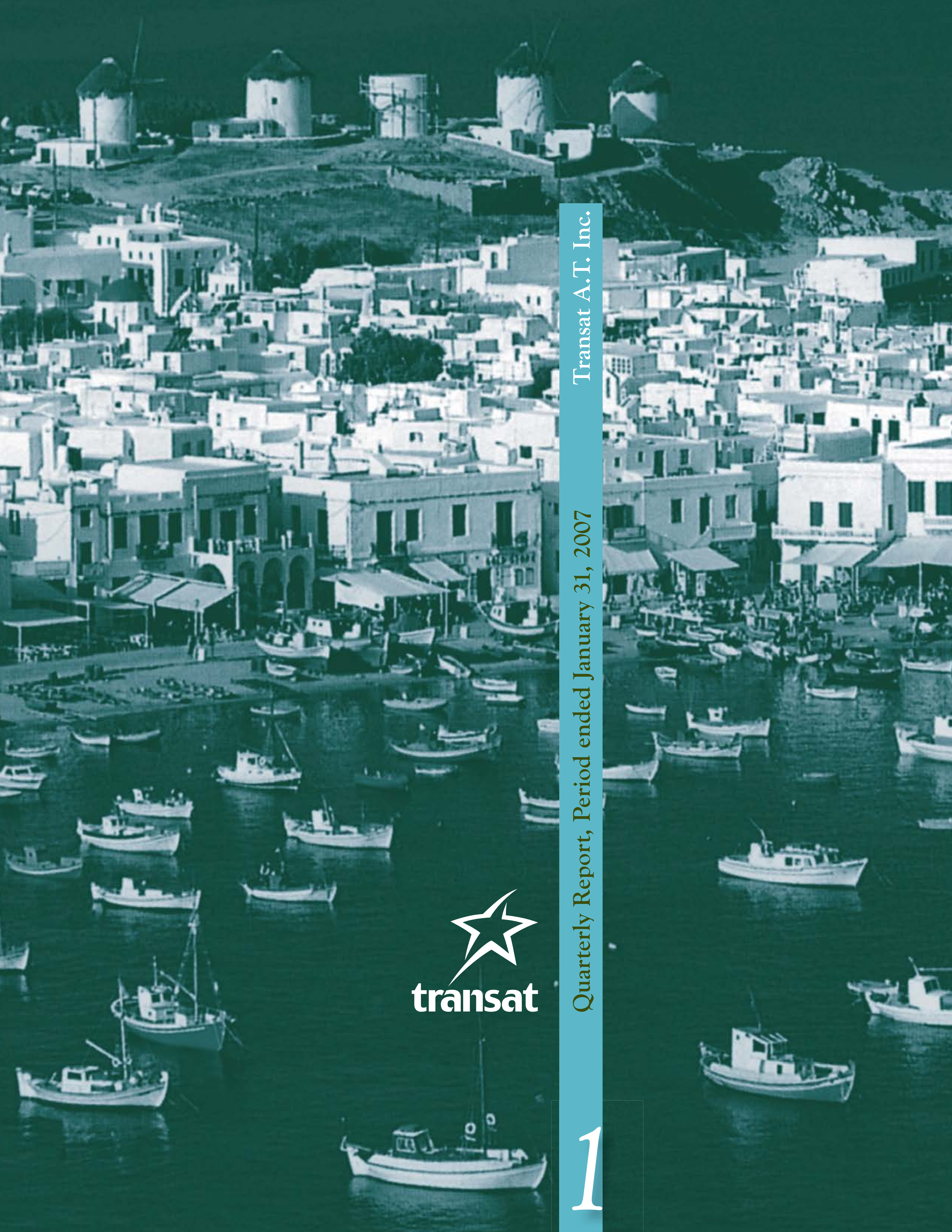

Transat A.T. Inc.

Quarterly Report, Period ended January 31, 2007

1

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc's operations, performance and financial position for the quarter ended January 31, 2007, compared with the quarter ended January 31, 2006, and should be read in conjunction with the unaudited consolidated interim financial statements for the first quarter of 2007 and of 2006, notes thereto, and the 2006 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first quarter update to the information contained in the MD&A section of our 2006 Annual Report and the MD&A section of our first quarter results. The risks and uncertainties set out in the MD&A of the 2006 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of March 13, 2007. You will find more information about us on Transat's website at www. transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended January 31, 2007 and Annual Information Form for the year ended October 31, 2006.

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 have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported 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. 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, war, terrorist attacks, energy prices, 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, employee relations, labour negotiations and disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, 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 put 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 assumptions, market assumptions, 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 Corporation's expectation that travel reservations will continue to be higher than the prior year.*
- *The Corporation's expectation that cash flow from operations, existing funds and availability under credit facilities will be adequate to support ongoing working capital requirements.*

In making these statements, the Corporation has assumed that the trends in reservations will continue throughout the remainder of the season, that the Corporation cannot predict the impact of energy prices and foreign exchange rates on its financial results, that credit facilities will continue to be made available as in the past, that management continues to manage cash flow fluctuations to fund working capital requirements for the full year. 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 and speak only as of the date of release of this MD&A 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 law.

Financial Highlights

Quarters ended January 31
(In thousands of dollars)

	2007 $	2006 $	Variance $	Variance %
Consolidated statements of income				
Revenues	**712,337**	581,576	130,761	22.5
Margin[1]	**14,958**	14,030	928	6.6
Net income	**2,132**	5,168	(3,036)	(58.7)
Basic earnings per share	**0.06**	0.14	(0.08)	(57.1)
Diluted earnings per share	**0.06**	0.13	(0.07)	(53.8)
Consolidated Statements of Cash Flows				
Operating activities	**102,857**	65,118	37,739	58.0
	As at January 31, 2007	As at October 31, 2006		
Consolidated balance sheets				
Cash and cash equivalents	**242,163**	214,887	27,276	12.7
Cash and cash equivalents in trust or otherwise reserved	**263,839**	203,613	60,226	29.6
	506,002	418,500	87,502	20.9
Assets	**1,176,093**	959,195	216,898	22.6
Debt (short-term and long-term)	**88,322**	87,404	918	1.1
Total debt[1]	**398,298**	407,741	(9,443)	(2.3)
Net debt[1]	**156,135**	192,854	(36,719)	(19.0)

[1]NON-GAAP FINANCIAL MEASURES

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

Margin is used by management to assess Transat's ongoing and recurring operational performance. This term is represented by revenues less operating expenses, according to the unaudited Consolidated Interim Statements of Income.

Operating cash flows are used by management to assess Transat's operating performance and its capacity to meet its financial obligations. Operating cash flows is defined as cash flow from operating activities excluding the net change in non-cash working capital balances related to operations, net change in other liabilities and net change in deposits, expenses and provision for engine and airframe overhaul, according to the Consolidated Statements of Cash Flows.

Total debt is used by management to assess Transat's future cash requirements. It is represented by the combination of balance sheet debt (long-term debt and debentures) and off-balance sheet arrangements presented on p. 9.

Net debt is used by management to assess Transat's liquidity position, and is represented by total debt (described above) less cash and cash equivalents not held in trust or otherwise reserved.

Transat is one of the largest fully integrated world-class tour operators in North America. We conduct our activities in a single industry (holiday travel) and we mainly market our products in two geographic areas (North America and Europe). Transat's core business involves developing and marketing vacation travel services in package and air-only format, including airline seats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and elsewhere, mainly through travel agencies, some of which we own. Transat is also a major retail distributor with a total of approximately 500 travel agencies and a multi-channel distribution system that incorporates Web-based sales. Transat leverages on its subsidiary Air Transat, Canada's largest international charter air carrier, to meet a substantial portion of its airline seat needs. We also offer destination, hotel management and airport services.

The international tourism market is growing, and international tourists have increasingly varied origin markets and travel destinations. Transat's vision is to maximize shareholder value by entering new markets, increasing our 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 leading charter airline. We are also a well-established outgoing tour operator in France and the U.K. and incoming tour operator in Greece. We offer our customers a broad range of international destinations spanning some 60 countries. Over time, we want to expand our business into other countries where we believe there is high growth potential for an integrated player specializing in holiday travel, namely the United States and additional European countries.

Our three-year strategic plan (2006-2008) focuses 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 an aggressive pace of internal growth. Our key strategic focuses are as follows:

- In Canada, bolster our presence in Ontario by adding new destinations and expanding our distribution network.
- In Europe, grow our market share and continue our vertical integration in France and the U.K. while moving forward to expand into other European countries as a tour operator specializing in travel to Canada, among other destinations.
- Invest in new markets and, in particular, become a tour operator in the U.S.
- Step up development of destination services and assume a portion of our accommodation needs.
- Pursue our ongoing technology and training initiatives and investments.

Our objectives for fiscal 2007:

- Enhance our competitiveness in Canada.
- Become more competitive and accelerate our growth in Europe.
- Tap into new outgoing markets.
- Further capitalize on vertical integration at destination.
- Implement a knowledge management culture complete with the necessary processes to support our growth and continuity.
- Develop and implement an integrated information management infrastructure that supports development and actively contributes to profitable growth.

The key performance drivers are market share, revenue growth and margin. They are essential to the successful implementation of our strategy and to the achievement of our objectives.

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 consist primarily of cash. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

Quarter ended January 31, 2007 compared with the quarter ended January 31, 2006

Revenues

For the quarter ended January 31
(In thousands of dollars)

2007 $	2006 $	Variance $	Variance %
712,337	581,576	130,761	22.5

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

The Corporation's revenues are up $130.8 million from the first quarter of 2006. The overall improvement in our revenues resulted mainly from revenue growth of 21.4% in North America and 30.4% in Europe. This increase was primarily due to expanded business activity, particularly in North America, and in part thanks to acquisitions in fiscal 2006. Compared with the corresponding quarter of the previous year, we recorded a 20.0% increase in travellers as a result of a 20.9% rise in travellers in North America and an 11.8% rise in travellers in Europe. In 2006, the start of the season was affected by the aftermath of Hurricane Wilma, which hit the Cancun area, slowing our revenue growth and narrowing our margins.

Operating expenses

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

Our total operating expenses were up $129.8 million for the first quarter of 2007 compared with the first quarter of 2006. This increase was attributable to 22.1% growth in operating expenses in North America and 27.5% in Europe.

Direct costs include the costs of the various trip components sold to consumers via travel agencies and incurred by our tour operators. They also include hotel room costs and the costs of reserving blocks of seats or full flights with air carriers other than Air Transat. During the quarter ended January 31, 2007, these costs accounted for 53.6% of our revenues, up from 52.9% to the same period in 2006. Compared with the corresponding quarter of the previous year, direct costs grew 24.3%. The increased dollar amount resulted primarily from expanded business activity and higher seat costs, caused in part by rising fuel costs, higher hotel room costs and the euro's strength against the dollar.

Salaries and employee benefits were up 24.4% compared with the first quarter of 2006, due in part to our business acquisitions since November 1, 2005 and increased business activity.

Operating expenses

For the quarter ended January 31
(In thousands of dollars)

	2007 $	2006 $	Variance $	Variance %
Direct costs	**382,047**	307,416	74,631	24.3
Salaries and employee benefits	**78,652**	63,201	15,451	24.4
Aircraft fuel	**65,398**	46,447	18,951	40.8
Commissions	**51,218**	45,704	5,514	12.1
Aircraft maintenance	**21,772**	19,355	2,417	12.5
Airport and navigation	**17,921**	14,951	2,970	19.9
Aircraft rent	**11,980**	12,315	(335)	(2.7)
Other	**68,391**	58,157	10,234	17.6
Total	**697,379**	567,546	129,833	22.9

Aircraft fuel costs rose 40.8%, or by $19.0 million. This increase resulted mainly from greater business activity, the addition of an aircraft to the fleet in 2006 and higher fuel costs. Also, pursuant to the adoption of new accounting standards and the decision to cease applying hedge accounting as of November 1, 2006, the Corporation recorded a $9.7 million loss as Aircraft fuel expense representing the change in fair value of forward contracts which are used to manage fuel price fluctuation risks.

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Total commissions were up $5.5 million in the first quarter of 2007 compared with the corresponding quarter of 2006. During the period ended January 31, 2007, our commission expense represented 7.2% of our revenues compared with 7.9% for the same period in 2006. This drop was partially attributable to synergies resulting from the expansion of our travel agency network following an acquisition in fiscal 2006.

Aircraft maintenance costs relate mainly to the engine and airframe maintenance expenses incurred by Air Transat. These costs grew 12.5% during the quarter compared with the corresponding period in 2006. This increase was mainly due to stepped-up business activity and the addition of an aircraft to our fleet compared with the same period in 2006.

Airport and navigation fees relate mainly to fees charged by airports. The 19.9% rise compared with the same period in the previous year resulted from higher business activity.

The drop in aircraft rentals was primarily attributable to the strength of the Canadian dollar against its U.S. counterpart, but was partially offset by rental costs related to the aircraft added to the fleet in 2006.

Other expenses were up 17.6% compared with the corresponding quarter of 2006. This increase was primarily due to greater business activity. However, as a percentage of revenues, other expenses decreased from 10.0% in 2006 to 9.6% in 2007.

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Margin

In light of the foregoing, our margin decreased to 2.1% for the first quarter of 2007 from 2.4% for the first quarter of 2006.

Geographic Areas — North America

For the quarter ended January 31
(In thousands of dollars)

	2007 **$**	2006 $	Variance $	Variance %
Revenues	**619,890**	510,680	109,210	21.4
Operating expenses	**597,825**	489,457	108,368	22.1
Margins	**22,065**	21,223	842	4.0

In North America, revenues were up 21.4% in the first quarter of 2007 from the same period in 2006, despite the current competitive conditions in Ontario and Québec. This increase was mainly due to a 20.9% rise in travellers compared with the corresponding period in 2006. For the first quarter of 2007, our margin decreased to 3.6% compared with 4.2% for the same period in 2006. This decrease stemmed entirely from the adoption of new accounting standards for hedge accounting partially offset by stepped-up business activity and the synergies resulting from our 2006 acquisitions.

Geographic Areas — Europe

For the quarter ended January 31
(In thousands of dollars)

	2007 **$**	2006 $	Variance $	Variance %
Revenues	**92,447**	70,896	21,551	30.4
Operating expenses	**99,554**	78,089	21,465	27.5
Margins	**(7,107)**	(7,193)	86	1.2

In Europe, both revenues and expenses increased compared with the corresponding quarter in 2006. These increases stem primarily from greater business activity and the euro's strength against the dollar. This improvement resulted from a 11.8% rise in the number of travellers during the quarter compared with the corresponding quarter in 2006. We reported a negative margin of $7.1 million compared with a negative margin of $7.2 million in 2006. This improvement would have been sharper were it not for the euro's strength against the dollar.

Other expenses and revenues

Amortization is calculated on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and other assets, consisting mainly of development costs. Amortization increased $1.3 million or 13.8%, mainly as a result of additions to property, plant and equipment and business acquisitions made in fiscal 2006.

Interest on long-term debt and debentures held relatively steady at $1.8 million, up only $0.2 million compared with the first quarter of 2006.

Our other interest and financial expenses remained relatively consistent during the period, compared with the previous period.

Interest income grew $1.3 million or 36.6% for the quarter ended January 31, 2007 compared with the corresponding period of 2006. This increase resulted mainly from higher rates of return subsequent to interest rate hikes, compared with the rates for fiscal 2006.

The $1.6 million foreign exchange loss on long-term monetary items stemmed primarily from the adverse effect of foreign exchange rates on our long-term debt, whereas in 2006, the foreign exchange effect was favourable.

Our share of net income of companies subject to significant influence remained unchanged during the quarter compared with the level for the corresponding quarter of the previous year.

Income taxes

Our total income tax provision amounted to $3.4 million for the quarter ended January 31, 2007 compared with a provision of $3.8 million for the corresponding quarter of the previous fiscal year. Before the share of net income of companies subject to significant influence, the effective tax rate for the quarter ended January 31, 2007 stood at 63.1% compared with 44.7% for the quarter ended January 31, 2006. These high rates are explained first and foremost by the decision we made in fiscal 2004 to not recognize income tax recoveries on losses from our French operations.

Net income

As a result of the items discussed in the "*Consolidated operations*," our net income for the quarter ended January 31, 2007 amounted to $2.1 million, or $0.06 per share, compared with $5.2 million, or $0.14 per share during the corresponding quarter of the previous year. The weighted average number of shares outstanding used to establish the per share amounts was 33,757,000 for the first quarter of 2007 and 38,201,000 for the first quarter of the preceding year.

On a diluted basis, earnings per share stood at $0.06 for the first quarter of 2007, compared with $0.13 per share in 2006. The adjusted weighted average number of outstanding shares used to compute diluted earnings per share was 34,267,000 for the current quarter and 38,809,000 for 2006. *See note 4 to the unaudited Consolidated Interim Financial Statements.*

Other expenses and revenues

For the quarter ended January 31
(In thousands of dollars)

	2007	2006	Variance	Variance
	$	$	$	%
Amortization	**10,547**	9,270	1,277	13.8
Interest on long-term debt and debentures	**1,771**	1,606	165	10.3
Other interest and financial expenses	**311**	397	(86)	(21.7)
Interest income	**(4,672)**	(3,420)	1,252	36.6
Foreign exchange loss (gain) on long-term monetary items	**1,619**	(2,360)	3,979	168.6
Share of net income of companies subject to significant influence	**(202)**	(195)	7	3.6

As at January 31, 2007, cash and cash equivalents totalled $242.2 million, compared with $214.9 million as at October 31, 2006. Cash and cash equivalents in trust or otherwise reserved amounted to $263.8 million at the end of the first quarter of 2007 compared with $203.6 million as at October 31, 2006. Our balance sheet reflects a current ratio of 1.2 and working capital of $105.6 million, compared with a ratio of 1.2 and working capital of $97.6 million as at October 31, 2006. With regard to our French operations, we also have access to unused lines of credit totalling €11.8 million ($18.1 million).

Total assets increased $216.9 million, or 22.6%, to $1,176.1 million as at January 31, 2007 from $959.2 millions as at October 31, 2006. This growth was primarily attributable to the greater business activity that translated into the following increases: $71.1 million in prepaid expenses, $60.2 million in cash and cash equivalents in trust or otherwise reserved and $27.3 million in cash and cash equivalents. The adoption of the new accounting standards regarding financial instruments effective November 1, 2006 also had the effect of increasing assets by $23.2 million. Shareholders' equity amounted to $307.1 million as at January 31, 2007, up $11.1 million from $296.0 million as at October 31, 2006. This growth arose primarily from the net income realized during the period, the rise in our share capital and increase in cumulative other comprehensive income.

Operating activities

Operating activities in the first quarter generated cash flows totalling $102.9 million, or $37.7 million more than in the first quarter of 2006. This improvement was primarily attributable to the net change in working capital balances related to operations, which was up $30.1 million from the corresponding period of 2006, primarily as a result of higher customer deposits and deferred revenue balances than in 2006 which were offset by accounts receivable and prepaid expense balances that were also higher than in 2006.

Investing activities

During the quarter, cash flows used for investing purposes rose $38.8 million to $66.6 million, compared with $27.8 million for the same period in 2006. This increase results mainly from the change in cash and cash equivalents in trust or otherwise reserved of the quarter which was higher than in the corresponding quarter of 2006. This change was due, in turn, to higher cash and cash equivalents in trust or otherwise reserved as at January 31, 2007 than as at January 31, 2006. Moreover, additions to property, plant and equipment, consisting mainly of equipment and software, were up $3.0 million from the corresponding quarter in 2006.

Cash flows

For the quarter ended January 31
(In thousands of dollars)

	2007 $	2006 $	Variance $
Cash flows – operating activities	**102,857**	65,118	37,739
Cash flows – investing activities	**(66,622)**	(27,807)	(38,815)
Cash flows – financing activities	**(4,947)**	(136,126)	131,179
Effect of exchange rate changes on cash and cash equivalents	**(4,012)**	685	(4,697)
Net change in cash and cash equivalents	**27,276**	(98,130)	125,406

Financing activities

During the quarter, cash flows used from financing activities totalled $4.9 million, a $131.2 million decrease compared with the corresponding quarter of 2006. This decline resulted from the January 3, 2006 repurchase of shares that resulted in a $125.0 million disbursement and a $7.4 million decrease in the repayment of long-term debt and debentures compared with the first quarter of 2006.

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 cash flows, some of which are reflected as liabilities in the unaudited Consolidated Interim Financial Statements as at January 31, 2007. These obligations amounted to $88.3 million as at January 31, 2007 and $87.4 million as at October 31, 2006. Obligations 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

Off-balance sheet debt, excluding agreements with service providers, that can be estimated amounted to approximately $310.0 million as at January 31, 2007 ($320.3 million as at October 31, 2006) and is detailed as follows:

	As at January 31, 2007 $	As at October 31, 2006 $
Guarantees		
Irrevocable letters of credit	**6,079**	5,751
Security contracts	**780**	780
Operating leases		
Commitments under operating leases	**303,117**	313,806
	309,976	320,337

In the normal course of business, guarantees are required 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 obligations with existing funds, operating cash flows and borrowings under existing credit facilities.

Debt levels

As at January 31, 2007, debt levels were lower compared with the quarter ended October 31, 2006.

Balance sheet debt was up $0.9 million from $87.4 million to $88.3 million, and our off-balance sheet debt was down $10.4 million from $320.3 million to $310.0 million, resulting in a total debt decline of $9.4 million compared with the period ended October 31, 2006. The rise in balance sheet debt stemmed mainly from the foreign exchange effect resulting from the translation of long-term debt into U.S. dollars, which was offset in part by repayments made during the period.

Net of cash and cash equivalents, the Corporation's net debt fell 19.0% from $192.9 million as at October 31, 2006 to $156.1 million as at January 31, 2007. This decline was mainly a result of higher cash and cash equivalents as at January 31, 2007 than as at October 31, 2006 and debt repayments.

Outstanding shares

As at January 31, 2006, there are 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.

In accordance with its issuer bid renewed on June 15, 2006, the Corporation repurchased, during the period ended January 31, 2007, a total of 100,100 voting shares, consisting of Class A Variable Voting Shares and Class B Voting Shares, for a cash consideration of $2.9 million.

As at January 31, 2007 there were 2,520,889 Class A Variable Voting Shares and 31,551,109 Class B Voting Shares.

Dividends

During the period ended January 31, 2007, the Corporation declared and paid dividends totalling $2.4 million.

New accounting standards

On November 1, 2006, the Corporation adopted the recommendations of the following Sections of the *Canadian Institute of Chartered Accountants Handbook:* Section 1530, *Comprehensive Income,* Section 3855, *Financial Instruments – Recognition and Measurement,* and Section 3865, *Hedges*. These standards set out, among other things, at what point a financial instrument must be recognized in the balance sheet and in what amount, in addition to specifying the basis of presentation for the gains and losses on the financial instruments. Based on their classification in the balance sheet, the gains and losses on the financial instruments are recognized in the statement of income or in the newly introduced financial statement, the statement of comprehensive income.

Following the adoption of these new standards, the Corporation opted to cease the use of hedge accounting on the forward contracts for its aircraft fuel purchases. The adoption of these new standards translated, as at November 1, 2006, into a $12.4 million decrease in accumulated other comprehensive income, a $3.5 million increase in financial instruments reported under assets, a $6.1 million increase in future income tax assets, a $21.6 million increase in financial instruments reported under liabilities and a $0.4 million increase in long-term debt. The adoption of these new standards has no impact on the Corporation's cash flows.

The Corporation refers the reader to note 2 to the Consolidated Interim Financial Statements for the first quarter, ended January 31, 2007, for further details regarding the adoption of these standards.

Controls and procedures

In conformance with the Canadian Securities Administrators Multilateral Instrument 52-109, 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, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with Canadian GAAP 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 evaluated whether there were changes to its ICFR during the three-month period ended January 31, 2007 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

Outlook

The Corporation expects demand to be higher than in 2006. However, in light of heightened competition and market capacity, we anticipate narrower margins for the next quarter.

In Europe, bookings for the winter season are tracking ahead of their 2006 levels, and we expect a positive margin in the next quarter.

Notice

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

Consolidated balance sheets

(In thousands of dollars) (Unaudited)

	As at Janauary 31, 2007 $	As at October 31, 2006 $
ASSETS		
Current assets		
Cash and cash equivalents	**242,163**	214,887
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	**263,839**	203,613
Accounts receivable	**115,795**	87,996
Income taxes receivable	**696**	—
Future income tax assets	**1,635**	1,357
Inventories	**10,823**	8,312
Prepaid expenses	**114,815**	43,706
Derivative financial instruments *[note 2]*	**19,025**	—
Current portion of deposits	**30,160**	29,849
Total current assets	**798,951**	589,720
Deposits	**20,307**	19,350
Future income tax assets	**8,172**	7,120
Property plant and equipment	**177,892**	181,349
Goodwill and other intangible assets	**158,732**	153,681
Derivative financial instruments *[note 2]*	**4,190**	—
Other assets	**7,849**	7,975
	1,176,093	959,195
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**239,142**	236,282
Income taxes payable	**—**	10,122
Customer deposits and deferred income	**404,460**	218,875
Derivative financial instruments *[note 2]*	**22,715**	—
Current portion of long-term debt	**27,036**	26,885
Total current liabilities	**693,353**	492,164
Long-term debt *[note 2]*	**58,130**	57,363
Debenture	**3,156**	3,156
Provision for engine and airframe overhaul in excess of deposits	**67,293**	64,961
Non-controlling interest and other liabilities	**32,313**	31,934
Derivative financial instruments *[note 2]*	**2,321**	—
Future income tax liabilities	**12,426**	13,654
	868,992	663,232
Shareholders' equity		
Share capital *[note 4]*	**155,980**	151,430
Retained earnings	**139,399**	142,116
Contributed surplus	**1,478**	1,379
Warrants *[note 4]*	**—**	1,016
Accumulated other comprehensive income *[notes 2 and 6]*	**10,244**	22
	307,101	295,963
	1,176,093	959,195

See accompanying notes to consolidated interim financial statements

Consolidated statements of income

Three (3) months ended January 31
(In thousands of dollars except per share amounts) (Unaudited)

	2007 $	2006 $
Revenues	**712,337**	581,576
Operating expenses		
Direct costs	**382,047**	307,416
Salaries and employee benefits	**78,652**	63,201
Aircraft fuel	**65,398**	46,447
Commissions	**51,218**	45,704
Aircraft maintenance	**21,772**	19,355
Airport and navigation fees	**17,921**	14,951
Aircraft rent	**11,980**	12,315
Other	**68,391**	58,157
	697,379	567,546
	14,958	14,030
Amortization	**10,547**	9,270
Interest on long-term debt and debentures	**1,771**	1,606
Other interest and financial expenses	**311**	397
Interest income	**(4,672)**	(3,420)
Foreign exchange gain (loss) on long-term monetary items	**1,619**	(2,360)
Share of net income of companies subject to significant influence	**(202)**	(195)
	9,374	5,298
Income before the following items	**5,584**	8,732
Income taxes (recovery of)		
Current	**7,364**	4,466
Future	**(3,966)**	(653)
	3,398	3,813
Income before non-controlling interest in subsidiaries' results	**2,186**	4,919
Non-controlling interest in subsidiaries' results	**(54)**	249
Net Income for the period	**2,132**	5,168
Earnings per share *[note 4]*		
Basic	**0.06**	0.14
Diluted	**0.06**	0.13

Consolidated statements of retained earnings

Three (3) months ended January 31(In thousands of dollars) (Unaudited)

	2007 $	2006 $
Retained earnings beginning of period	**142,116**	183,718
Net income for the period	**2,132**	5,168
Premium paid on share repurchase *[note 4]*	**(2,489)**	(96,197)
Share repurchase costs net of related income taxes of $145	**—**	(308)
Dividends	**(2,360)**	—
Retained earnings end of period	**139,399**	92,381

Consolidated statement of comprehensive income

Three (3) months ended January 31(In thousands of dollars) (Unaudited) *[note 4]*

	2007 $	2006 $
Net income for the period	**2,132**	5,168
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges (net of income taxes of $4,931)	**12,022**	—
Losses on derivatives designated as cash flow hedges prior to November 1, 2006, transferred to net income in the current period (net of income taxes of $2,088)	**4,237**	—
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	**6,398**	(220)
	22,657	(220)
Comprehensive income for the period	**24,789**	4,948

See accompanying notes to consolidated interim financial statements

Consolidated statements of cash flows

Three (3) months ended January 31
(In thousands of dollars except per share amounts) (Unaudited)

	2007 $	2006 $
OPERATING ACTIVITIES		
Net income for the period	**2,132**	5,168
Non-cash items		
Amortization	**10,547**	9,270
Foreign exchange loss (gain) on long term monetary items	**1,619**	(2 360)
Share of net income of companies subject to significant influence	**(202)**	(195)
Non-controlling interest in subsidiaries' results	**54**	(249)
Future income taxes	**(3,966)**	(653)
Loss on derivative financial instruments	**9,716**	—
Pension expense	**625**	600
Compensation expense related to stock option plan	**271**	179
	20,796	11,760
Net change in non-cash working capital balances related to operations	**79,188**	49,040
Net change in other liabilities	**541**	684
Net change in deposits expenses and provision for engine and airframe overhaul	**2,332**	3,634
Cash flows relating to operating activities	**102,857**	65,118
INVESTING ACTIVITIES		
Net change in deposits	**(372)**	(123)
Additions to property plant and equipment	**(5,842)**	(2,865)
Net change in other assets	**(182)**	(329)
Consideration paid for acquired businesses	**—**	(4,557)
Net change in cash and cash equivalents in trust or otherwise reserved	**(60,226)**	(19,933)
Cash flows relating to investing activities	**(66,622)**	(27,807)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(3,460)**	(865)
Repayment of debentures	**—**	(10,000)
Proceeds from issue of shares	**3,815**	192
Share repurchase	**(2,942)**	(125,000)
Share repurchase cost	**—**	(453)
Dividends paid	**(2,360)**	—
Cash flows relating to financing activities	**(4,947)**	(136,126)
Effect of exchange rate changes on cash and cash equivalents	**(4,012)**	685
Net change in cash and cash equivalents for the period	**27,276**	(98,130)
Cash and cash equivalents beginning of period	**214,887**	293,495
Cash and cash equivalents end of period	**242,163**	195,365

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, except for the new accounting policies described in note 2. 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 2006 Annual Report.

Note 2: New accounting policies

On November 1, 2006, the Corporation retroactively adopted, without restatement of prior periods, the recommendations included in the following Sections of the *Canadian Institute of Chartered Accountants Handbook:* Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3865, *Hedges*.

Section 1530, *Comprehensive Income*, requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders.

Section 3855, *Financial Instruments – Recognition and Measurement*, sets out the standards for the recognition and measurement of financial assets, financial liabilities and derivatives. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Corporation has made the following classification:

- Cash and cash equivalents as well as cash and cash equivalents in trust or otherwise reserved are classified as "Assets held for trading." They are measured at fair value and the gains or losses resulting from the remeasurement at the end of each period are recognized in net income.
- Accounts receivable are classified as "Loans and receivables." They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Bank loans, accounts payable and accrued liabilities, the debenture and long-term debt are classified as "Other financial liabilities." They are initially measured at their fair value.

Section 3865, *Hedges*, sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, *Financial Instruments – Recognition and Measurement*, to qualifying transactions that they elect to designate as hedges for accounting purposes. The Corporation elected to apply hedge accounting for its foreign exchange forward contracts as cash flow hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from remeasurement are recognized in other comprehensive income when the hedge is deemed effective. Any ineffective portion is recognized in net income. In addition, the Corporation has designated certain foreign exchange forward contracts as fair value hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from the remeasurement are recognized in net income, with a corresponding adjustment to the carrying value of the hedged item through net income.

The Corporation also enters, in the normal course of its operations, into fuel purchasing contracts to manage fuel price fluctuation risks. For these derivatives, the Corporation elected to cease using hedge accounting. As a result, based on Section 3855, *Financial Instruments – Recognition and Measurement*, these derivatives are measured at fair value at the end of each period and the gains or losses resulting from remeasurement are recognized in net income as Aircraft fuel expense. Non realized gains or losses at transition date were recognized in other comprehensive income and will be recognized in net income when the related fuel purchasing contracts will mature.

The adoption of these new standards translated into the following changes as at November 1, 2006: a $12,435 decrease in accumulated other comprehensive income, a $3,492 increase in derivative financial instruments reported under assets, a $6,125 increase in future income tax assets, a $21,632 increase in derivative financial instruments reported under liabilities and a $420 increase in long-term debt. The adoption of this new standard has no impact on the Corporation's cash flows.

For the three-month period ended January 31, 2007, the Corporation recognized an unrealized gain of $12,022, net of $5,922 in related income taxes, under Other comprehensive income representing the effective portion of the change in fair value of the derivatives designated as cash flow hedges. These amounts so recognized were reclassified under Operating expenses for the periods during which the operating expenses were affected by the variability in the hedged item's cash flows. A loss amounting to $229 was reclassified under net income during the quarter. An estimated gain of $15,553 included in Accumulated other comprehensive income as at January 31, 2007 should be reclassified under net income in the next twelve months.

For the three-month period ended January 31, 2007, the Corporation recognized a loss of $4,237, net of $2,088 in related income taxes, under Other comprehensive income representing the portion of the non realized losses on fuel purchasing contracts at transition date realized during the period. Non realized losses of $11,969 included in Accumulated other comprehensive income as at January 31, 2007 should be reclassified under net income in the next twelve months.

Note 3: Cash and cash equivalents in trust or otherwise reserved

As at January 31, 2007, cash and cash equivalents in trust or otherwise reserved included $235,682 [$168,164 as at October 31, 2006] in funds received from customers for services not yet rendered, and $28,157 [$35,499 as at October 31, 2006] was pledged as collateral security against letters of credit and foreign exchange forward contracts.

Note 4: 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.

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:

Period ended January 31, 2007	Number of shares	Amount ($)
Balance as at October 31, 2006	33,647,597	151,430
Issued from treasury	7,380	194
Exercise of options	166,796	1,428
Exercise of warrants	350,325	3,381
Repurchase of shares	(100,100)	(453)
Balance as at January 31, 2007	34,071,998	155,980

As at January 31, 2007, the number of Class A Shares and Class B Shares amounted to 2,520,889 and 31,551,109 respectively.

Normal course issuer bid

In accordance with its normal course issuer bids, the Corporation repurchased, during the period ended January 31, 2007, a total of 100,100 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $2,942.

b) Options

	Number of options	Weighted average price ($)
Balance as at October 31, 2006	710,462	14.07
Exercised	(166,796)	7.53
Balance as at January 31, 2007	543,666	16.08
Exercisable options as at January 31, 2007	319,439	12.87

c) Warrants

	Number of warrants	Amount ($)
Balance as at October 31, 2006	350,325	1,016
Exercised	(350,325)	(1,016)
Balance as at January 31, 2007	—	—

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 January 31	2007 $	2006 $
Numerator		
Income attributable to voting shareholders	**2,132**	5,168
Interest on debentures that may be settled in voting shares	**—**	—
Income used to calculate diluted earnings per share	**2,132**	5,168
Denominator		
Weighted average number of outstanding shares	**33,757**	38,201
Stock options	**315**	349
Warrants	**195**	259
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**34,267**	38,809
Basic earnings per share	**0.06**	0.14
Diluted earnings per share	**0.06**	0.13

The debenture that may be settled in shares was excluded from the computation of diluted earnings per share for the three-month periods ended January 31, 2007 and 2006, because of its antidilutive effect. The potential impact of this security on the denominator is 104,000 shares for the three-month period ended January 31, 2007 [171,000 shares for the three-month period ended January 31, 2006]. In addition, in computing diluted earnings per share for the three-month period ended January 31, 2006, a total of 137,000 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 period.

Note 5: Business acquisitions

During the period ended January 31, 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 period ended January 31, 2006, the Corporation, via Trip Central, acquired the assets of four travel agencies in Ontario for a total consideration of $812. On the dates of acquisition, a total amount of $243 was paid and the balance of $569 is payable over a three to five year period. As a result of these acquisitions, goodwill increased by $678. The results of these agencies were included in the Corporation's results as of the acquisition date.

Note 6: Accumulated other comprehensive income

Three (3) months ended January 31	2007 $	2006 $
Accumulated other comprehensive income		
Balance beginning of period	**22**	(2,591)
Cumulative impact of accounting changes relating to financial instruments *note 2]*	**(12,435)**	—
Adjusted balance beginning of period	**(12,413)**	(2,591)
Other comprehensive income for the period	**22,657**	(220)
Balance end of period	**10,244**	(2,811)

The 2006 balance correspond to the reclassicification of the Accumulated translation adjustements to the Accumulated other comprehensive income.

Note 7: 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 January 31, 2007	North America $	Europe $	Total $
Revenues	**619,890**	**92,447**	**712,337**
Operating expenses	**597,825**	**99,554**	**697,379**
	22,065	**(7,107)**	**14,958**
Property, plant and equipment and goodwill[1]	**213,340**	**123,284**	**336,624**

Three (3) months ended January 31, 2006	North America $	Europe $	Total $
Revenues	510,680	70,896	581,576
Operating expenses	489,457	78,089	567,546
	21,223	(7,193)	14,030
Property, plant and equipment and goodwill[2]	231,498	55,647	287,145

[1] As at January 31, 2007
[2] As at October 31, 2006

Note 8: 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, 9, 10, 11 and 21 to the 2006 audited consolidated financial statements provide information relating to 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 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 $6,079 as at January 31, 2007. 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 $780 as at January 31, 2007. Historically, the Corporation has not made any significant payments under such agreements.

As at January 31, 2007, no amounts have been accrued with respect to the above-mentioned agreements.

OUTGOING TOUR OPERATORS

Transat Tours Canada (TTC)

Transat Holidays
Caribbean, Latin America and Mexico from Canada, Canada-Europe market and cruises

Nolitours
Caribbean, Latin America, Mexico and Florida from Canada

Look Voyages
Mediterranean Basin, Africa, Asia, Caribbean, Mexico, etc. from France, and Lookéa clubs

Vacances Transat (France)
Americas, Caribbean, Asia, Africa from France.
Tours in Eastern Europe, Scandinavia, Scotland, Ireland under the Bennett brand

Brokair
Group tours from France

Canadian Affair
British tour operator specializing in travel to Canada

Rêvatours
Eastern Europe, Asia, North Africa, etc. from Canada

Merika Tours
North American destinations from Canada

Air Consultants Europe (ACE)
TTC's representative in Germany, the Netherlands, Belgium, Luxembourg and Austria

INCOMING TOUR OPERATORS AND DESTINATION SERVICES

Jonview Canada
Tours and packages to Canada

Tourgreece
Tours and packages to Greece

Trafic Tours
Excursions and destination services in Mexico

Turissimo
Excursions and destination services in the Dominican Republic

Transat Holidays USA
Destination services and travel agency in Florida

RETAIL DISTRIBUTION

Transat Distribution Canada
More than 400 travel agencies in Canada (Marlin Travel, TravelPlus, tripcentral.ca, Club Voyages, Voyages en Liberté) and exitnow.ca

Club Voyages (France)
Network of 72 travel agencies in France (Club Voyages, Look Voyages)

AIR TRANSPORTATION

Air Transat
Charter air carrier specializing in holiday travel

Handlex
Airport ground services in Montréal, Toronto and Vancouver

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