial position while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, decreased $48.2 million to $509.0 million as at April 30, 2013 from $557.1 million as at October 31, 2012, collectively representing a $48.2 million decrease in total debt compared with October 31, 2012. The decline in total debt resulted from repayments during the second quarter of fiscal 2013.

Net of cash and cash equivalents and investments in ABCP, total net debt amounted to $172.8 million as at April 30, 2013, down $185.8 million from $358.6 million as at October 31, 2012.

OUTSTANDING SHARES

As at April 30, 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 including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at April 30, 2013, there were 664,299 Class A Variable Voting Shares outstanding and 37,725,619 Class B Voting Shares outstanding.

STOCK OPTIONS

As at June 13, 2013, there were a total of 2,938,517 stock options outstanding, 885,755 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 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	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012 / Impact on results for the period ended January 31, 2012	115,702	(38,443)	77,259	780
Increase in value of investments in ABCP	—	8,812	8,812	(8,812)
Principal repayments	(686)	—	(686)	—
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	—	(96)	(96)	96
Principal repayments	(491)	—	(491)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
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 April 30, 2013 / Impact on results for the period ended April 30, 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

During three-month period ended January 31, 2013, two A310 aircraft were retired from the fleet. Air Transat's fleet currently consists of 9 Airbus A310 aircraft (249 seats) and 12 Airbus A330 (342 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 yet to determine the impact of adopting these standards on the 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 the parent company. 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 present information on the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 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 the plan assets. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2012, 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 April 30, 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 April 30, 2013 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

PERSPECTIVES

The transatlantic market, outbound from Canada and Europe, accounts for a very significant portion of Transat's business in the summer. From May to October 2013, Transat's capacity on that market is 12% lower than that for the previous year. To date, 66% of that capacity has been sold, load factors are 2% lower and selling prices are approximately 5% higher compared to 2012.

On the Sun destinations market, outbound from Canada, Transat's capacity is lower by 3% than that for the previous year. To date, 46% of that capacity has been sold, load factors and selling prices are similar.

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

To the extent the aforementioned trends hold, Transat expects to record better results than last year for the second half, and an after-tax adjusted income for the year.

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

(in thousands of Canadian dollars) (unaudited)	As at April 30, 2013 $	As at October 31, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents	336,148	171,175
Cash and cash equivalents in trust or otherwise reserved *[note 6]*	296,747	331,172
Trade and other receivables	141,038	111,525
Income taxes receivable	27,060	14,690
Inventories	10,090	11,469
Prepaid expenses	66,677	57,234
Derivative financial instruments	3,700	7,460
Current portion of deposits	26,088	12,968
Current assets	907,548	717,693
Cash and cash equivalents reserved	42,559	39,119
Investments in ABCP *[note 7]*	—	27,350
Deposits	21,855	30,735
Deferred tax assets	32,600	24,338
Property, plant and equipment	106,173	96,415
Goodwill	91,673	91,494
Intangible assets	64,007	66,531
Investments and other assets *[note 8]*	73,444	69,626
Non-current assets	432,311	445,608
	1,339,859	1,163,301
LIABILITIES		
Trade and other payables	372,094	307,219
Current portion of provision for overhaul of leased aircraft *[note 9]*	15,122	19,513
Income taxes payable	6,169	932
Customer deposits and deferred income	514,674	382,823
Derivative financial instruments	19,928	8,416
Current liabilities	927,987	718,903
Provision for overhaul of leased aircraft *[note 9]*	14,873	12,356
Other liabilities *[note 11]*	54,334	54,448
Deferred tax liabilities	12,994	11,268
Non-current liabilities	82,201	78,072
EQUITY		
Share capital *[note 12]*	221,220	220,736
Share-based payment reserve	14,423	13,336
Retained earnings	107,301	145,198
Unrealized gain (loss) on cash flow hedges	(4)	(475)
Cumulative exchange differences	(13,269)	(12,469)
	329,671	366,326
	1,339,859	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.

CONSOLIDATED STATEMENTS OF LOSS

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended April 30, 2013 $	Quarters ended April 30, 2012 $	Six-month periods ended April 30, 2013 $	Six-month periods ended April 30, 2012 $
Revenues	1,106,824	1,212,426	1,912,538	2,041,722
Operating expenses				
Cost of providing tourism services	702,200	781,162	1,201,120	1,275,288
Salaries and employee benefits	93,186	98,357	175,551	193,471
Aircraft fuel	97,101	123,898	163,326	212,889
Commissions	64,830	65,267	107,711	105,338
Aircraft maintenance	28,145	35,247	48,897	62,816
Airport and navigation fees	21,776	25,282	37,150	43,256
Aircraft rent	20,556	21,589	40,975	41,471
Other	80,215	87,850	160,010	165,258
Depreciation and amortization	8,940	10,094	17,859	20,002
	1,116,949	1,248,746	1,952,599	2,119,789
Gross margin (operating loss)	(10,125)	(36,320)	(40,061)	(78,067)
Financing costs	706	838	1,374	1,342
Financing income	(1,790)	(1,705)	(3,615)	(3,542)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	25,236	(4,403)	16,440	(6,025)
Foreign exchange loss (gain) on long-term monetary items	(212)	242	(206)	86
Gain on investments in ABCP *[note 7]*	—	(8,812)	—	(8,032)
Share of net income of an associate	(3,777)	(2,976)	(3,624)	(2,339)
Loss before income tax expense	(30,288)	(19,504)	(50,430)	(59,557)
Income taxes (recovery)				
Current	1,870	11,311	(8,521)	2,211
Deferred	(10,602)	(19,041)	(6,413)	(21,414)
	(8,732)	(7,730)	(14,934)	(19,203)
Net loss	(21,556)	(11,774)	(35,496)	(40,354)
Net loss attributable to:				
Shareholders	(22,760)	(13,199)	(37,897)	(42,688)
Non-controlling interests	1,204	1,425	2,401	2,334
	(21,556)	(11,774)	(35,496)	(40,354)
Loss per share attributable to shareholders *[note 12]*				
Basic	(0.59)	(0.35)	(0.99)	(1.12)
Diluted	(0.59)	(0.35)	(0.99)	(1.12)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended April 30, 2013 $	2012 $	Six-month periods ended April 30, 2013 $	2012 $
Net loss for the period	(21,556)	(11,774)	(35,496)	(40,354)
Other comprehensive income (loss)				
Items that will be reclassified to net loss				
Change in fair value of derivatives designated as cash flow hedges	2,166	(8,428)	2,060	(9,025)
Reclassification to net loss	(585)	1,706	(1,424)	2,679
Deferred taxes	(525)	1,976	(165)	1,822
	1,056	(4,746)	471	(4,524)
Foreign exchange losses on translation of financial statements of foreign subsidiaries	(411)	(227)	(800)	(2,025)
Total other comprehensive income (loss)	645	(4,973)	(329)	(6,549)
Comprehensive loss for the period	(20,911)	(16,747)	(35,825)	(46,903)
Attributable to:				
Shareholders	(22,108)	(18,219)	(38,208)	(49,288)
Non-controlling interests	1,197	1,472	2,383	2,385
	(20,911)	(16,747)	(35,825)	(46,903)

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	—	—	(42,688)	—	—	(42,688)	2,334	(40,354)
Other comprehensive income (loss)	—	—	—	(4,524)	(2,076)	(6,600)	51	(6,549)
Comprehensive income (loss)	—	—	(42,688)	(4,524)	(2,076)	(49,288)	2,385	(46,903)
Issued from treasury	640	—	—	—	—	640	—	640
Share-based payment expense	—	1,198	—	—	—	1,198	—	1,198
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,334)	(2,334)
Reclassification of non-controlling interest exchange difference	—	—	—	—	51	51	(51)	—
	640	1,198	—	—	51	1,889	(2,385)	(496)
Balance as at April 30, 2012	220,102	12,261	119,038	(2,576)	(11,983)	336,842	—	336,842
Net income for the period	—	—	26,019	—	—	26,019	799	26,818
Other comprehensive income (loss)	—	—	(1,970)	2,101	(516)	(385)	30	(355)
Comprehensive income (loss)	—	—	24,049	2,101	(516)	25,634	829	26,463
Issued from treasury	634	—	—	—	—	634	—	634
Share-based payment expense	—	1,075	—	—	—	1,075	—	1,075
Other changes in non-controlling interest liability	—	—	2,111	—	—	2,111	(2,111)	—
Reclassification of non-controlling interest liability	—	—	—	—	—	—	1,312	1,312
Reclassification of non-controlling interest exchange difference	—	—	—	—	30	30	(30)	—
	634	1,075	2,111	—	30	3,850	(829)	3,021
Balance as at October 31, 2012	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326
Net income (loss) for the period	—	—	(37,897)	—	—	(37,897)	2,401	(35,496)
Other comprehensive income (loss)	—	—	—	471	(782)	(311)	(18)	(329)
Comprehensive income (loss)	—	—	(37,897)	471	(782)	(38,208)	2,383	(35,825)
Issued from treasury	484	—	—	—	—	484	—	484
Share-based payment expense	—	1,087	—	—	—	1,087	—	1,087
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,401)	(2,401)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(18)	(18)	18	—
	484	1,087	—	—	(18)	1,553	(2,383)	(830)
Balance as at April 30, 2013	221,220	14,423	107,301	(4)	(13,269)	329,671	—	329,671

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 April 30, 2013 $	Quarters ended April 30, 2012 $	Six-month periods ended April 30, 2013 $	Six-month periods ended April 30, 2012 $
OPERATING ACTIVITIES				
Net loss for the period	(21,556)	(11,774)	(35,496)	(40,354)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	8,940	10,094	17,859	20,002
Change in fair value of derivative financial instruments used for aircraft fuel purchases	25,236	(4,403)	16,440	(6,025)
Foreign exchange loss (gain) on long-term monetary items	(212)	242	(206)	86
Loss on investments in ABCP	—	(8,812)	—	(8,032)
Share of net income of an associate	(3,777)	(2,976)	(3,624)	(2,339)
Deferred taxes	(10,602)	(19,041)	(6,413)	(21,414)
Employee benefits	538	522	1,075	1,043
Share-based payment expense	551	699	1,087	1,198
	(882)	(35,449)	(9,278)	(55,835)
Net change in non-cash working capital balances related to operations	104,563	105,260	179,914	179,596
Net change in other assets and liabilities related to operations	231	(2,744)	246	(2,935)
Net change in provision for overhaul of leased aircraft	3,722	4,292	(1,874)	1,271
Cash flows related to operating activities	107,634	71,359	169,008	122,097
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(12,438)	(13,080)	(25,076)	(28,154)
Increase in cash and cash equivalents reserved	(3,913)	(2,871)	(3,913)	(2,871)
Consideration paid for an acquired business	—	(5,778)	—	(5,778)
Cash and cash equivalents of an acquired business	—	720	—	720
Proceeds from sale of investments in ABCP	—	—	27,350	—
Realization of principal of investments in ABCP	—	686	—	1,398
Cash flows related to investing activities	(16,351)	(20,323)	(1,639)	(34,685)
FINANCING ACTIVITIES				
Proceeds from issuance of shares	226	293	484	640
Dividends paid to a non-controlling interest	(1,816)	(1,654)	(1,816)	(4,263)
Cash flows related to financing activities	(1,590)	(1,361)	(1,332)	(3,623)
Effect of exchange rate changes on cash and cash equivalents	(1,422)	422	(1,064)	(1,293)
Net change in cash and cash equivalents	88,271	50,097	164,973	82,496
Cash and cash equivalents, beginning of period	247,877	213,975	171,175	181,576
Cash and cash equivalents, end of period	336,148	264,072	336,148	264,072
Supplementary information (as reported in operating activities)				
Income taxes paid (recovery)	487	6,679	2,135	1,101
Interest paid	150	484	425	725

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 April 30, 2013 were approved by the Corporation's Board of Directors on June 12, 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 must 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 the parent company. 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 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 Vacances Tours Mont-Royal ("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 ($69,500 for the quarter and six-month period ended April 30, 2012) with a pre-tax loss of $5,372 ($3,503 for the quarter and six-month period ended April 30, 2012), 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 April 30, 2013, cash and cash equivalents in trust or otherwise reserved included $239,908 [$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 $99,398, of which $42,559 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 balance sheet 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	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012 / Impact on results for the period ended January 31, 2012	115,702	(38,443)	77,259	780
Increase in value of investments in ABCP	—	8,812	8,812	(8,812)
Principal repayments	(686)	—	(686)	—
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	—	(96)	(96)	96
Principal repayments	(491)	—	(491)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
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 April 30, 2013 / Impact on results for the period ended April 30, 2013	—	—	—	—

Note 8 INVESTMENT IN ASSOCIATES AND OTHER ASSETS

	As at April 30, 2013 $	As at October 31, 2012 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	68,300	64,189
Balance of sale price receivable	3,000	3,000
Deferred costs, unamortized balance	716	793
Sundry	1,428	1,644
	73,444	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	3,624
Exchange difference	487
Balance as at April 30, 2013	68,300

The balance of sale price receivable is payable on June 11, 2014, bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation.

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 January 31 is detailed as follows:

	$
Balance as at October 31, 2012	31,869
Additional provisions	2,234
Utilization of provisions	(7,650)
Exchange difference	(180)
Balance as at January 31, 2013	26,273
Additional provisions	6,307
Utilization of provisions	(2,874)
Exchange difference	289
Balance as at April 30, 2013	29,995
Current provisions	15,122
Non-current provisions	14,873
Balance as at April 30, 2013	29,995

	$
Balance as at October 31, 2011	33,318
Additional provisions	8,795
Utilization of provisions	(11,547)
Unused amounts released	(350)
Exchange difference	81
Balance as at January 31, 2012	30,297
Additional provisions	5,111
Utilization of provisions	(715)
Exchange difference	(104)
Balance as at April 30, 2012	34,589
Current provisions	19,716
Non-current provisions	14,873
Balance as at April 30, 2012	34,589

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 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 April 30, 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 April 30, 2013, $54,888 had been drawn down.

Operating lines of credit totalling €11,500 [$15,255] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at April 30, 2013.

Note 11 OTHER LIABILITIES

	As at April 30, 2013 $	As at October 31, 2012 $
Employee benefits	32,672	31,961
Deferred lease inducements	18,172	19,685
Non-controlling interests	24,881	24,193
	75,725	75,839
Less non-controlling interests included in Trade and other payables	21,391	21,391
	54,334	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	103,901	640
Balance as at April 30, 2012	38,125,621	220,102
Issued from treasury	170,047	634
Balance as at October 31, 2012	38,295,668	220,736
Issued from treasury	94,250	484
Balance as at January 31, 2013	38,389,918	221,220

As at April 30, 2013, the number of Class A Shares and Class B Shares stood at 664,299 and 37,725,619, respectively.

OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2012	2,199,810	13.99
Granted	766,620	6.01
Cancelled	(27,913)	16.66
Balance as at April 30, 2013	2,938,517	11.88
Options exercisable as at April 30, 2013	885,755	18.62

LOSS PER SHARE

Basic and diluted loss per share was computed as follows:

	Quarter ended April 30		Six-month periods ended April 30	
	2013	2012	2013	2012
(in thousands of dollars, except per share data)	$	$	$	$
NUMERATOR				
Net loss attributable to shareholders of the Corporation used in computing basic and diluted loss per share	(22,760)	(13,199)	(37,897)	(42,688)
DENOMINATOR				
Weighted average number of outstanding shares	38,427	38,104	38,345	38,079
Effect of dilutive securities				
Stock options	—	—	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	38,427	38,104	38,345	38,079
Loss per share				
Basic	(0.59)	(0.35)	(0.99)	(1.12)
Diluted	(0.59)	(0.35)	(0.99)	(1.12)

In light of the net losses recognized for the quarters and six-month periods ended April 30, 2013 and 2012, the 2,938,517 and 2,275,325 outstanding stock options, respectively, were not included in the calculation of diluted loss per share because of 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 April 30, 2013			Six-month period ended April 30, 2013		
	Americas	Europe	Total	Americas	Europe	Total
	$	$	$	$	$	$
Revenues	944,411	162,413	1,106,824	1,635,128	277,410	1,912,538
Operating expenses	951,745	165,204	1,116,949	1,658,733	293,866	1,952,599
Gross margin (operating loss)	(7,334)	(2,791)	(10,125)	(23,605)	(16,456)	(40,061)

	Quarter ended April 30, 2013			Six-month period ended April 30, 2013		
	Americas $	Europe $	Total	Americas $	Europe $	Total $
Revenues	1,026,984	185,442	1,212,426	1,727,821	313,901	2,041,722
Operating expenses	1,055,720	193,026	1,248,746	1,784,628	335,161	2,119,789
Gross margin (operating loss)	(28,736)	(7,584)	(36,320)	(56,807)	(21,260)	(78,067)

	Revenues[1]				Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended April 30,		Six-month periods ended April 30,		As at April 30,	As at October 31,
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Canada	923,536	1,004,298	1,600,894	1,689,079	179,933	174,262
France	152,684	162,453	261,908	275,875	36,243	33,166
United Kingdom	8,370	21,670	13,696	36,388	31,488	32,984
Other	22,234	24,005	36,040	40,380	14,189	14,028
	1,106,824	1,212,426	1,912,538	2,041,722	261,853	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 April 30, 2013, these guarantees totalled $1,122. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2013, no amounts have been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at April 30, 2013, $22,683 had been drawn down under the facility.

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