transat

Transat A.T. Inc.

3

Quarterly Report

Period ended
July 31, 2006

Outgoing tour operators

- Kilomètre Voyages
- Nolitours
- Rêvatours
- Transat Holidays
- Air Consultants Europe
- Bennett Voyages
- Brok'Air
- Canadian Affair
- 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

Head Office
Transat A.T. Inc.
Place du Parc
300 Léo-Pariseau Street, Suite 600
Montréal, Québec H2X 4C2
Telephone: 514.**987.1660**
Fax: 514.**987.8035**
www.transat.com
info@transat.com

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.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 nine month-period ended July 31, 2006, compared with the quarter and nine-month period ended July 31, 2005, and should be read in conjunction with the unaudited Consolidated Interim Financial Statements for the third 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 third quarter update to the information contained in the MD&A section of our 2005 Annual Report and the MD&A section of our second 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 us. The information contained herein is dated as of September 6, 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 July 31
[In thousands of dollars]

	Three (3) months				Nine (9) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Consolidated statements of income								
Revenues	**611,107**	552,897	58,210	10.5	**1,984,252**	1,870,581	113,671	6.1
Margin[1]	**15,606**	17,214	(1,608)	(9.3)	**98,123**	97,251	872	0.9
Net income	**4,205**	794	3,411	429.6	**52,218**	37,394	14,824	39.6
Basic earnings per share	**0.12**	0.02	0.10	500.0	**1.48**	0.97	0.51	52.6
Diluted earnings per share	**0.12**	0.02	0.10	500.0	**1.45**	0.90	0.55	61.1
Consolidated statements of cash flows								
Operating activities	**60,412**	49,569	10,843	21.9	**141,531**	81,331	60,200	74.0

	As at July 31, 2006	As at Oct. 31, 2005	Variance	Variance
	$	$	$	%
Consolidated balance sheets				
Cash and cash equivalents	**252,167**	293,495	(41,328)	(14.1)
Cash and cash equivalents in trust or otherwise reserved	**202,073**	182,268	19,805	10.9
	454,240	475,763	(21,523)	(4.5)
Total assets	**970,897**	949,537	21,360	2.2
Debt (short-term and long-term)	**88,393**	106,769	(18,376)	(17.2)
Total debt[1]	**376,660**	463,382	(86,722)	(18.7)
Net debt[1]	**124,493**	169,887	(45,394)	(26.7)

[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.11.

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 Europe 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 nine-month period ended July 31, 2006, the Corporation carried out business acquisitions. These acquisitions were recorded 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 nine-month period ended July 31, 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.

On May 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of the Thomas Cook Travel Limited (TCT) travel agency network, located in Canada, for a cash consideration of $7.4 million. TCT operates a network of 66 wholly owned agencies and 142 franchised agencies under the Thomas Cook and Marlin Travel banners. TCT also operates 22 foreign exchange offices. The results of the acquired company were included in the Corporation's results as of the acquisition date.

Management is currently carrying out analyses and changes will be made to the allocation of the excess of consideration paid over net assets acquired as the information becomes available. For example, since the measurement of the fair value of definite- and indefinite-lived intangible assets had not been completed at the time of the allocation, no value has been assigned yet to intangible assets. Finally, the Corporation has not completed the assessment of possible costs related to the restructuring and integration of TCT, potentially giving rise to the recognition of a liability in the allocation of the purchase price. A restructuring provision amounting to $3.3 million has been recognized in the preliminary allocation of the purchase price. The provision includes employee termination benefits and restructuring and integration costs.

These transactions resulted in a $13.9 million increase in recognized goodwill.

CONSOLIDATED OPERATIONS

Revenues

For the periods ended July 31
[In thousands of dollars]

	Three (3) months				Nine (9) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**611,107**	552,897	58,210	10.5	**1,984,252**	1,870,581	113,671	6.1

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

During the current quarter and the nine-month period in 2006, our revenues increased by $58.2 million and $113.7 million, respectively, compared with the corresponding periods in 2005.

These improvements are the result of increased business activity, whose effect was partially dampened, however, by the strength of the Canadian dollar against the euro, fuel surcharges and acquisitions made since 2005. 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 6.8% during the quarter and 7.2% during the first nine months of the year, compared with last year.

Operating expenses

For the periods ended July 31
[In thousands of dollars]

	Three (3) months				Nine (9) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Direct costs	**290,853**	261,606	29,247	11.2	**1,019,555**	960,368	59,187	6.2
Salaries and employee benefits	**75,037**	61,980	13,057	21.1	**209,152**	179,089	30,063	16.8
Aircraft fuel	**69,450**	58,020	11,430	19.7	**171,924**	137,790	34,134	24.8
Commissions	**35,392**	36,526	(1,134)	(3.1)	**141,543**	160,512	(18,969)	(11.8)
Aircraft maintenance	**22,521**	23,922	(1,401)	(5.9)	**64,894**	71,064	(6,170)	(8.7)
Airport and navigation fees	**21,280**	19,287	1,993	10.3	**49,939**	47,786	2,153	4.5
Aircraft rental	**12,127**	13,582	(1,455)	(10.7)	**36,573**	40,251	(3,678)	(9.1)
Other	**68,841**	60,760	8,081	13.3	**192,549**	176,470	16,079	9.1
	595,501	535,683	59,818	11.2	**1,886,129**	1,773,330	112,799	6.4

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

Overall, operating expenses rose $59.8 million for the current quarter and $112.8 million for the first nine months of 2006, compared with the corresponding periods in 2005.

Direct costs were up 11.2% for the quarter and 6.2% for the nine-month period, compared with 2005. As a percentage of revenues, direct costs rose slightly for the quarter and for the first nine months of the year. The increased dollar figure is mainly due to greater business activity and higher plane ticket and hotel room prices.

Salaries and employee benefits were up 21.1% for the quarter and 16.8% for the nine-month period, primarily due to increased business activity and the acquisitions made since 2005.

Aircraft fuel expense rose 19.7% for the quarter and 24.8% for the first nine-months of 2006, compared with the corresponding periods in 2005. These increases were mainly driven by higher fuel prices.

Despite greater business activity, our commission expense declined 3.1% for the quarter and 11.8% for the nine-month period, due in large part to a lower commission for our tour operator Nolitours following our revised pricing policy and distribution approach, and to the strength of the Canadian dollar against the euro for our European operations.

Aircraft maintenance costs were down 5.9% for the quarter and 8.6% for the nine-month period, due to the Canadian dollar's strength against the U.S. dollar.

Airport and navigation fees rose 10.3% during the quarter and 4.5% during the first nine months of the year. These increases are mainly attributable to brisk business activity, but were offset by the Canadian dollar's appreciation against its U.S. counterpart.

Aircraft rental expense was down 10.7% for the quarter and 9.1% for the nine-month period. This decline resulted from the Canadian dollar's strength versus the U.S. dollar.

The increases in other expenses for the quarter and the first nine months of 2006 result primarily from higher marketing costs to promote our brands, particularly, Nolitours, and higher ground handling and crew costs.

Margins

As a result of the above, our margins decreased to 2.6% for the current quarter from 3.1% for the corresponding quarter in 2005 and to 4.9% for the first nine months of 2006 from 5.2% for the corresponding period in 2005.

Geographic Business Areas

North America

For the periods ended July 31
[In thousands of dollars]

	Three (3) months				Nine (9) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**446,720**	411,640	35,080	8.5	**1,625,252**	1,523,564	101,688	6.7
Operating expenses	**436,668**	398,020	38,648	9.7	**1,530,010**	1,424,053	105,957	7.4
Margin	**10,052**	13,620	(3,568)	(26.2)	**95,242**	99,511	(4,269)	(4.3)

In North America, the improvement in revenues for the quarter and the nine-month period was mainly due to a 3.9% and 4.8% increase, respectively, in the number of travelers, as well as to fuel charges. For both the quarter and the nine-month period, we recorded an influx of travellers to European and sun destinations, whereas Florida destinations were less popular.

Price pressures coupled with rising fuel costs and higher salary and employee benefit expense had a negative impact on our margins, which was offset, however, for the first nine months of the year by reduced commission fees. Margins fell to 2.3% in 2006 from 3.3% in 2005 for the quarter and to 5.9% in 2006 from 6.5% in 2005 for the nine-month period.

Geographic Business Areas (Cont'd)

Europe

For the periods ended July 31
[In thousands of dollars]

	Three (3) months				Nine (9) months			
	2006	2005	Variance	Variance	**2006**	2005	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**164,387**	141,257	23,130	16.4	**359,000**	347,017	11,983	3.5
Operating expenses	**158,833**	137,663	21,170	15.4	**356,119**	349,277	6,842	2.0
Margin	**5,554**	3,594	1,960	54.5	**2,881**	(2,260)	5,141	227.5

In Europe, revenues increased in the quarter and nine-month period due to respective increases of 19.1% and 22.8% in the number of travellers excluding passengers who purchased air-only flights. Both for the quarter and the first nine months of the year, we recorded sharp increases, mainly at Look Voyages, in travellers to North African and Southern European destinations. However, the dollar's strength against the euro slowed our increase in revenues and expenses throughout the nine-month period.

A concerted effort over the past few years at Look Voyages, combined with better price and direct cost management, favourably impacted margins, which were up for the quarter to 3.4% in 2006 from 2.5% in 2005 and rose to a positive margin of 0.8% for the first nine-months of 2006 from a negative margin of 0.7% in 2005, despite the Canadian dollar's appreciation against the euro.

Amortization

Amortization expense relates to property, plant and equipment and other assets consisting mostly of start-up costs.

Amortization expense rose $0.4 million (3.8%) to $9.7 million from $9.3 million for the quarter. During the first nine months of 2006, amortization expense increased $0.5 million (1.8%) to $28.3 million in 2006 from $27.8 million in 2005.

Interest on long-term debt and debentures

Interest on long-term debt and debentures held steady during the quarter. For the nine-month period, interest expense fell $3.7 million. This decline was 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.

Other interest and financial expenses

Other interest and financial expenses dropped slightly during the quarter, down to $0.5 million in 2006 from $0.6 million in 2005, and declined to $1.3 million for the first nine months of 2006 from $1.4 million for the corresponding period in 2005.

Interest income

Interest income rose from $1.4 million to $4.5 million for the quarter. For the nine-month period, we recorded a $1.7 million increase to $11.4 million compared with the same period in 2005. These improvements resulted from higher rates of return than in 2005.

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

The foreign exchange loss incurred for the quarter was mainly attributable to the negative effect of exchange rates on our balance sheet debt. For the first nine months of 2006, the exchange rate effect was positive, resulting in a gain.

Share of net income of companies subject to significant influence

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

Income taxes

Our total income tax provision amounted to $2.9 million for the quarter ended July 31, 2006 compared with $9.4 million for the corresponding quarter of the previous fiscal year. Excluding the share of net income of companies subject to significant influence, the effective tax rate for the quarter ended July 31, 2006 was 37.5%, compared with 86.2% for the quarter ended July 31, 2005. The high rate for the quarter in 2005 resulted primarily from the write-off of future income tax asset balances related to tax losses of our French operations amounting to $5.6 million.

For the nine-month period ended July 31, 2006, our total income tax provision amounted to $26.0 million compared with $31.1 million for the same period of the previous fiscal year. Excluding the share of net income of companies subject to significant influence, the effective tax rate for the nine-month period ended July 31, 2006 was 33.2%, compared with 45.3% for the same period in the previous year.

Net income

As a result of the items discussed in "*Consolidated operations*," our net income amounted to $4.2 million, or $0.12 per share for the third quarter, compared with net income totalling $0.8 million, or $0.02 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 33,820,000 for the third quarter of 2006 and 40,648,000 for the third quarter of 2005.

Our net income was $52.2 million or $1.48 per share for the first nine months of fiscal 2006 compared with a net income of $37.4 million or $0.97 per share for the same period of the previous year. The weighted average number of common shares outstanding used to establish the per share amounts was 35,261,000 in 2006 and 36,983,000 in 2005.

On a diluted per share basis, earnings per share stood at $0.12 for the third quarter of 2006, compared with $0.02 in 2005; and $1.45 for the first nine months of 2006, compared with $0.90 in 2005. The adjusted weighted average number of outstanding shares used in computing diluted earnings per share was 34,526,000 (third quarter of 2006), 41,510,000 (third quarter of 2005), 36,043,000 (first nine months of 2006) and 41,759,000 (first nine months of 2005). *See note 3 to the unaudited Consolidated Interim Financial Statements.*

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the periods ended July 31
[In thousands of dollars]

	Three (3) months			Nine (9) months		
	2006	2005	Variance	**2006**	2005	Variance
	$	$	$	**$**	$	$
Cash flows relating to operating activities	**60,412**	49,569	10,843	**141,531**	81,331	60,200
Cash flow relating to investing activities	**(72,343)**	(6,361)	(65,982)	**(42,072)**	3,215	(45,287)
Cash flows relating to financing activities	**(4,176)**	(5,238)	1,062	**(140,787)**	(29,105)	(111,682)
Net change in cash and cash equivalents	**(16,107)**	37,970	(54,077)	**(41,328)**	55,441	(96,769)

As at July 31, 2006, the Corporation had $252.2 million in cash and cash equivalents, compared with $293.5 million as at October 31, 2005. Our balance sheet reflects a current ratio of 1.2 and working capital of $126.8 million, compared with a 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 rose $21.4 million (2.2%) to $970.9 million as at July 31, 2006 from $949.5 million as at October 31, 2005. Shareholders' equity decreased $73.3 million to $289.0 million as at July 31, 2006 from $362.3 million as at October 31, 2005. This decline stems mainly from the January 3, 2006 share repurchase amounting to $125.0 million, which was offset by net income of $52.2 million recorded during the first nine months of 2006.

Operating activities

During the third quarter, cash flows relating to operating activities amounted to $60.4 million, compared with $49.6 million for the corresponding quarter of 2005. During the first nine months of 2006, cash flows relating to operating activities stood at $141.5 million, compared with $81.3 for the same period in 2005. These improvements were due to increases in net change in non-cash working capital balances related to operations. For the quarter, the increase is mainly attributable to higher accounts payable and accrued liabilities and customer deposits and deferred income. For the first nine months of 2006, the increase stemmed mostly from higher accounts payable and accrued liabilities and income taxes payable.

Investing activities

Cash flows used in investing activities totalled $72.3 million for the quarter, up $66.0 million compared with the corresponding quarter of 2005. They amounted to $42.1 million for the first nine months of 2006, compared with $3.2 million in cash flows generated for the same period in 2005, a $45.3 million increase. 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 nine-month period, which were higher than in 2005. This increase was due to the higher balance of cash and cash equivalents in trust or otherwise reserved as at July 31, 2006 than as at July 31, 2005. As at July 31, 2006, £20.4 million ($42.8 million) was included in cash and cash equivalents in trust or otherwise reserved for the acquisition of the British company The Airline Seat Company.

Financing activities

Financing activities resulted in the use of $4.2 million in liquidities for the quarter, down $1.1 million compared with the corresponding quarter of the preceding fiscal year. This decline resulted mainly from the fact that no share repurchases took place during the current quarter; its effect was offset by dividend payments. For the first nine months of 2006, financing activities used $140.8 million, compared with $29.1 million in 2005. This increase stemmed 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 are reflected as liabilities in the unaudited Consolidated Interim Financial Statements as at July 31, 2006. These obligations amounted to $88.4 million as at July 31, 2005 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 entities that are not consolidated with the Corporation and are made up of:

- Guarantees
- Operating leases

The total amount of off-balance sheet debt that can be estimated was approximately $288.3 million as at July 31, 2006 ($356.6 million as at October 31, 2005) and can be reconciled as follows:

	As at July 31, 2006	As at October 31, 2005
	$	$
Guarantees		
Irrevocable letters of credit	**8,695**	17,238
Security contracts	**780**	1,260
Operating leases		
Commitments under operating leases	**278,792**	338,115
	288,267	356,613

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 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 July 31, 2006 have decreased compared with October 31, 2005.

Our balance sheet debt declined $18.4 million to $88.4 million from $106.8 million, and our off-balance sheet debt fell $68.3 million to $288.3 million from $356.6 million, for an aggregate $86.7 million decrease in total debt compared with October 31, 2005. This improvement stemmed mainly from the November 1, 2005 repayment of the $10.0 million debenture. The Corporation's net debt fell to $124.5 million as at July 31, 2006 from $169.9 million as at October 31, 2005, or a 26.7% decrease.

Outstanding shares

There are three authorized classes of shares as at July 31, 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.

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 July 31, 2006 there were 3,301,145 Class A Variable Voting Shares outstanding and 30,531,034 Class B Voting Shares outstanding.

OTHER

On September 6, 2006, the Board of Directors approved a quarterly dividend of $0.07 per Class B Voting Share and Class A Variable Voting Share. The dividend payment will be made on October 15, 2006 to shareholders of record as at September 30, 2006.

On June 13, 2006, the Corporation was authorized by the Toronto Stock Exchange to renew for a 12-month period its normal course issuer bid, previously scheduled to expire on June 14, 2005. In the notice it filed, the Corporation stated 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 3,712,770 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 will terminate no later than June 14, 2007.

SUBSEQUENT EVENT

On August 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of British tour operator The Airline Seat Company, which operates under the Canadian Affair brand, for a consideration of £20.4 million ($42.8 million).

OUTLOOK

In North America, reservations for European destinations for the fourth quarter are up nearly 14%, whereas the Corporation's capacity has grown approximately 9%. The Corporation continues to encounter pricing pressures for almost all its destinations for the fourth quarter.

In Europe, reservations are up for the last quarter compared with the same period in 2005. The results of Look Voyages are encouraging, and the Corporation has no reason to revisit its outlook for the company. Transat believes that Look Voyages is poised to achieve profitability. Finally, the recent acquisition of The Airline Seat Company in the United Kingdom should enhance the profitability of our European operations for the last quarter of fiscal 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 July 31, 2006 (Unaudited) $	As at October 31, 2005 (Audited) $
ASSETS		
Current assets		
Cash and cash equivalents	**252,167**	293,495
Cash and cash equivalents in trust or otherwise reserved *[note 2]*	**202,073**	182,268
Accounts receivable	**106,073**	69,611
Future income tax assets	**290**	70
Inventories	**5,990**	7,524
Prepaid expenses	**38,911**	40,576
Current portion of deposits	**36,730**	29,259
Total current assets	**642,234**	622,803
Deposits	**19,120**	24,127
Future income tax assets	**7,518**	5,106
Property, plant and equipment	**184,856**	195,131
Goodwill	**108,362**	93,741
Other assets	**8,807**	8,629
	970,897	949,537
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**277,210**	193,277
Income taxes payable	**14,305**	4,763
Customer deposits and deferred income	**197,341**	182,752
Debenture	**—**	10,000
Current portion of long-term debt	**26,546**	6,199
Total current liabilities	**515,402**	396,991
Long-term debt	**58,691**	87,414
Debenture	**3,156**	3,156
Provision for engine and airframe overhaul in excess of deposits	**68,703**	63,809
Non-controlling interest and other liabilities	**31,303**	30,833
Future income tax liabilities	**4,664**	5,051
	681,919	587,254
Shareholders' equity		
Share capital *[note 3]*	**151,748**	179,438
Retained earnings	**137,065**	183,718
Contributed surplus	**1,128**	531
Warrants	**1,178**	1,187
Deferred translation adjustments	**(2,141)**	(2,591)
	288,978	362,283
	970,897	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 July 31		Nine (9) months ended July 31	
	2006	2005	**2006**	2005
	$	$	**$**	$
Revenues	**611,107**	552,897	**1,984,252**	1,870,581
Operating expenses				
Direct costs	**290,853**	261,606	**1,019,555**	960,368
Salaries and employee benefits	**75,037**	61,980	**209,152**	179,089
Aircraft fuel	**69,450**	58,020	**171,924**	137,790
Commissions	**35,392**	36,526	**141,543**	160,512
Aircraft maintenance	**22,521**	23,922	**64,894**	71,064
Airport and navigation fees	**21,280**	19,287	**49,939**	47,786
Aircraft rent	**12,127**	13,582	**36,573**	40,251
Other	**68,841**	60,760	**192,549**	176,470
	595,501	535,683	**1,886,129**	1,773,330
	15,606	17,214	**98,123**	97,251
Amortization	**9,677**	9,322	**28,336**	27,825
Interest on long-term debt	**1,713**	1,762	**5,047**	8,703
Other interest and financial expenses	**510**	598	**1,316**	1,379
Interest income	**(4,528)**	(3,123)	**(11,437)**	(9,765)
Foreign exchange loss (gain) on long-term monetary items	**523**	(2,225)	**(3,399)**	459
Share of net income of companies subject to significant influence	**(39)**	(101)	**(374)**	(458)
	7,856	6,233	**19,489**	28,143
Income before the following items	**7,750**	10,981	**78,634**	69,108
Income taxes (recovery of)				
Current	**3,279**	2,746	**28,887**	23,276
Future	**(384)**	6,634	**(2,916)**	7,814
	2,895	9,380	**25,971**	31,090
Income before non-controlling interest in subsidiaries' results	**4,855**	1,601	**52,663**	38,018
Non-controlling interest in subsidiaries' results	**(650)**	(807)	**(445)**	(624)
Net Income for the period	**4,205**	794	**52,218**	37,394
Basic earnings per share	**0.12**	0.02	**1.48**	0.97
Diluted earnings per share	**0.12**	0.02	**1.45**	0.90

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[In thousands of dollars] [Unaudited]

	Nine (9) months ended July 31	
	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	**52,218**	37,394
Premium paid on share repurchase *[note 3]*	**(96,197)**	(10,155)
Share repurchase costs, net of related income taxes of $145	**(308)**	—
Dividends	**(2,366)**	—
Interest on equity component of debentures – net of related income taxes of $648	**—**	(1,440)
Retained earnings, end of period	**137,065**	173,272

See accompanying notes to Consolidated Interim Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of dollars] [Unaudited]

	Three (3) months ended July 31 **2006** $	Three (3) months ended July 31 2005 $	Nine (9) months ended July 31 **2006** $	Nine (9) months ended July 31 2005 $
OPERATING ACTIVITIES				
Net income for the period	**4,205**	794	**52,218**	37,394
Items not involving an outlay (receipt) of cash				
Amortization	**9,677**	9,322	**28,336**	27,825
Foreign exchange loss (gain) on long term monetary items	**523**	(2,225)	**(3,399)**	459
Share of net income of companies subject to significant influence	**(39)**	(101)	**(374)**	(458)
Non-controlling interest in subsidiaries' results	**650**	807	**445**	624
Future income taxes	**(384)**	6,634	**(2,916)**	7,814
Interest on debentures	**—**	—	**—**	1,807
Compensation expense related to stock option plan	**272**	159	**633**	334
Operating cash flow	**14,904**	15,390	**74,943**	75,799
Net change in non-cash working capital balances related to operations	**51,194**	29,435	**61,694**	1,479
Net change in deposits, expenses and provision for engine and airframe overhaul	**(5,686)**	4,744	**4,894**	4,053
Cash flows relating to operating activities	**60,412**	49,569	**141,531**	81,331
INVESTING ACTIVITIES				
Increase in deposits	**(2,305)**	(1,511)	**(2,497)**	(7,421)
Repayment of deposits	**5,904**	4,249	**6,010**	4,381
Additions to property, plant and equipment	**(6,475)**	(8,976)	**(16,154)**	(24,977)
Disposal of property, plant and equipment	**—**	—	**—**	5,001
Net change in other assets	**(341)**	(1,292)	**(1,228)**	(1,611)
Cash and cash equivalents from acquired business	**3,478**	8,263	**3,478**	9,637
Consideration paid for acquired businesses *[note 4]*	**(7,865)**	(6,072)	**(12,655)**	(7,545)
Net change in cash and cash equivalents in trust or otherwise reserved	**(64,739)**	(1,022)	**(19,026)**	25,750
Cash flows relating to investing activities	**(72,343)**	(6,361)	**(42,072)**	3,215
FINANCING ACTIVITIES				
Repayment of long-term debt	**(3,024)**	(2,916)	**(6,156)**	(6,449)
Repayment of debentures	**—**	—	**(10,000)**	(21,900)
Interest paid on convertible debentures	**—**	—	**—**	(2,868)
Proceeds from issue of shares	**489**	1,837	**1,068**	9,588
Share repurchase	**—**	(5,339)	**(125,000)**	(12,605)
Share repurchase cost	**—**	—	**(453)**	—
Dividends paid	**(2,366)**	—	**(2,366)**	—
Net change in other liabilities	**725**	1,180	**2,120**	5,129
Cash flows relating to financing activities	**(4,176)**	(5,238)	**(140,787)**	(29,105)
Net change in cash and cash equivalents for the period	**(16,107)**	37,970	**(41,328)**	55,441
Cash and cash equivalents, beginning of period	**268,274**	328,346	**293,495**	310,875
Cash and cash equivalents, end of period	**252,167**	366,316	**252,167**	366,316

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 July 31, 2006, cash and cash equivalents in trust or otherwise reserved included $123,884 [$140,675 as at October 31, 2005] in funds received from customers for services not yet rendered, $42,800 in funds reserved for the acquisition of The Airline Seat Company *[see note 8]*, and $35,389 [$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:

	Nine (9) months ended July 31, 2006	
	Number of shares #	Amount $
Balance as at October 31, 2005	40,156,450	179,438
Issued from treasury	28,526	542
Exercise of options	87,252	540
Exercise of warrants	3,250	31
Repurchase of shares	(6,443,299)	(28,803)
Balance as at July 31, 2006	33,832,179	151,748

As at July 31, 2006, the number of Class A Shares and Class B Shares amounted to 3,301,145 and 30,531,034 respectively.

Normal course issuer bid

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
Granted	127,927	22.80
Exercised	(87,252)	5.75
Cancelled	(43,254)	7.69
Balance as at July 31, 2006	793,490	13.35
Exercisable options as at July 31, 2006	556,824	10.27

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

c) Warrants

	Number of warrants #	Amount $
Balance as at October 31, 2005	409,475	1,187
Exercised	(3,250)	(9)
Balance as at July 31, 2006	406,225	1,178

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 July 31		Six (6) months ended July 31	
	2006 $	2005 $	**2006 $**	2005 $
NUMERATOR				
Net income	**4,205**	794	**52,218**	37,394
Interest on convertible debentures	**—**	—	**—**	(1,440)
Income attributable to voting shareholders	**4,205**	794	**52,218**	35,954
Interest on convertible debentures	**—**	—	**—**	1,440
Interest on debentures that may be settled in voting shares	**—**	—	**96**	96
Income used to calculate diluted earnings per share	**4,205**	794	**52,314**	37,490
DENOMINATOR				
Weighted average number of outstanding shares	**33,820**	40,648	**35,261**	36,983
Convertible debentures	**—**	—	**—**	3,566
Debentures that may be settled in voting shares	**—**	—	**147**	128
Stock options	**410**	570	**355**	568
Warrants	**296**	292	**280**	514
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**34,526**	41,510	**36,043**	41,759
Basic earnings per share	**0.12**	0.02	**1.48**	0.97
Diluted earnings per share	**0.12**	0.02	**1.45**	0.90

Debentures that can be settled in voting shares have not been reflected in the calculation of diluted earnings per share for the three-month periods ended July 31, 2005 and 2006. These securities' potential impact on the denominator is 127,700 shares for the three-month period ended July 31, 2006 and 133,800 for the same period in 2005.

For purposes of calculating diluted earnings per share for the three- and nine-month periods ended July 31, 2006, 8,576 and 255,385 stock options, respectively, have been excluded from the calculation since the exercise price of these options was higher than the Corporation's average share price for the respective periods.

Note 4 Business acquisitions

During the nine-month period ended July 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 nine-month period ended July 31, 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.

On May 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of the Thomas Cook Travel Limited (TCT) travel agency network, located in Canada, for a cash consideration of $7.4 million. TCT operates a network of 66 wholly owned agencies and 142 franchised agencies under the Thomas Cook and Marlin Travel banners. TCT also operates 22 foreign exchange offices.

The results of the acquired company were included in the Corporation's results as of the acquisition date. The preliminary purchase price is as follows:

	$
Consideration	
Cash	7,400
Working capital adjustment	198
Acquisition costs	267
Total consideration paid	7,865
Net assets acquired	
Cash and cash equivalents	3,478
Other current assets	4,488
Property, plant and equipment	1,284
Current liabilities assumed	(9,587)
Long-term liabilities assumed	(1,015)
Total net assets acquired	(1,352)
Excess consideration paid over net assets acquired	9,217

Preliminary allocation of excess of consideration paid over net assets acquired is as follows:

	$
Intangible assets	—
Preliminar goodwill	9,217
	9,217

Management is currently carrying out analyses and changes will be made to the allocation of the excess of consideration paid over net assets acquired as the information becomes available. For example, since the measurement of the fair value of definite- and indefinite-lived intangible assets had not been completed at the time of the allocation, no value has been assigned yet to intangible assets. Finally, the Corporation has not completed the assessment of possible costs related to the restructuring and integration of TCT, potentially giving rise to the recognition of a liability in the allocation of the purchase price. A restructuring provision amounting to $3.3 million has been recognized in the preliminary allocation of the purchase price. The provision includes employee termination benefits and restructuring and integration costs.

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 nine-month period ended July 31, 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	**(691)**	**—**	**(76)**	**(767)**
Foreign currency changes	**(3)**	**22**	**2**	**21**
Balance as at July 31, 2006	**1,132**	**1,140**	**162**	**2,434**

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 July 31, 2006			Nine (9) months ended ended July 31, 2006		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	**446,720**	**164,387**	**611,107**	**1,625,252**	**359,000**	**1,984,252**
Operating expenses	**436,668**	**158,833**	**595,501**	**1,530,010**	**356,119**	**1,886,129**
	10,052	**5,554**	**15,606**	**95,242**	**2,881**	**98,123**
Amortization	**8,912**	**765**	**9,677**	**26,011**	**2,325**	**28,336**
Additions to property, plant and equipment	**4,205**	**2,270**	**6,475**	**12,919**	**3,235**	**16,154**
Property, plant and equipment and goodwill [1]				**233,508**	**59,710**	**293,218**

	Three (3) months ended July 31, 2005			Nine (9) months ended ended July 31, 2005		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	411,640	141,257	552,897	1,523,564	347,017	1,870,581
Operating expenses	398,020	137,663	535,683	1,424,053	349,277	1,773,330
	13,620	3,594	17,214	99,511	(2,260)	97,251
Amortization	8,543	779	9,322	25,294	2,531	27,825
Additions to property, plant and equipment	8,908	68	8,976	23,977	1,000	24,977
Property, plant and equipment and goodwill [2]				239,456	55,921	295,377

[1] As at July 31, 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.

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 $8,695 as at July 31, 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 $780 as at July 31, 2006. Historically, the Corporation has not made any significant payments under such agreements.

As at July 31, 2006, no amounts have been accrued with respect to the above-mentioned agreements.

Note 8 **Subsequent event**

On August 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of British tour operator The Airline Seat Company, which operates under the Canadian Affair brand, for a consideration of £20,400 ($42,800).