transat

Transat A.T. Inc.

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Quarterly Report

Period ended
April 30, 2006

Outgoing tour operators

- Kilomètre Voyages
- Nolitours
- Rêvatours
- Transat Holidays
- Air Consultants Europe
- Bennett Voyages
- Brok'Air
- Look Voyages
- Vacances Transat (France)

Travel agencies and distribution

- Club Voyages
- exinow.ca
- TravelPlus
- Trip Central
- Voyages en Liberté
- Club Voyages (France)

Air transportation

- Air Transat
- Handlex

Incoming tour operators and services at destination

- Cameleon
- Jonview Canada
- Trafic Tours
- Transat Holidays USA
- Turissimo
- Tourgreece

North America

Europe

transat

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Transfer Agent and Registrar
CIBC Mellon Trust Company

Stock Exchange
The shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbols TRZ.RV.A and TRZ.B

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial condition for the quarter and six-month period ended April 30, 2006, compared with the quarter and six-month period ended April 30, 2005, and should be read in conjunction with the unaudited Consolidated Interim Financial Statements for the second quarter of 2006 and of 2005, the notes thereto, and the 2005 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 2005 Annual Report and the MD&A section of our first quarter results. The risks and uncertainties set out in the MD&A of the 2005 Annual Report are herein incorporated by reference and remain substantially unchanged. You will find more information about us including our Annual Information Form for the year ended October 31, 2005, on Transat's website at www.transat.com and on SEDAR at www.sedar.com.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). We will occasionally refer to non-GAAP financial measures in the MD&A. These non-GAAP financial measures do not have any meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. They are furnished to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with GAAP. All dollar figures are in Canadian dollars unless otherwise indicated. Where we say "Transat," "we," "us," "our" or the "Corporation," we mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

This MD&A also contains certain forward-looking statements with respect to the Corporation. These 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. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect our business. The information contained herein is dated as of June 7, 2006. 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 law.

Financial Highlights

For the periods ended April 30
[In thousands of dollars]

	Three (3) months				Six (6) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Consolidated statements of income								
Revenues	**791,569**	728,944	62,625	8.6	**1,373,145**	1,317,684	55,461	4.2
Margin[1]	**68,487**	66,204	2,283	3.4	**82,517**	80,037	2,480	3.1
Net income	**42,845**	38,400	4,445	11.6	**48,013**	36,600	11,413	31.2
Basic earnings per share	**1.27**	1.05	0.22	21.0	**1.33**	1.00	0.33	33.0
Diluted earnings per share	**1.24**	0.91	0.33	36.3	**1.31**	0.87	0.44	50.6
Consolidated statements of cash flows								
Operating activities	**16,000**	(21,637)	37,637	175.0	**81,119**	31,762	49,357	155.4

	As at April 30, 2006	As at Oct. 31, 2005	Variance	Variance
	$	$	$	%
Consolidated balance sheets				
Cash and cash equivalents	**268,274**	293,495	(25,221)	(8.6)
Cash and cash equivalents in trust or otherwise reserved	**136,555**	182,268	(45,713)	(25.1)
	404,829	475,763	(70,934)	(14.9)
Total assets	**894,700**	949,537	(54,837)	(5.8)
Debt (short-term and long-term)	**89,720**	106,769	(17,049)	(16.0)
Total debt[1]	**403,633**	463,382	(59,749)	(12.9)
Net debt[1]	**135,359**	169,887	(34,528)	(20.3)

[1] NON-GAAP FINANCIAL MEASURES

The terms *margin*, *total debt* and *net debt* have no standard definition prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These terms are presented on a consistent basis from period to period. These terms are included because management uses them to measure the Corporation's financial performance.

Margin is used by management as an indicator to assess the ongoing and recurring operational performance of the Corporation. This term is represented by revenues less operating expenses in the unaudited consolidated interim statements of income.

Total debt is used by management to assess the Corporation's future liquidity requirements. It is represented by the combination of balance sheet debt (long-term debt and debentures) and off-balance sheet arrangements presented on p.12.

Net debt is used by management to assess Transat's liquidity position. It is represented by total debt (as discussed above) less cash and cash equivalents that are not in trust or otherwise reserved.

OVERVIEW

Transat is one of the largest fully integrated tour operators of international scope in the world. We conduct our activities in a single industry segment (holiday travel) and operate in two geographic business areas (North America and Europe). Transat's core business involves holiday packages and a combination of scheduled and charter flights. We operate as both an outgoing and incoming tour operator by bundling products and services bought in Canada and abroad and reselling them in Canada, France and elsewhere, mainly through travel agencies, some of which we own. We operate Canada's leading international charter airline, with regular flights scheduled between Canada and various countries. We also provide destination and hotel management services.

In light of the expanding international tourism market, our vision is to maximize shareholder value by penetrating new markets, increasing our existing market share and maximizing the benefits of vertical integration. We maintain a leadership position in the Canadian market, where we operate as an outgoing and incoming tour operator; we are also the country's largest international charter air carrier and the largest retail distributor of holiday travel products, with some 430 outlets. In addition, we have a solid foundation in France as a vertically integrated outgoing tour operator. We have developed a number of solid brands and offer a large number of international destinations from both Canada and Europe. Over time, we aim to expand our business to other countries where we believe there is high growth potential for an integrated player specializing in holiday travel, particularly the U.S., the U.K. and other European countries.

At the conclusion of the year ended October 31, 2005, we completed a strategic three-year plan focused on growth and profitability. We anticipate that increased international tourism will speed our growth in North America and Europe. To this end, we will be making new acquisitions while pursuing a dynamic pace of internal growth.

Our key strategic focuses are as follows:

- Bolstering our presence in Ontario by adding new destinations and expanding our distribution network.
- Growing our market share and continuing our vertical integration in France and the U.K. while moving forward with initiatives to expand into other European countries as a tour operator.
- Investing in new markets including the United States and Latin America.
- Stepping up development of destination services and assuming a portion of our accommodation needs.
- Pursuing our ongoing technology and training initiatives and investments.

Transat estimates that implementing its strategic plan will require up to $300 million over three years, with funding from existing cash resources, future cash flows and external sources, as needed.

Our objectives for fiscal 2006 are as follows:

- Increasing Transat's competitiveness in the Canadian and European markets.
- Emphasizing vertical integration of destination services.
- Achieving growth via new markets.
- Planning and implementing the next generation of information systems.
- Continuing to build on our "new" base in France.
- Creating an environment to foster continuous knowledge acquisition, development and sharing.

The following key performance drivers are essential to the successful implementation of our strategy and to the achievement of our objectives:

- Market share
- Revenue growth
- Margin

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

A more comprehensive discussion of our business, as well as our strategies and objectives along with the performance drivers and resources required to successfully implement these strategies and achieve our objectives can be found in our 2005 Annual Report.

ACQUISITIONS

During the six-month period ended April 30, 2006, the Corporation carried out business acquisitions, which were accounted for using the purchase method.

On December 1, 2005, the Corporation acquired the assets of 20 travel agencies operating in France and belonging to the Carlson Wagonlit Travel network for a total cash consideration of €3.1 million ($4.3 million). The results of these agencies have been consolidated as of January 1, 2006.

During the first half of 2006, the Corporation acquired the assets, via Trip Central, of six Ontario travel agencies for a total consideration of $1.0 million. Of that amount, $0.3 million was paid in cash on the acquisition dates, with the $0.7 million balance payable in instalments over periods ranging from three to five years. The results of these agencies have been consolidated as of their respective acquisition dates.

These transactions resulted in a $4.7 million increase in recognized goodwill.

CONSOLIDATED OPERATIONS

Revenues

For the periods ended April 30
[In thousands of dollars]

	Three (3) months				Six (6) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**791,569**	728,944	62,625	8.6	**1,373,145**	1,317,684	55,461	4.2

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

During the current quarter and the six-month period, our revenues increased by $62.6 million and $55.5 million, respectively, compared with the corresponding periods in 2005.

These improvements, which were primarily the result of increased business activity, mostly during the current quarter, were diminished by the Canadian dollar's strength against the euro. Fuel surcharges and our 2005 acquisitions also boosted revenues. Overall, the number of travellers (tour operators record round-trips in terms of travellers), excluding passengers who purchased air-only flights from Look Voyages, was up 9.9% during the quarter and 6.7% during the six-month period, compared with last year.

Operating expenses

For the periods ended April 30
[In thousands of dollars]

	Three (3) months				Six (6) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Direct costs	**421,286**	379,354	41,932	11.1	**728,702**	698,762	29,940	4.3
Salaries and employee benefits	**70,914**	58,514	12,400	21.2	**134,115**	117,109	17,006	14.5
Commissions	**60,447**	67,366	(6,919)	(10.3)	**106,151**	123,986	(17,835)	(14.4)
Aircraft fuel	**56,027**	42,831	13,196	30.8	**102,474**	79,770	22,704	28.5
Aircraft maintenance	**23,018**	25,832	(2,814)	(10.9)	**42,373**	47,142	(4,769)	(10.1)
Airport and navigation fees	**15,637**	14,894	743	5.0	**28,659**	28,499	160	0.6
Aircraft rental	**12,131**	13,670	(1,539)	(11.3)	**24,446**	26,669	(2,223)	(8.3)
Other	**63,622**	60,279	3,343	5.5	**123,708**	115,710	7,998	6.9
	723,082	662,740	60,342	9.1	**1,290,628**	1,237,647	52,981	4.3

Our operating expenses consist mainly of direct costs, salaries and employee benefits, commissions, aircraft fuel, aircraft maintenance, airport and navigation fees, and aircraft rental.

Overall, operating expenses rose $60.3 million for the current quarter and $53.0 million for the six-month period in 2006, compared with the corresponding periods in 2005.

Direct costs were up 11.1% for the quarter and 4.3% for the six-month period, compared with 2005. The increased dollar figure is mainly due to increased business activity and higher hotel room and airline ticket prices. The strength of the Canadian dollar against its U.S. counterpart and the euro helped offset the rise in direct costs.

Salaries and employee benefits were up 21.2% for the quarter and 14.5% for the six-month period, mainly due to the fact that the Corporation recorded provisions during the quarter related to short-term incentive plans offered by the Corporation to certain employees, based on predetermined performance criteria. Heightened business activity and the acquisitions made in 2005 also contributed to these increases.

Despite greater business activity, our commission expense declined 10.3% for the quarter and 14.4% for the six-month period, mainly as a result a drop in our tour operator Nolitours' commission following the review of our pricing policy and distribution approach, as well as to the strength of the Canadian dollar against the euro for our European operations.

Aircraft fuel expense was up 30.8% for the quarter and 28.5% for the six-month period, mainly due to rising fuel prices.

Aircraft maintenance costs were down 10.9% for the quarter and 10.1% for the six-month period, due to the Canadian dollar's strength against the U.S. dollar.

Airport and navigation fees rose 5.0% during the quarter and 0.6% during the six-month period. The quarterly increase was mainly attributable to increased business activity, which was offset by our dollar's appreciation against the U.S. dollar.

Aircraft rental expense was down 11.3% for the quarter and 8.3% for the six-month period. This decline resulted from the Canadian dollar's strength versus the U.S. dollar.

Increases in other expenses stem mostly from higher marketing costs to promote our brands, particularly Nolitours, and increased IT costs.

Margins

In light of the foregoing, our margins expressed as a percentage of revenues fell to 8.7% in 2006 from 9.1% in 2005 for the quarter and to 6.0% in 2006 from 6.1% in 2005 for the six-month period.

Geographic Business Areas

North America

For the periods ended April 30
[In thousands of dollars]

	Three (3) months				Six (6) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**667,852**	605,894	61,958	10.2	**1,178,532**	1,111,924	66,608	6.0
Operating expenses	**603,885**	540,613	63,272	11.7	**1,093,342**	1,026,033	67,309	6.6
Margin	**63,967**	65,281	(1,314)	(2.0)	**85,190**	85,891	(701)	(0.8)

In North America, the improvement in revenues for the quarter and the six-month period was mainly due to a 7.2% and 4.3% increase, respectively, in the number of travelers. Throughout the first six months of the year, competition continued to put downward pressure on our prices. Demand for sun and European destinations rose during the quarter, whereas our Florida destinations were less popular.

Price pressures coupled with rising fuel costs and higher salary and employee benefit expenses had an unfavourable impact on our margins, which was offset, however, by reduced commission fees. Margins fell to 9.6% in 2006 from 10.8% in 2005 for the quarter and to 7.2% in 2006 from 7.7% in 2005 for the six-month period.

Geographic Business Areas (Cont'd)

Europe

For the periods ended April 30
[In thousands of dollars]

	Three (3) months				Six (6) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**123,717**	123,050	667	0.5	**194,613**	205,760	(11,147)	(5.4)
Operating expenses	**119,197**	122,127	(2,930)	(2.4)	**197,286**	211,614	(14,328)	(6.8)
Margin	**4,520**	923	3,597	389.7	**(2,673)**	(5,854)	3,181	54.3

In Europe, revenues were slightly higher, while expenses declined compared with the corresponding quarter of the preceding fiscal year. For the first six months of 2006, revenues and expenses fell compared with 2005. The strength of the Canadian dollar against the euro slowed our increase in revenues and expenses throughout the six-month period.

Excluding passengers purchasing air-only flights from Look Voyages, the number of travellers increased by 30.3% during the quarter and 25.8% during the six-month period.

In terms of margins, our European operations posted a $4.5 million (3.7%) margin during the quarter, up sharply from our $0.9 million (0.8%) margin in 2005. There was increased demand for the products (i.e., packages) marketed by our tour operators, particularly Look Voyages. Accordingly, demand for our main destinations with European departures improved over the quarter and the six-month period compared with last year. For the first six months of 2006, we reported a negative margin of $2.7 million compared with a negative margin of $5.9 million in 2005. At the beginning of the six-month period, our margins suffered from the aftermath of Hurricane Wilma in the Cancun area, which forced us, among other things, to cut our prices to stimulate sales for this destination.

Amortization

Amortization expense relates to capital assets and other assets consisting mostly of start-up costs.

Amortization expense fell $0.4 million (3.8%) to $9.4 million from $9.8 million for the quarter. During the first six months of 2006, amortization expense rose slightly by $0.2 million (0.8%) to $18.7 million in 2006 from $18.5 million in 2005.

Interest on long-term debt and debentures

Interest on long-term debt and debentures held steady during the quarter. For the first six months of 2006, our interest expense was down $3.6 million, primarily due to the interest savings resulting from the repurchase on November 1, 2005 of a $10.0 million debenture and the early redemption on January 10, 2005 of debentures amounting to $21.9 million. This last redemption gave rise not only to an interest charge but also to a $1.7 million non-cash charge during the six-month period ended April 30, 2005, which was attributable to the difference between the nominal value of the debenture and its carrying value at the time and a $0.8 million interest penalty.

Interest income

Interest income remained stable at $3.5 million for the quarter and rose $0.3 million to $6.9 million during the six-month period.

Foreign exchange loss (gain) on long-term monetary items

Foreign exchange gains incurred for the quarter and the six-month period are primarily attributable to the favourable effect of exchange rates on our balance sheet debt.

Share of net income of companies subject to significant influence

Our share of net income of companies subject to significant influence remained unchanged during the quarter and the six-month period compared with 2005.

Income taxes

Our total income tax provision amounted to $19.3 million for the quarter ended April 30, 2006, compared with a provision of $18.6 million for the corresponding quarter of the preceding fiscal year. Excluding our share of net income of companies subject to significant influence, the effective tax rate was 31.1% for the quarter ended April 30, 2006 and 32.8% for the quarter ended April 30, 2005.

For the six-month period ended April 30, 2006, our total income tax provision amounted to $23.1 million, compared with $21.7 million for the corresponding six-month period of the preceding fiscal year. Excluding our share of net income of companies subject to significant influence, the effective tax rate was 32.7% for the current six-month period and 37.6% for the corresponding six-month period of 2005. Consistent with our position taken in fiscal 2004, we still do not account for the recovery of taxes on losses arising from our French operations.

Net income

As a result of the items discussed in "*Consolidated operations*," our net income amounted to $42.8 million, or $1.27 per share for the second quarter, compared with net income totalling $38.4 million, or $1.05 per share for the corresponding quarter of the preceding fiscal year. The weighted average number of common shares outstanding used to establish the per share amounts was 33,746,000 for the second quarter of 2006 and 35,902,000 for the second quarter 2005.

For the first half of the year, net income stood at $48.0 million, or $1.33 per share in 2006, compared with net income totalling $36.6 million, or $1.00 per share in 2005. The weighted average numbers of common shares outstanding used to calculated the per share amounts were 36,011,000 in 2006 and 35,120,000 in 2005.

On a diluted per share basis, earnings per share stood at $1.24 for the second quarter of 2006, compared with $0.91 in 2005; and $1.31 for the first half of 2006, compared with $0.87 in 2005. The adjusted weighted average number of outstanding shares used in computing diluted earnings per share was 34,536,000 (second quarter 2006), 42,026,000 (second quarter of 2005), 36,802,000 (first quarter of 2006) and 41,990,000 (first half of 2005). *See note 3 to the unaudited Consolidated Interim Financial Statements.*

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the periods ended April 30
[In thousands of dollars]

	Three (3) months			Six (6) months		
	2006	2005	Variance	**2006**	2005	Variance
	$	$	$	**$**	$	$
Cash flows relating to operating activities	**16,000**	(21,637)	37,637	**81,119**	31,762	49,357
Cash flow relating to investing activities	**58,078**	36,485	21,593	**30,271**	9,576	20,695
Cash flows relating to financing activities	**(1,169)**	(6,650)	5,481	**(136,611)**	(23,867)	(112,744)
Net change in cash and cash equivalents	**72,909**	8,198	64,711	**(25,221)**	17,471	(42,692)

Cash flows (Cont'd)

As at April 30, 2006, the Corporation had $268.3 million in cash and cash equivalents, compared with $293.5 million as at October 31, 2005. Our balance sheet reflects a current ratio of 1.4 and working capital of $154.5 million, compared with a current ratio of 1.6 and working capital of $225.8 million as at October 31, 2005. We also have access to undrawn lines of credit totalling €10.8 million.

Total assets declined $54.8 million (5.8%) to $894.7 million as at April 30, 2006 from $949.5 million as at October 31, 2005. This was primarily due to a $45.7 million decrease in our cash and cash equivalents in trust or otherwise reserved, arising from the seasonal nature of our business, as well as to a $25.2 million decline in cash and cash equivalents, resulting mainly from share repurchases that triggered a $125.0 million disbursement. Shareholders' equity decreased by $76.5 million to $285.8 million as at April 30, 2006 from $362.3 million as at October 31, 2005. This decrease stems principally from the January 3, 2006 share repurchase amounting to $125.0 million, which was offset by net income of $42.8 million recorded during the first six months of 2006.

Operating activities

During the second quarter, operating activities generated cash flows totalling $16.0 million, whereas these activities resulted in the use of $21.6 million in the corresponding quarter of 2005. For the six-month period, cash flows generated by operating activities stood at $81.1 million, compared with $31.8 million for the same period in 2005. These increases were mainly attributable to tax payments made in the second quarter of 2005, which were higher than in 2006, and to the disbursements related to the provision for engine and airframe overhaul made at the beginning of the six-month period of 2005 in amounts higher than those for the current six-month period.

Investing activities

Cash flows generated by investing activities amounted to $58.1 million for the quarter, up $21.6 million compared with the corresponding quarter of 2005, and $30.3 million for the six-month period compared to $9.6 million for the corresponding period in 2005, a $20.7 million improvement. These cash flows were mainly attributable to the net change in cash and cash equivalents in trust or otherwise reserved for the quarter and the six-month period, which were higher than in 2005. This improvement was due to the higher balance of cash and cash equivalents in trust or otherwise reserved as at October 31, 2005 than as at October 31, 2004.

Financing activities

Financing activities resulted in the use of $1.2 million in liquidities for the quarter, down $5.5 million compared with the corresponding quarter of the preceding fiscal year. This decline results mainly from the fact that no share repurchases took place during the current quarter. For the first six months of 2006, financing activities used $136.6 million, compared with $23.9 million in 2005. This increase resulted from the January 3, 2006 share repurchase, resulting in a $125.0 million disbursement, which was offset by the $11.9 million decline in debenture repayments.

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 give rise to liabilities in the unaudited Consolidated Interim Financial Statements as at April 30, 2006. These obligations amounted to $89.7 million as at April 30, 2006 and $106.8 million as at October 31, 2005.

Obligations that are not reflected as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and are made up of:

- Guarantees
- Operating leases

The total amount of off-balance sheet debt that can be estimated was approximately $313.9 million as at April 30, 2006 ($356.6 million as at October 31, 2005) and is detailed as follows:

	As at April 30, 2006 **$**	As at October 31, 2005 $
Guarantees		
Irrevocable letters of credit	**19,428**	17,238
Security contracts	**1,035**	1,260
Operating leases		
Commitments under operating leases	**293,450**	338,115
	313,913	356,613

Guarantees are required in the normal course of operations in the travel industry to provide indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and 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.

We believe that the Corporation will be able to meet its anticipated cash requirements with current funds, internally generated funds from operations as well as through borrowings under existing credit facilities.

Debt levels

Debt levels as at April 30, 2006 have decreased compared with October 31, 2005.

Our balance sheet debt declined $17.0 million to $89.7 million from $106.8 million, and our off-balance sheet debt fell $42.7 million to $313.9 million from $356.6 million, for an aggregate $59.7 million decrease in total debt compared with October 31, 2005. The improvement in balance sheet debt stemmed mainly from the November 1, 2005 repayment of the $10.0 million debenture. The Corporation's net debt dropped to $135.4 million as at April 30, 2006 from $169.9 million as at October 31, 2005, or a 20.3% decrease.

Outstanding shares

There are three authorized classes of shares as at April 30, 2006: 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.

On November 14, 2005, the Corporation announced an offer to repurchase its Class A Variable Voting Shares and Class B Voting Shares for cancellation. A maximum number of 7,142,857 shares, or approximately 18% of the 40,156,450 issued and outstanding Class A Variable Voting Shares and Class B Voting Shares of the Corporation could have been repurchased at a price ranging from $17.50 to $20.00 per share for a maximum total consideration of $125 million. This offer expired on December 22, 2005.

Outstanding shares (Cont'd)

Consistent with its repurchase offer announced on November 14, 2005, the Corporation repurchased, on January 3, 2006, a total of 6,443,299 voting shares, consisting of 1,780,797 Class A Variable Voting Shares and 4,662,502 Class B Voting Shares, for a cash consideration of $125.0 million.

As at April 30, 2006, there were 5,189,651 Class A Variable Voting Shares and 28,575,538 Class B Voting Shares outstanding.

OTHER

On June 8, 2006, the Corporation announced that its Board of Directors has approved the introduction of a quarterly dividend of $0.07 per Class B Voting Share and Class A Variable Voting Share. The first dividend payment will be made on July 15, 2006 to shareholders of record as of June 30, 2006.

On June 8, 2006, the Board of Directors of the Corporation has filed notice to renew, for a 12-month period, its normal course issuer bid, which will expire on June 14, 2006. In the notice, the Corporation states its intention to purchase for cancellation up to a maximum of 3,270,939 Class A Variable Voting Shares and Class B Voting Shares, representing less than 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares. As of June 2, 2006, there were 3,712,710 Class A Variable Voting Shares and 30,055,388 Class B Voting Shares issued and outstanding, of which 32,709,392 Class A Variable Voting Shares and Class B Voting Shares represent the public float.

This program is designed to allow the Corporation proper utilization of its excess of cash.

These purchases are to be made through the facilities of the Toronto Stock Exchange in accordance with its policy on normal course issuer bids. The price which the Corporation will pay for repurchased shares will be the market price at the time of acquisition plus brokerage fees. Purchases may commence as of June 15, 2006 and will terminate no later than June 14, 2007.

SUBSEQUENT EVENT

On May 1, 2006, the Corporation completed the acquisition of the Thomas Cook Travel Limited travel agency network, located in Canada, for a consideration of $7.4 million.

OUTLOOK

For the 2006 summer season, bookings with our Canadian tour operators are similar to 2005. Transat recognizes that it faces price pressure from the competition, particularly for U.K. and German destinations with Canadian departures.

In Europe, bookings at our French tour operators are up about 20% compared with 2005. Package sales at Look Voyages, for instance, have surged more than 25% over their summer 2005 levels. Transat still expects Look Voyages to achieve profitability in summer 2006.

Notice

The Corporation's independent auditors have not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONSOLIDATED BALANCE SHEETS

[In thousands of dollars]

	As at April 30, 2006 (Unaudited) $	As at October 31, 2005 (Audited) $
ASSETS		
Current assets		
Cash and cash equivalents	**268,274**	293,495
Cash and cash equivalents in trust or otherwise reserved *[note 2]*	**136,555**	182,268
Accounts receivable	**88,905**	69,611
Future income tax assets	**320**	70
Inventories	**6,705**	7,524
Prepaid expenses	**42,152**	40,576
Current portion of deposits	**26,060**	29,259
Total current assets	**568,971**	622,803
Deposits	**23,398**	24,127
Future income tax assets	**7,997**	5,106
Property, plant and equipment	**186,557**	195,131
Goodwill	**98,672**	93,741
Other assets	**9,105**	8,629
	894,700	949,537
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**221,034**	193,277
Income taxes payable	**15,791**	4,763
Customer deposits and deferred income	**171,509**	182,752
Debenture	**—**	10,000
Current portion of long-term debt	**6,139**	6,199
Total current liabilities	**414,473**	396,991
Long-term debt	**80,425**	87,414
Debenture	**3,156**	3,156
Provision for engine and airframe overhaul in excess of deposits	**74,389**	63,809
Non-controlling interest and other liabilities	**30,943**	30,833
Future income tax liabilities	**5,514**	5,051
	608,900	587,254
Shareholders' equity		
Share capital *[note 3]*	**151,218**	179,438
Retained earnings	**135,226**	183,718
Contributed surplus	**892**	531
Warrants	**1,183**	1,187
Deferred translation adjustments	**(2,719)**	(2,591)
	285,800	362,283
	894,700	949,537

See accompanying notes to Consolidated Interim Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

[In thousands of dollars, except per share amounts]
[Unaudited]

	Three (3) months ended April 30		Six (6) months ended April 30	
	2006	2005	**2006**	2005
	$	$	**$**	$
Revenues	**791,569**	728,944	**1,373,145**	1,317,684
Operating expenses				
Direct costs	**421,286**	379,354	**728,702**	698,762
Salaries and employee benefits	**70,914**	58,514	**134,115**	117,109
Commissions	**60,447**	67,366	**106,151**	123,986
Aircraft fuel	**56,027**	42,831	**102,474**	79,770
Aircraft maintenance	**23,018**	25,832	**42,373**	47,142
Airport and navigation fees	**15,637**	14,894	**28,659**	28,499
Aircraft rent	**12,131**	13,670	**24,446**	26,669
Other	**63,622**	60,279	**123,708**	115,710
	723,082	662,740	**1,290,628**	1,237,647
	68,487	66,204	**82,517**	80,037
Amortization	**9,389**	9,760	**18,659**	18,503
Interest on long-term debt	**1,728**	1,693	**3,334**	6,941
Other interest and financial expenses	**409**	407	**806**	781
Interest income	**(3,489)**	(3,512)	**(6,909)**	(6,642)
Foreign exchange loss (gain) on long-term monetary items	**(1,562)**	1,077	**(3,922)**	2,684
Share of net income of companies subject to significant influence	**(140)**	(181)	**(335)**	(357)
	6,335	9,244	**11,633**	21,910
Income before the following items	**62,152**	56,960	**70,884**	58,127
Income taxes (recovery of)				
Current	**21,142**	17,862	**25,608**	20,530
Future	**(1,879)**	736	**(2,532)**	1,180
	19,263	18,598	**23,076**	21,710
Income before non-controlling interest in subsidiaries' results	**42,889**	38,362	**47,808**	36,417
Non-controlling interest in subsidiaries' results	**(44)**	38	**205**	183
Net Income for the period	**42,845**	38,400	**48,013**	36,600
Basic earnings per share	**1.27**	1.05	**1.33**	1.00
Diluted earnings per share	**1.24**	0.91	**1.31**	0.87

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[In thousands of dollars] [Unaudited]

	Six (6) months ended April 30	
	2006	2005
	$	$
Retained earnings, beginning of period as previously reported	**183,718**	135,322
Change in accounting policy		
	—	12,151
Retained earnings, beginning of period	**183,718**	147,473
Net income for the period	**48,013**	36,600
Premium paid on share repurchase *[note 3]*	**(96,197)**	(5,865)
Share repurchase costs, net of related income taxes of $145	**(308)**	—
Interest on equity component of debentures – net of related income taxes of $648	**—**	(1,440)
Retained earnings, end of period	**135,226**	176,768

See accompanying notes to Consolidated Interim Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of dollars] [Unaudited]

	Three (3) months ended April 30 2006 $	Three (3) months ended April 30 2005 $	Six (6) months ended April 30 2006 $	Six (6) months ended April 30 2005 $
OPERATING ACTIVITIES				
Net income for the period	**42,845**	38,400	**48,013**	36,600
Items not involving an outlay (receipt) of cash				
Amortization	**9,389**	9,760	**18,659**	18,503
Foreign exchange loss (gain) on long term monetary items	**(1,562)**	1,077	**(3,922)**	2,684
Share of net income of companies subject to significant influence	**(140)**	(181)	**(335)**	(357)
Non-controlling interest in subsidiaries' results	**44**	(38)	**(205)**	(183)
Future income taxes	**(1,879)**	736	**(2,532)**	1,180
Interest on debentures	**—**	—	**—**	1,807
Compensation expense related to stock option plan	**182**	88	**361**	175
Operating cash flow	**48,879**	49,842	**60,039**	60,409
Net change in non-cash working capital balances related to operations	**(39,825)**	(78,395)	**10,500**	(27,956)
Net change in deposits, expenses and provision for engine and airframe overhaul	**6,946**	6,916	**10,580**	(691)
Cash flows relating to operating activities	**16,000**	(21,637)	**81,119**	31,762
INVESTING ACTIVITIES				
Increase in deposits	**—**	(3,317)	**(192)**	(5,910)
Additions to property, plant and equipment	**(6,814)**	(8,298)	**(9,679)**	(16,001)
Disposal of property, plant and equipment	**—**	—	**—**	5,001
Net change in other assets	**(558)**	64	**(887)**	(319)
Repayment of deposits	**37**	—	**106**	132
Cash and cash equivalents from acquired business	**—**	—	**—**	1,374
Consideration paid for acquired businesses *[note 4]*	**(233)**	—	**(4,790)**	(1,473)
Net change in cash and cash equivalents in trust or otherwise reserved	**65,646**	48,036	**45,713**	26,772
Cash flows relating to investing activities	**58,078**	36,485	**30,271**	9,576
FINANCING ACTIVITIES				
Repayment of long-term debt	**(2,267)**	—	**(3,132)**	(3,533)
Interest paid on convertible debentures	**—**	(2,868)	**—**	(2,868)
Proceeds from issue of shares	**387**	2,999	**579**	7,751
Share repurchase	**—**	(7,266)	**(125,000)**	(7,266)
Share repurchase cost	**—**	—	**(453)**	—
Repayment of debentures	**—**	(35)	**(10,000)**	(21,900)
Net change in other liabilities	**711**	520	**1,395**	3,949
Cash flows relating to financing activities	**(1,169)**	(6,650)	**(136,611)**	(23,867)
Net change in cash and cash equivalents for the period	**72,909**	8,198	**(25,221)**	17,471
Cash and cash equivalents, beginning of period	**195,365**	320,148	**293,495**	310,875
Cash and cash equivalents, end of period	**268,274**	328,346	**268,274**	328,346

See accompanying notes to Consolidated Interim Financial Statements.

[The amounts are expressed in thousands, except for share capital, stock options, warrants and amounts per option or per share] [Unaudited]

Note 1 **Basis of Presentation**

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2005 Annual Report.

Note 2 **Cash and cash equivalents in trust or otherwise reserved**

As at April 30, 2006, cash and cash equivalents in trust or otherwise reserved included $100,111 [$140,675 as at October 31, 2005] in funds received from customers for services not yet rendered and $36,444 [$41,593 as at October 31, 2005] was pledged as collateral security against letters of credit and foreign exchange forward contracts.

Note 3 **Share Capital**

a) Share capital

Authorized

Class A variable voting shares

An unlimited number of Class A Variable Voting Shares ["Class A Shares"], participating, which may be owned or controlled 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 act 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.

Note 3 **Share Capital** (Cont'd)

Class B voting shares

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

Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further act 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

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

	Six (6) months ended April 30, 2006	
	Number of shares #	Amount $
Common shares		
Balance as at October 31, 2005	40,156,450	179,438
Issued from treasury	19,837	353
Exercise of options	30,576	215
Exercise of warrants	1,625	15
Repurchase of shares	(6,443,299)	(28,803)
Balance as at April 30, 2006	33,765,189	151,218

As at April 30, 2006, the number of Class A Shares and Class B Shares amounted to 5,189,651 and 28,575,538 respectively.

Repurchase of shares

On November 14, 2005, the Corporation announced an offer to repurchase for cancellation its Class A Shares and Class B Shares, at a purchase price of not less than $17.50 per share and not more than $20.00 per share. A maximum of 7,142,857 shares, or 18% of the Corporation's 40,156,450 issued and outstanding Class A Shares and Class B Shares could have been repurchased at a price of not less than $17.50 per share and not more than $20.00 per share, for a total of $125,000. The offer expired on December 22, 2005.

In accordance with its issuer bid, the Corporation redeemed, on January 3, 2006, a total of 6,443,299 voting shares, consisting of 1,780,797 Class A Shares and 4,662,502 Class B Shares, for a cash consideration of $125,000.

b) Options	Number of options #	Weighted average price $
Balance as at October 31, 2005	796,069	10.69
Exercised	(30,576)	7.04
Cancelled	(39,154)	6.25
Balance as at April 30, 2006	726,339	11.09
Exercisable options as at April 30, 2006	327,963	10.76

Note 3 **Share Capital** (Cont'd)

c) Warrants

	Number of warrants #	Amount $
Balance as at October 31, 2005	409,475	1,187
Exercised	(1,625)	(4)
Balance as at April 30, 2006	407,850	1,183

d) Earnings per share

Earnings per share and the diluted earnings per share were computed as follows:

[In thousands, except amounts per share]

	Three (3) months ended April 30		Six (6) months ended April 30	
	2006 $	2005 $	**2006 $**	2005 $
NUMERATOR				
Net income	**42,845**	38,400	**48,013**	36,600
Interest on convertible debentures	**—**	(662)	**—**	(1,440)
Income attributable to voting shareholders	**42,845**	37,738	**48,013**	35,160
Interest on convertible debentures	**—**	662	**—**	1,440
Interest on debentures that may be settled in voting shares	**31**	32	**64**	64
Income used to calculate diluted earnings per share	**42,876**	38,432	**48,077**	36,664
DENOMINATOR				
Weighted average number of outstanding shares	**33,746**	35,902	**36,011**	35,120
Convertible debentures	**—**	4,906	**—**	5,376
Debentures that may be settled in voting shares	**149**	120	**159**	126
Stock options	**363**	730	**363**	741
Warrants	**278**	368	**269**	627
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**34,536**	42,026	**36,802**	41,990
Basic earnings per share	**1.27**	1.05	**1.33**	1.00
Diluted earnings per share	**1.24**	0.91	**1.31**	0.87

In computing diluted earnings per share for three-month and six-month periods ended April 30, 2006, a total of 137,383 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the respective periods.

Note 4 Business acquisitions

During the six-month period ended April 30, 2006, the Corporation acquired several businesses. These acquisitions were recorded using the purchase method.

On December 1, 2005, the Corporation acquired the assets of twenty travel agencies in France from the Carlson Wagonlit Travel network, for a total consideration of €3,102 [$4,314]. As a result of these acquisitions, goodwill increased by $3,920. The results of these agencies were included in the Corporation's results as of January 1, 2006.

During the six-month period ended April 30, 2006, the Corporation, via Trip Central, acquired the assets of six travel agencies in Ontario for a total consideration of $957. On the dates of acquisition, a total amount of $338 was paid and the balance of $619 is payable over a three to five year period. As a result of these acquisitions, goodwill increased by $787. The results of these agencies were included in the Corporation's results as of the acquisition date.

Note 5 Restructuring Charge

During the year ended October 31, 2004, the Corporation made changes to Look Voyages S.A.'s management structure and carried out a reorganization in order to reposition this subsidiary. The restructuring costs related to this program were charged to the 2004 fiscal year.

During the year ended October 31, 2003, the Corporation made changes to its management structure and carried out a reorganization that affected both the nature and focus of its operations in France and Canada resulting in the development of a restructuring program. The restructuring costs related to this program were charged to the 2003 fiscal year.

The following table highlights the activity and balance of the 2004 and 2003 restructuring provisions for the six-month period ended April 30, 2006.

	Employee termination benefits $	Contract termination costs $	Other costs $	Total $
Balance as at October 31, 2005	1,826	1,118	236	3,180
Cash drawdowns	**657**	**—**	**63**	**720**
Foreign currency changes	**4**	**1**	**2**	**7**
Balance as at April 30, 2006	**1,165**	**1,117**	**171**	**2,453**

Note 6 Segmented Information

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the consolidated statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in North America and in Europe.

	Three (3) months ended April 30, 2006			Six (6) months ended April 30, 2006		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	**667,852**	**123,717**	**791,569**	**1,178,532**	**194,613**	**1,373,145**
Operating expenses	**603,885**	**119,197**	**723,082**	**1,093,342**	**197,286**	**1,290,628**
	63,967	**4,520**	**68,487**	**85,190**	**(2,673)**	**82,517**
Amortization	**8,541**	**848**	**9,389**	**17,099**	**1,560**	**18,659**
Additions to property, plant and equipment	**5,958**	**856**	**6,814**	**8,714**	**965**	**9,679**
Property, plant and equipment and goodwill [1]				**229,102**	**56,127**	**285,229**

	Three (3) months ended April 30, 2005			Six (6) months ended April 30, 2005		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	605,894	123,050	728,944	1,111,924	205,760	1,317,684
Operating expenses	540,613	122,127	662,740	1,026,033	211,614	1,237,647
	65,281	923	66,204	85,891	(5,854)	80,037
Amortization	8,868	892	9,760	16,751	1,752	18,503
Additions to property, plant and equipment	7,754	544	8,298	15,069	932	16,001
Property, plant and equipment and goodwill [2]				234,882	53,990	288,872

[1] As at April 30, 2006

[2] As at October 31, 2005

Note 7 Guarantees

In the normal course of business, the Corporation has entered into agreements that contain features which meet the definition of a guarantee. These agreements provide for indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit, and 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 4, 8, 9, 10, and 19 to the 2005 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Note 7 **Guarantees** (Cont'd)

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 mature at various dates until 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 protecting them for the obligations undertaken.

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $19,428 as at April 30, 2006. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $1,035 as at April 30, 2006. Historically, the Corporation has not made any significant payments under such agreements.

As at April 30, 2006, no amounts have been accrued with respect to the above-mentioned agreements.

Note 8 **Subsequent event**

On May 1, 2006, the Corporation completed the acquisition of Thomas Cook Travel Limited, a Canadian travel agency network, for a consideration of $7,400.