transat

Transat A.T. Inc.

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Quarterly Report

Period ended
January 31, 2006

Outgoing tour operators

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

Travel agencies and distribution

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

Air transportation

- Air Transat
- Handlex

Incoming tour operators and services at destination

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

North America

Europe

transat

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Transfer Agent and Registrar
CIBC Mellon Trust Company

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

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 position for the quarter ended January 31, 2006, compared with the quarter ended January 31, 2005, and should be read in conjunction with the unaudited consolidated interim financial statements for the first quarter of 2006 and of 2005, 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 first quarter update to the information contained in the MD&A section of our 2005 Annual Report. The risks and uncertainties set out in the MD&A of the 2005 Annual Report are incorporated herein 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 this MD&A. These non-GAAP financial measures have no 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. The terms "Transat," "we," "us," "our" and the "Corporation" 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 March 13, 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

of the quarters ended January 31
[in thousands of dollars]

	2006 **$**	2005 $	Variance $	Variance %
Consolidated statements of income				
Revenues	**581,576**	588,740	(7,164)	(1.2)
Margin[1]	**14,030**	13,833	197	1.4
Net income (loss)	**5,168**	(1,800)	6,968	387.1
Basic earnings (loss) per share	**0.14**	(0.08)	0.22	275.0
Diluted earnings (loss) per share	**0.13**	(0.08)	0.21	262.5
Consolidated statements of cash flows				
Operating activities	**65,119**	53,399	11,720	21.9
	As at January 31, 2006	As at October 31, 2005		
Consolidated balance sheets				
Cash and cash equivalents	**195,365**	293,495	(98,130)	(33.4)
Cash and cash equivalents in trust or otherwise reserved	**202,201**	182,268	19,933	10.9
	397,566	475,763	(78,197)	(16.4)
Total assets	**918,566**	949,537	(30,971)	(3.3)
Debt (short term and long term)	**93,724**	106,769	(13,045)	(12.2)
Total debt[1]	**427,483**	463,382	(35,899)	(7.7)
Net debt[1]	**232,118**	169,887	62,231	36.6

[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 (obligations under capital leases and debentures) and off-balance sheet arrangements presented on p. 10.

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 the leading airline company in Canada specializing in international charter services, 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 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 airline. In addition, we have a solid foundation in France as a vertically integrated outgoing tour operator. We have developed a number of solid brands and we offer a large number of international destinations from both Canada and Europe. Over time, we aim to expand our business in other countries where we believe there is high growth potential for an integrated player specializing in holiday travel, namely 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, particularly 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 three-month period ended January 31, 2006, the Corporation carried out business acquisitions, which were accounted for using the purchase method.

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

During the first quarter of 2006, the Corporation acquired the assets, via Trip Central, of four Ontario travel agencies for a total consideration of $0.8 million. Of that amount, $0.2 million was paid in cash on the acquisition dates, with the $0.6 million balance payable in instalments over periods ranging from three to five years. The results of these agencies have been consolidated as of their respective acquisition dates.

These transactions resulted in a $4.6 million increase in recognized goodwill.

CONSOLIDATED OPERATIONS

Revenues

For the quarter ended January 31
[in thousands of dollars]

	2006 $	2005 $	Variance $	Variance %
Revenues	**581,576**	588,740	(7,164)	(1.2)

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

The $7.2 million decline in revenues compared with the first quarter of 2005 is mainly attributable to the Canadian dollar's appreciation against the euro, which was however partly offset by a 3.4% rise in the number of travellers. This increase resulted from a 1.9% rise in the number of travellers in North America and an 18.5% rise in the number of travellers in Europe.

Operating expenses

For the quarter ended January 31
[in thousands of dollars]

	2006 $	2005 $	Variance $	Variance %
Direct costs	**307,416**	319,408	(11,992)	(3.8)
Salaries and employee benefits	**63,201**	58,595	4,606	7.9
Aircraft fuel	**46,447**	36,939	9,508	25.7
Commissions	**45,704**	56,620	(10,916)	(19.3)
Aircraft maintenance	**19,355**	21,310	(1,955)	(9.2)
Airport and navigation fees	**13,022**	13,605	(583)	(4.3)
Aircraft rental	**12,315**	12,999	(684)	(5.3)
Other	**60,086**	55,431	4,655	8.4
Total	**567,546**	574,907	(7,361)	(1.3)

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

Overall, our operating expenses fell $7.4 million for the first quarter of 2006 compared with the corresponding quarter of 2005.

Direct costs were down 3.8%, primarily due to the Canadian dollar's strength.

Salaries and employee benefits grew 7.9% as a result of our 2005 acquisitions and increased business activity.

Aircraft fuel costs were up 25.7% as a result of higher fuel prices.

The 19.3% decline in commissions was mainly attributable to a drop in our tour operator Nolitours' commission rate following the review of our pricing policy and distribution approach, as well as to the strength of the Canadian dollar against the euro.

Aircraft maintenance costs fell 9.2% due to the Canadian dollar's strength against the U.S. dollar.

The increase in other expenses stemmed mainly from higher marketing expenses related to the promotion of our brands and, more specifically, Nolitours, as well as from an increase in IT costs.

Geographic Business Areas

North America

For the quarter ended January 31
[in thousands of dollars]

	2006 $	2005 $	Variance $	Variance %
Revenues	**510,680**	506,030	4,650	0.9
Operating expenses	**489,457**	485,420	4,037	0.8
Margins	**21,223**	20,610	613	3.0

Revenues were up in North America, mainly due to a 1.9% increase in travellers. There were pricing pressures during the quarter, which were slightly higher than in the first quarter of 2005. Lower commission fees helped offset the impact of rising fuel costs, resulting in margins of 4.2%, compared with 4.1% for the corresponding period of 2005.

Europe

For the quarter ended January 31
[in thousands of dollars]

	2006 $	2005 $	Variance $	Variance %
Revenues	**70,896**	82,710	(11,814)	(14.3)
Operating expenses	**78,089**	89,487	(11,398)	(12.7)
Margins	**(7,193)**	(6,777)	(416)	(6.1)

In Europe, revenues and operating expenses were down from the corresponding period in 2005. This was mainly due to the Canadian dollar's strong showing against the euro. The effect on revenues of an 18.5% increase in the number of travellers was offset by lower air-only revenues which were insignificant compared with the corresponding quarter of 2005. During 2004, we decided to abandon the air-only market and focus on boosting the sale of packages.

The Corporation's European operations continued to post negative margins. The 6.1% decline in our margin resulted directly from Hurricane Wilma's impact on the Cancun area, which forced us, among other things, to lower our prices to stimulate sales for this destination.

Amortization

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

Amortization was up $0.5 million (6.0%), increasing from $8.7 million to $9.3 million, mainly as a result of a rise in additions to property, plant and equipment in 2005 compared with previous years.

Interest on obligations under capital leases and debentures

Interest on obligations under capital leases and debentures fell $3.6 million (69.4%) from $5.2 million for the quarter ended January 31, 2005 to $1.6 million for the quarter ended January 31, 2006.

This decline was primarily due to interest savings resulting from the redemption of a $10.0 million debenture on November 1, 2005 and by the early redemption of debentures amounting to $21.9 million on January 10, 2005. In addition to the interest expense, this last redemption gave rise to a non-cash charge of $1.7 million attributable to the difference between the par value of the obligation and its carrying amount at the time and a $0.8 million interest penalty.

Interest income

Interest income grew $0.3 million (9.3%) for the quarter ended January 31, 2006, largely due to higher interest rates.

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

The $2.4 million foreign exchange gain on long-term monetary items resulted mainly from favourable foreign exchange rates on our obligations under capital leases.

Share of net income of companies subject to significant influence

Our share of net income of companies subject to significant influence remained steady during the quarter compared with the corresponding quarter in 2005.

Income taxes

Our income tax provision amounted to $3.8 million for the quarter ended January 31, 2006, compared with $3.1 million for the corresponding quarter of the previous year. Excluding the share in net income of companies subject to significant influence, the effective tax rate for the quarter ended January 31, 2006 amounted to 44.7% compared with a very high rate for the same quarter in 2005. These high rates are mostly due to our decision in 2004 to not record tax recoveries on losses incurred by our French operations. In addition, the very high rate for the first quarter ended January 31, 2005 is attributable to the $1.7 million non-cash charge that was recognized subsequent to the January 10, 2005 debenture redemption.

Net income (loss)

As a result of the items discussed in "*Consolidated operations*," net income stood at $5.2 million, or $0.14 per share for the quarter ended January 31, 2006, compared with a net loss of $1.8 million, or $0.08 per share for the corresponding quarter of the previous year. The weighted average number of shares outstanding used to compute the per share amounts stood at 38,201,000 for the current quarter and 34,363,000 for the comparative quarter of 2005.

On a diluted basis, earnings per share amounted to $0.13 for the first quarter of 2006, compared with a loss per share of $0.08 in 2005. The adjusted weighted average number of shares used to compute diluted earnings per share was 38,809,000 for the current quarter and 34,363,000 for the comparative quarter of 2005. *See note 3 to the unaudited consolidated interim financial statements.*

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the quarter ended January 31
[in thousands of dollars]

	2006 **$**	2005 $	Variance $
Cash flows relating to operating activities	**65,119**	53,399	11,720
Cash flows relating to investing activities	**(7,874)**	(5,645)	(2,229)
Cash flows relating to financing activities	**(135,442)**	(17,217)	(118,225)
Net change in cash and cash equivalents	**(78,197)**	30,537	(108,734)

As at January 31, 2006, cash and cash equivalents amounted to $195.4 million, compared with $293.5 million as at October 31, 2005. Cash and cash equivalents in trust or otherwise reserved stood at $202.2 million at the end of the first quarter of 2006 compared with $182.3 million as at October 31, 2005. Our balance sheet reflects working capital of $107.7 million, or a current ratio of 1.2, compared with working capital of $225.8 million and a current ratio of 1.6 as at October 31 2005. For our French operations, we also have access to undrawn lines of credit amounting to €11.8 million ($16.4 million).

Total assets were down $31.0 million (3.3%) from $949.5 million on October 31, 2005 to $918.6 million on January 31, 2006. This was mainly attributable to a $98.1 million decrease in cash and cash equivalents subsequent to a share repurchase requiring a $125.0 million disbursement. This decline was offset by increases of $19.9 million in cash and cash equivalents in trust or otherwise reserved and $54.1 million in prepaid expenses due to expanding business activity. Shareholders' equity was down $120.0 million from $362.3 million as at October 31, 2005 to $242.3 million as at January 31, 2006. This decline stemmed mainly from the January 3, 2006 share repurchase.

Operating activities

During the first quarter, operating activities generated cash flows totalling $65.1 million, or $11.7 million more than in the first quarter of fiscal 2005. This increase was mainly attributable to the net change in deposits, costs and provision for engine and airframe overhaul, which resulted from greater disbursements in the first quarter of 2005 than in the current quarter.

Investing activities

Cash flows used in investing activities amounted to $7.9 million during the quarter compared with $5.6 million in the corresponding quarter of 2005. The $2.2 million increase was primarily due to higher considerations paid for business acquisitions in the current quarter than in the corresponding quarter of 2005.

Financing activities

Cash flows used for financing activities totalled $135.4 million for the quarter, up $118.2 million from the same quarter in 2005, as a result of the January 3, 2006 share repurchase, which gave rise to a $125.0 million disbursement.

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 January 31, 2006. These obligations amounted to $93.7 million as at January 31, 2006 and $106.8 million as at October 31, 2005.

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

- Guarantees
- Operating leases

Off-balance sheet debt that can be estimated was approximately $333.8 million as at January 31, 2006 ($356.6 million as at October 31, 2005) and is detailed as follows:

	As at January 31, 2006 $	As at October 31, 2005 $
Guarantees		
Irrevocable letters of credit	**18,771**	17,238
Security contracts	**825**	1,260
Operating leases		
Commitments under operating leases	**314,163**	338,115
	333,759	356,613

Guarantees are required in the normal course of business in the travel industry to provide indemnifications and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and security contracts. Thus far, Transat has made no significant payments under such guarantees. Operating leases are entered into to enable us to lease certain items, rather than acquiring them.

We believe that the Corporation will be able to meet its obligations from existing funds, operating cash flows and borrowings under existing credit facilities.

Debt levels

As at January 31, 2006, debt levels were down from the previous quarter.

Our balance sheet debt fell $13.0 million from $106.8 million to $93.7 million, and our off-balance sheet debt declined $22.9 million from $356.6 million to $333.8 million, resulting in a total debt reduction of $35.9 million compared with October 31, 2005. This reduction stemmed primarily from the $10.0 million debenture repayment on November 1, 2005.

Net of cash and cash equivalents, net debt increased 36.6% from $169.9 million on October 31, 2005 to $232.1 million on January 31, 2006, as a result of drawing on our cash and cash equivalent surpluses for the January 3, 2006 share repurchase.

Outstanding shares

As at January 31, 2006, there were three authorized share classes: 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 do not carry any voting rights and are issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions that are set 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 of at least $17.50 per share but no more than $20.00 per share for a maximum total consideration of $125 million. This offer expired on December 22, 2005.

In accordance 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 January 31, 2006, there were 5,343,690 Class A Variable Voting Shares and 28,384,327 Class B Voting Shares.

SUBSEQUENT EVENT

On March 13, 2006, the Corporation announced that it will acquire Thomas Cook Travel Limited, a Canadian travel agency network, for a consideration of $7.4 million.

OUTLOOK

In our 2005 Annual Report, we predicted that 2006 winter demand would be similar to the 2005 demand in North America. However, we now anticipate that overall winter demand will be slightly higher than in 2005. However, heightened competition and market capacity are expected to narrow our margins in the next quarter.

In Europe, winter reservations continue to grow from our 2005 levels, and we expect a positive margin in the next quarter.

Although it is still early, preliminary 2006 summer data, when compared with the 2005 season, point to a decrease in reservations in North America and an increase in reservations in Europe.

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]

	As at January 31, 2006 (Unaudited) $	As at October 31, 2005 (Audited) $
ASSETS		
Current assets		
Cash and cash equivalents	**195,365**	293,495
Cash and cash equivalents in trust or otherwise reserved *[note 2]*	**202,201**	182,268
Accounts receivable	**67,488**	69,611
Future income tax assets	**815**	70
Inventories	**6,328**	7,524
Prepaid expenses	**94,705**	40,576
Current portion of deposits	**25,593**	29,259
Total current assets	**592,495**	622,803
Deposits	**23,852**	24,127
Future income tax assets	**6,398**	5,106
Property, plant and equipment	**189,071**	195,131
Goodwill	**98,074**	93,741
Other assets	**8,676**	8,629
	918,566	949,537
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**194,612**	193,277
Income taxes payable	**2,582**	4,763
Customer deposits and deferred income	**281,586**	182,752
Debenture	**—**	10,000
Current portion of obligations under capital leases	**6,011**	6,199
Total current liabilities	**484,791**	396,991
Obligations under capital leases	**84,557**	87,414
Debenture	**3,156**	3,156
Provision for engine and airframe overhaul in excess of deposits	**67,443**	63,809
Non-controlling interest and other liabilities	**30,770**	30,833
Future income tax liabilities	**5,555**	5,051
	676,272	587,254
Shareholders' equity		
Share capital *[note 3]*	**150,831**	179,438
Retained earnings	**92,381**	183,718
Contributed surplus	**710**	531
Warrants	**1,183**	1,187
Deferred translation adjustments	**(2,811)**	(2,591)
	242,294	362,283
	918,566	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 January 31	2006 $	2005 $
Revenues	**581,576**	588,740
Operating expenses		
Direct costs	**307,416**	319,408
Salaries and employee benefits	**63,201**	58,595
Aircraft fuel	**46,447**	36,939
Commissions	**45,704**	56,620
Aircraft maintenance	**19,355**	21,310
Airport and navigation fees	**13,022**	13,605
Aircraft rent	**12,315**	12,999
Other	**60,086**	55,431
	567,546	574,907
	14,030	13,833
Amortization	**9,270**	8,743
Interest on obligations under capital leases and debentures	**1,606**	5,248
Other interest and financial expenses	**397**	374
Interest income	**(3,420)**	(3,130)
Foreign exchange (gain) loss on long-term monetary items	**(2,360)**	1,607
Share of net income of companies subject to significant influence	**(195)**	(176)
	5,298	12,666
Income before the following items	**8,732**	1,167
Income taxes (recovery)		
Current	**4,466**	2,668
Future	**(653)**	444
	3,813	3,112
Income (loss) before non-controlling interest in subsidiaries' results	**4,919**	(1,945)
Non-controlling interest in subsidiaries' results	**249**	145
Net Income (loss) for the period	**5,168**	(1,800)
Basic earnings (loss) per share	**0.14**	(0.08)
Diluted earnings (loss) per share	**0.13**	(0.08)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[In thousands of dollars] [Unaudited]

Three (3) months ended January 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 (loss) for the period	**5,168**	(1,800)
Premium paid on share repurchase *[note 3]*	**(96,197)**	—
Share repurchase costs, net of related income taxes of $145	**(308)**	—
Interest on equity component of debentures – net of related income taxes of $364	**—**	(778)
Retained earnings, end of period	**92,381**	144,895

See accompanying notes to consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of dollars] [Unaudited]

Three (3) months ended January 31	2006 $	2005 $
OPERATING ACTIVITIES		
Net income (loss) for the period	**5,168**	(1,800)
Items not involving an outlay (receipt) of cash		
Amortization	**9,270**	8,743
Foreign exchange (gain) loss on long term monetary items	**(2,360)**	1,607
Share of net income of companies subject to significant influence	**(195)**	(176)
Non-controlling interest in subsidiaries' results	**(249)**	(145)
Future income taxes	**(653)**	444
Interest on debentures	**—**	1,807
Compensation expense related to stock option plan	**179**	87
Operating cash flow	**11,160**	10,567
Net change in non-cash working capital balances related to operations	**50,325**	50,439
Net change in deposits, expenses and provision for engine and airframe overhaul	**3,634**	(7,607)
Cash flows relating to operating activities	**65,119**	53,399
INVESTING ACTIVITIES		
Increase in deposits	**(192)**	(2,593)
Additions to property, plant and equipment	**(2,865)**	(7,703)
Disposal of property, plant and equipment	**—**	5,001
Net change in other assets	**(329)**	(383)
Repayment of deposits	**69**	132
Cash and cash equivalents from acquired business	**—**	1,374
Consideration paid for acquired businesses *[note 4]*	**(4,557)**	(1,473)
Cash flows relating to investing activities	**(7,874)**	(5,645)
FINANCING ACTIVITIES		
Repayment obligations under capital leases	**(865)**	(3,533)
Proceeds from issue of shares	**192**	4,752
Share repurchase	**(125,000)**	—
Share repurchase costs	**(453)**	—
Repayment of debentures	**(10,000)**	(21,865)
Net change in other liabilities	**684**	3,429
Cash flows relating to financing activities	**(135,442)**	(17,217)
Net change in cash and cash equivalents for the period	**(78,197)**	30,537
Cash and cash equivalents, beginning of period	**475,763**	468,553
Cash and cash equivalents, end of period	**397,566**	499,090

See accompanying notes to consolidated interim financial statements.

Notes to Consolidated Interim Financial Statements

[The amounts are expressed in thousands, except for common shares, 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 January 31, 2006, cash and cash equivalents in trust or otherwise reserved included $165,951 [$140,675 as at October 31, 2005] in funds received from customers for services not yet rendered and $36,250 [$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 automatically 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:

For the quarter ended January 31 **[in thousands of dollars]**	Number of shares \#	Amount $
Common shares		
Balance as at October 31, 2005	40,156,450	179,438
Issued from treasury	8,550	140
Exercise of options	4,691	41
Exercise of warrants	1,625	15
Repurchase of shares	(6,443,299)	(28,803)
Balance as at January 31, 2006	33,728,017	150,831

As at January 31, 2006, the number of Class A Shares and Class B Shares amounted to 5,343,690 and 28,384,327 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
Exercised	(4,691)	8.79
Cancelled	(39,154)	6.25
Balance as at January 31, 2006	752,224	10.94
Exercisable options as at January 31, 2006	353,848	10.47

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

c) Warrants

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

d) Earnings per share

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

[In thousands, except amounts per share]

For the quarter ended January 31 **[in thousands of dollars]**	**2006** **$**	2005 $
NUMERATOR		
Net income (loss)	**5,168**	(1,800)
Interest on convertible debentures	**—**	(778)
Income (loss) attributable to voting shareholders and used to calculate diluted earnings per share	**5,168**	(2,578)
DENOMINATOR		
Weighted average number of outstanding shares	**38,201**	34,363
Effect of dilutive securities		
Stock options	**349**	—
Warrants	**259**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,809**	34,363
Basic earnings (loss) per share	**0.14**	(0.08)
Diluted earnings (loss) per share	**0.13**	(0.08)

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

Convertible debentures, debentures that may be settled in Class B Shares and warrants were excluded from the computation of diluted loss per share for the three-month period ended January 31, 2005 because of their antidilutive effect. The potential impact of these securities on the denominator is 6,514,000 shares. Given the loss recorded for the three-month period ended January 31, 2005, the 1,055,045 stock options outstanding were excluded from the computation of diluted earnings per share because of their antidilutive effect.

Note 4 Business acquisitions

During the year, 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 first quarter of 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 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 three-month period ended January 31, 2006.

	Employee termination costs $	Contract termination $	Other $	$
Balance as at October 31, 2005	1,826	1,118	236	3,180
Cash drawdowns	**293**	**—**	**39**	**332**
Foreign currency changes	**4**	**20**	**4**	**28**
Balance as at January 31, 2006	**1,529**	**1,098**	**193**	**2,820**

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.

For the quarter 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
Amortization	8,558	712	9,270
Additions to property, plant and equipment	2,756	109	2,865
Property, plant and equipment and goodwill [1]	231,498	55,647	287,145

For the quarter ended January 31, 2005

	North America $	Europe $	Total $
Revenues	506,030	82,710	588,740
Operating expenses	485,420	89,487	574,907
	20,610	(6,777)	13,833
Amortization	7,883	860	8,743
Additions to property, plant and equipment	7,315	388	7,703
Property, plant and equipment and goodwill [2]	234,882	53,990	288,872

[1] As at January 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.

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

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 $18,771 as at January 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 $825 as at January 31, 2006. Historically, the Corporation has not made any significant payments under such agreements.

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

Note 8 **Subsequent event**

On March 13, 2006, the Corporation announced that it will acquire Thomas Cook Travel Limited, a Canadian travel agency network, for a consideration of $7,400.