Annual Report 2004

Transat A.T. Inc.

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel. The core of its business consists of tour operators in Canada and France. Transat is also involved in air transportation and value-added services at travel destinations. Finally, Transat has secured a dynamic presence in distribution through travel agency networks.

Above all, Transat has a dedicated team of thorough and efficient people who deliver quality vacation travel services at affordable prices to a broad clientele. Already recognized as a leader in Canada, Transat seeks to maintain its position as a major player in the holiday travel industry in North America and Europe by continuing to make travellers its number one priority.

Highlights

- A record year for revenues and margins thanks to a successful reorganization within the Corporation and reduced operating costs in Canada.
- Simplification of the Air Transat fleet, which now comprises 14 wide-bodied aircraft.
- At the beginning of fiscal 2005, Air Transat's flights and operations were transferred from Montréal-Mirabel airport to new facilities at Montréal-Trudeau.
- A significantly larger stake in two incoming tour operators, Jonview Canada and Tourgreece.
- A new strategic orientation and management team for Look Voyages, which continues to recover.

(in thousands of dollars except amounts per share)	**2004**	2003
Revenues	**2,199,822**	2,096,649
Income (loss) (continuing operations)	**72,451**	(9,147)
Diluted earnings (loss) per share (continuing operations)	**1.76**	(0.38)
Cash and cash equivalents	**468,553**	349,125
Cash flows relating to operating activities (continuing operations)	**185,100**	71,697

Why take vacations?

To build the sand castle of your dreams – get
all – discover the spicy aromas of Jamaican cuis
dream – fill up on sun and surf – get to know
enchanted by Sandrine – tune out – take all day
at all – go where nobody knows your name – le
a halt – linger in the streets of Havana – laze i
the palm trees – change your pace – capture
London – leave the snow angels behind…

Air transportation
Lodging
Services at destinations

Tour operators

Packages

Distribution networks

Customers

Air Consultants Europe B.V.
air transat
AURATOURS VACANCES
BROK•air
CAMELEON HOTELS AND RESORTS
club voyages
exitnow.ca
HANDLEX
JONVIEW CANADA
KILOMETRE VOYAGES
LOOK VOYAGES
NOLITOUR VACANCES
rêvatours
TOURGREECE
TRAFIC DE MEXICO S.A. DE C.V. TOURS
transat HOLIDAYS
transat HOLIDAYS USA
travel plus
VOYAGES EN LIBERTÉ
WORLD OF VACATIONS

t away from it
sine – live your
Ernesto and be
y to do nothing
et time slow to
n the shade of
e the Tower of

Whether on your own, as a couple, with family or with friends, vacations are as varied as the people who take them. Serving some 90 destinations worldwide, Transat has been fulfilling travellers' expectations for nearly 20 years.

Message to shareholders

Jean-Marc Eustache
Chairman of the Board, President and Chief Executive Officer

A record year for Transat

In the world of international tourism, 2004 was characterized by the highly anticipated return of vigorous growth. This turnaround was borne out by an increase of almost 10% in the number of tourist arrivals according to the World Tourism Organization, compared with less than 1% for the last three years. Indeed, Transat enjoyed a banner year and recorded the best financial results in its history. Our solid performance was due not only to the resurgence in tourism, particularly during the winter season, but also to the many benefits we have reaped from major organizational changes over the past three years.

In today's highly competitive tourist market, we continue to face significant challenges, including international conflicts, terrorism, oil price fluctuations and our vulnerability to the real and perceived risks of epidemics, such as the Severe Acute Respiratory Syndrome ("SARS") crisis in 2003. Seen in that light, our 2004 performance is all the more impressive, fuelled primarily by three underlying factors: our new organizational structure; the cost savings we have realized; and the renewed team spirit of our employees on both sides of the Atlantic, as reflected in the importance that Transat ascribes to efficiency, teamwork and client service.

Transat is maintaining its leading position in the Canadian travel industry.

We will stay the course, both in North America and Europe. Solidly established as one of the world's largest vertically integrated tourism companies specializing in holiday travel packages, Transat seeks to continue its expansion on both sides of the Atlantic.

Canada: an exceptional year

In Canada, the primary activities of Transat Holidays and World of Vacations/ Nolitour – our main outgoing tour operators – and the commercial activities of Air Transat were integrated under the Transat Tours Canada banner. Consequently, we have gained inventory and marketing flexibility while reducing our operating costs, thanks to centralized support functions. Whereas our approach was once focused on coordinating several profit centres, Transat Tours Canada has enabled us to devise an organic strategy driven by twin goals: greater efficiency and better business performance. This new structure was a major contributing factor to our improved financial results in Canada.

As regards air transport, Air Transat has streamlined its fleet, which now exclusively consists of 14 wide-bodied Airbus aircraft. This move facilitated the large-scale cost reduction efforts we have pursued relentlessly for the past three years – efforts that produced such excellent results in 2004. In addition, Air Transat has made a number of modifications and improvements to its in-flight service, with travellers continuing to express a high level of satisfaction. In November 2004, as expected and following an agreement entered into with Aéroports de Montréal, Air Transat transferred all of its flights from Montréal-Mirabel airport to Montréal-Trudeau airport, in Dorval, where we have new facilities. By every measure, Air Transat remains the leading charter carrier in Canada. (Transat utilizes approximately 85% of Air Transat's capacity, with the remainder offered to other tour operators.)

We are quite happy with the results of the first year of the agreement we signed with Canada's WestJet Airlines Ltd. ("WestJet") in 2003. WestJet provides us with smaller aircraft (Boeing 737s), enabling us to serve medium-size Canadian cities that were virtually impossible for us to serve profitably and directly with our wide-bodied jets. In keeping with our strategy to increase our Ontario market share, this agreement has opened up a number of new avenues for us.

Together with a minority shareholder, we completed our acquisition of Jonview Corporation, purchasing the remaining 50% of the company's equity in April 2004. We also integrated DMC Transat – our incoming tour operator – under the Jonview Canada banner during the past year.

This transaction speaks eloquently to the importance we continue to ascribe to vertical integration and international prominence. We are building an organization capable of designing, overseeing, marketing and distributing our primary product – holiday package tours. Furthermore, we believe deeply in the strategic and commercial benefits of our international (particularly trans-Atlantic) platform, which will enable us to diversify our client base, optimize our capacity (especially air capability) and capitalize on market cycles.

In 2004, we successfully completed two initiatives we began in 2003: deploying our new branding and refining our distribution activities. As regards distribution, we are working on two related goals: increasing the number of travel agencies under our control and introducing online solutions.

Europe: slower-than-expected recovery in France

In France, our tour operator, Vacances Transat (France), had a good year and is efficiently pursuing diversification with respect to destinations and airline partners while enjoying greater prominence as a specialized long-haul carrier.

Clearly, our priority remains Look Voyages' slower-than-expected recovery, with losses recorded once again in 2004. Two years of efforts culminated in the July 2004 announcement of a three-point repositioning plan.

Firstly, we have abandoned a number of non-strategic activities, most notably the marketing of air-only travel, which at one time represented a significant portion of Look Voyages' product line. Secondly, we have refocused on our core mission, i.e., holiday package tours. In this respect, Look Voyages can draw on recognized products, including the Lookéa Clubs (holiday resorts featuring on-site entertainment) and Lookéko Hotels. Thirdly, we are aiming for an expanded and more sophisticated use of online technologies to boost sales among consumers as well as travel agencies. Look Voyages is well placed in this regard, thanks to its excellent branding in France.

Transat A.T. Inc. Board Committee Chairmen
Jean-Marc Eustache, *Chairman of the Board, President and Chief Executive Officer*
H. Clifford Hatch Jr., *Chairman Corporate Governance and Nominating Committee*
Jean Guertin, *Chairman Human Resources and Compensation Committee*
André Bisson, O.C., *Chairman Audit Committee*

Europe remains promising, and Transat has the resources to capitalize on this market potential as demand continues to materialize. In summertime, Air Transat serves some 30 destinations in 11 European countries, which should give rise to synergies, particularly with our Jonview Canada product lines. In November 2004, we acquired a majority stake in Air Consultants Europe ("ACE"), based in The Hague. ACE has been Air Transat's exclusive commercial representative in Germany and the Netherlands since 1991, and more recently in Belgium and in Luxembourg. Thanks to this acquisition, we will be able to expand and better manage our European distribution network.

In June, we increased our 50% stake in Athens-based incoming tour operator Tourgreece to 90%. We have an 18-year business relationship with this company.

Overview of 2004 results

Transat recorded solid results during the winter of 2004, with more than $1.2 billion in revenues and $96.3 million in margins. This was primarily due to our activities in the Canadian market and more specifically to a combination of factors: a modest increase in the number of travellers (the impact of which was tempered by reduced sales to external tour operators); an increase in our prices; and, perhaps most importantly, the organizational changes and cost reductions we have implemented.

The summer season also featured a higher number of travellers in Canada. This increase was much more significant than that of the previous summer, when the industry was hit hard by SARS. Our summer revenues reached $967 million, while margins totalled $67.5 million.

In Europe, although expenses decreased, so did revenues, resulting in losses despite an increase in the number of travellers.

For the year as a whole, we recorded total revenues of $2.2 billion. Our margin of $163.8 million was more than double that of 2003. Net income before the restructuring charge amounted to $83.8 million ($2.41 per share), which is comparable to income from continuing operations of $22.2 million before the restructuring charge in 2003. Net income totalled $72.5 million, or $2.07 per share, compared with $44.9 million ($1.27 per share) in 2003.

Outlook

Overall, 2004 was a record-breaking year with respect to revenues, margins and net income. Moreover, we finished the year with reduced debt levels and an exceptional balance sheet.

This performance is all the more remarkable considering that the number of travellers has yet to reach pre-September 11 levels and selling prices are lower than they used to be. In addition, oil prices are relatively high and Look Voyages is still in the red.

In the French market, with the plan we are implementing, we should trim our losses by 50% in 2005 and achieve profitability by the end of the second half of 2006. Clearly, we are very well positioned to maintain our momentum in Canada, provided that market conditions remain stable or improve. Nevertheless, we are still faced with numerous challenges: competition is cut-throat, most reservations are last-minute (i.e., one to six weeks prior to departure) and oil prices are very high. In this context, dynamic management of our capacity, inventories and selling prices will be the cornerstone of our future performance.

Successful reinvention

Even though the past two years have been marked by change, this year's results are much more encouraging than last year's. Of course, much remains to be done, particularly with respect to Look Voyages. It is also clear that as soon as one set of challenges is resolved, new ones crop up. That is why the values we have adopted – efficiency, teamwork and customer orientation – will continue to guide our hand. Indeed, they are the primary guarantors of our future success.

In August, we announced the appointment of Nelson Gentiletti as Executive Vice-President of Transat Tours Canada, in keeping with Transat's succession plan. During the past two years, Mr. Gentiletti has demonstrated remarkable management skills while acquiring extensive knowledge of the tourist industry. Mr. Gentiletti will continue to serve as Vice-President, Finance and Administration and Chief Financial Officer until a new person is appointed.

Air Consultants Europe – Air Transat – Auratou
Consultour – exitnow.ca – Handlex – Jonview Can
Vacances – Rêvatours – Tourgreece – Trafic To
TravelPl – Vacan s Tra at (Fra e) – ages

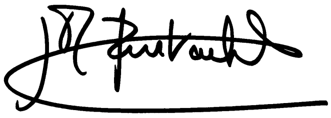
In October, we announced the appointment of Olivier Kervella as General Manager of Look Voyages. Mr. Kervella joined our ranks in 1999 and was actively involved in the launch of Anyway.com, which was subsequently sold. Mr. Kervella has devoted his career to the travel industry and has proved that business development and financial performance can go hand in hand. Look Voyages will undoubtedly benefit from his skills, dynamic style and broad knowledge of distribution networks.

Conclusion

As a natural extension of Transat's business activities, our community initiatives aim to improve the quality of life for our employees, clients and shareholders. As part of our donation and sponsorship program, Transat provides financial and logistical support to a variety of healthcare and educational institutions, as well as cultural and international development organizations.

I would like to thank all of our staff members as well as all those who share the values and forward-looking vision we espouse. I am also grateful to our Directors for their loyalty and valued contributions.

Jean-Marc Eustache



Chairman of the Board,
President and Chief Executive Officer
February 2, 2005

The Board of Directors of Transat A.T. Inc. *(from left to right)*
Jacques Simoneau, Dennis Wood, Jean-Marc Eustache, Helen K. Sinclair, Benoît Deschamps,
Lina De Cesare, H. Clifford Hatch Jr., André Bisson, O.C., Philippe Sureau, Jean Guertin and John D. Thompson

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 year ended October 31, 2004, compared with October 31, 2003, and should be read in conjunction with the audited consolidated financial statements and notes thereto beginning on page 49. The information contained herein is dated as of January 12, 2005. You will find more information about us, including our Annual Information Form for the year ended October 31, 2003, 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.

Financial highlights

Years ended October 31 (in thousands of dollars, except amounts per share)	**2004** **$**	2003 $	Variance $	Variance %
Consolidated statements of income				
Revenues	**2,199,822**	2,096,649	103,173	4.9
Margin [1]	**163,755**	74,962	88,793	118.5
Gain on disposal of Anyway, net of related taxes of $18,775	**N/A**	53,101	N/A	N/A
Restructuring charge	**11,350**	47,972	N/A	N/A
Income (loss) (continuing operations)	**72,451**	(9,147)	81,598	892.1
EPS (LPS) – basic (continuing operations)	**2.07**	(0.38)	2.45	644.7
EPS (LPS) – diluted (continuing operations)	**1.76**	(0.38)	2.14	563.2
Consolidated balance sheets				
Cash and cash equivalents	**310,875**	242,952	67,923	28.0
Cash in trust or otherwise reserved	**157,678**	106,173	51,505	48.5
	468,553	349,125	119,428	34.2
Debt (short term and long term)	**30,792**	65,331	(34,539)	(52.9)
Total debt [1]	**534,324**	595,249	(60,925)	(10.2)
Net debt [1]	**223,449**	352,297	(128,848)	(36.6)
Consolidated statements of cash flows				
Operating activities (continuing operations)	**185,100**	71,697	113,403	158.2

[1] *NON-GAAP FINANCIAL MEASURES*

The terms "margin," "total debt" and "net debt" do not have any 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 as measures of 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 Consolidated 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, obligations under capital leases and debentures) and off-balance sheet arrangements presented on p. 36.

Net debt is used by management to assess its liquidity position. It is represented by total debt (as discussed above) less cash and cash equivalents that are not in trust or otherwise reserved as shown in note 4 to the audited Consolidated Financial Statements.

Caution regarding forward-looking statements

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. You will find elsewhere in our MD&A certain risks and uncertainties affecting us. 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.

The MD&A is divided into the following sections:

Overview

describes the holiday travel industry in general as well as our business, our vision and our strategies and objectives, along with the performance drivers and resources required to successfully implement these strategies and achieve our objectives.

Consolidated operations

provides information and analysis about our performance in 2004 compared with our 2004 objectives and with actual 2003 results.

Liquidity and capital resources

describes the source and use of our funds in 2004 compared with 2003 and how we manage our financial condition and capital resources.

Other

discusses the normal course issuer bid launched in June 2004, the investigation findings and recommendations related to Air Transat Flight TS 236, events subsequent to October 31, 2004, and recent nominations.

Accounting

discusses the financial instruments and the critical accounting estimates used by our Corporation, the accounting changes made to our accounting policies in 2004 and the future accounting changes required in 2005.

Risks and uncertainties

provides an overview of the key risks and uncertainties that could affect us.

Outlook

provides a discussion of the future prospects for Transat in fiscal 2005.

The holiday travel industry

The holiday travel industry is composed mainly of tour operators, travel agencies (traditional and online) and air carriers serving the holiday travel market through a combination of scheduled and charter air services. According to the World Tourism Organization, there were approximately 760 million international tourist arrivals worldwide in 2004 and this number could reach one billion by 2010.

Tour operators specialized in outgoing services purchase the various components of a trip and sell them to the consumer through the services of travel agencies, either as a travel package or separately. Certain tour operators specialize as incoming tour operators, making arrangements for foreign tourists at their destinations or bundling certain services as packages to be sold on foreign markets.

Revenue increase for Transat in 2004.

Travel agencies are the intermediary between the tour operator and the consumer. Travel agents meet with, advise and sell to the consumer. Travel agencies sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services. Online travel agencies now offer a large range of travel products by way of transactional websites on the Internet. Currently in both North America and Europe, online travel sales are mostly made up of air-only tickets, with just a small proportion made up of packages (including air and hotel). Sales of online packages, however, are expected to grow.

Air carriers provide their services to travel agencies and tour operators. These carriers are known as "scheduled" when they sell their services directly to the public and travel agencies and as "charter" when they sell their seats in blocks to tour operators.

Core business, vision and strategy

Core business – Transat is one of the largest fully integrated tour operators of international scope in North America. We conduct our activities in a single industry segment, namely holiday travel, and we operate in two geographic areas, specifically Canada and Europe. Transat's core business is based on holiday travel 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 for resale in Canada, France and elsewhere principally through travel agencies, some of which we own. We operate the leading airline company in Canada specializing in charter services. We also operate scheduled flights between Canada and thirteen countries. Additionally, we own a 44.3% stake in a charter airline company in France. We also provide destination and hotel management services.

Vision – The international tourism market is growing and Transat's vision is to maximize shareholder value by being a major player in the holiday travel industry in North America and Europe. We maintain a leadership position in the Canadian market, where we operate as an outgoing and incoming tour operator, as well as being the country's largest charter airline. We also have a solid foundation in France as a vertically-integrated outgoing tour operator. We have developed recognized brands and we offer a large number of international destinations both in Canada and France. Over time, we want to expand our business into other countries where we believe there is high growth potential for an integrated player specializing in holiday travel, namely the United States and additional European countries.

Strategy – Our strategy is focused on three pillars: vertical integration, a core travel package product and geographical expansion.

We have based our development strategy on the vertical integration of the major components of holiday travel. For example, the Corporation's tour operators and travel agencies benefit from the availability of seats on its own air carriers. This strategy encourages synergies, ensures reciprocal loyalty between the levels of operations and permits better quality control of the Corporation's products and services. This also allows us more flexibility to adjust prices, products and services offered by the different levels of operations, thereby enhancing our ability to operate profitably. This strategy has led the Corporation to acquire or invest in outgoing tour operators and travel agencies in Canada and France while continuing its air carrier services, as well as to acquire, invest in or create incoming tour operators and travel services at destination and to create a hotel management subsidiary with the mission to manage hotels based on the needs of the Corporation's tour operators.

We are targeting the international tourism market and our long-term growth strategy involves focusing on our core business: holiday travel and its related products. Although we develop and offer a wide range of products to meet the various expectations of tourists, we place an emphasis on travel packages as the one product family that allows us to fully leverage the benefits we derive from our vertically-integrated structure. For example, we tend to bundle accommodation with airline tickets and to offer packages that include a stay in hotels or resorts we are closely associated with. This strategy has led the Corporation to de-emphasize the sale of air-only products offered by third-party airline carriers.

We plan to expand into new markets and develop existing markets with high profitability potential and to continue to leverage our vertical integration in such markets. This strategy has led us to: i) increase our presence in certain destinations through acquisitions of incoming tour operators; ii) penetrate new Canadian markets through the introduction of airline service in such markets; iii) maintain a focus on increasing the number of travel agencies under our control and develop online marketing solutions.

2005 objectives

The actions taken in fiscal 2004 have set the stage for us to continue to deliver cost reductions, operational efficiencies and profitable products and services. Moreover, given the improved market conditions and the Corporation's financial situation, Transat plans to be back in a growth mode starting in 2005. In that spirit, we have set the following objectives for fiscal 2005:

- **Pursue the execution of the development plan in the context of the overall strategy of Transat.**
  We want to implement an acquisition plan for growing our business in France, in the United States and among our incoming tour operator and destination services businesses on an opportunistic basis.
- **Nurture a corporate culture that will support the business model in the long term.**
  In the wake of the integration achieved at the operational level, we want to crystallize our corporate culture, making sure it reaches every corner of the organization and enhancing our vertically-integrated approach in the long term. Our efforts will include promoting our corporate values (customer focus, teamwork and efficiency); enhancing management's skills; pursuing the development and implementation of our succession plan; developing a corporate Intranet; and continuing to promote the Transat brand.
- **Pursue Internet technology integration into our business model.**
  We believe our future level of competitiveness depends in part on our ability to efficiently bring our products and services to market through technology. In 2005, we want to focus on implementing B2B and B2C technological platforms.
- **Continue to leverage Canadian tour operators.**
  The successful consolidation of our Canadian tour operators and distribution activities under the umbrella of Transat Tours Canada has resulted in better management of our inventory of products, such as airline seats and hotel rooms, resulting in increased operating margins. Over time, these higher margins, coupled with a continued focus on reducing airline-related costs with our simplified fleet, are expected to enhance our profitability. In 2005, we want to focus on increasing our market share in Ontario and to tackle the long-term planning of Air Transat A.T. Inc.'s ("Air Transat") fleet of aircraft.
- **Return Look Voyages to profitability in 2006.**
  We expect to incur reduced losses at Look Voyages in 2005, as we continue to work actively at turning around this European tour operator. During 2004, there was a change in management as well as the introduction of a plan to reposition Look Voyages. The plan included the abandonment of air-only business, the introduction of more packaged products and the elimination of approximately 90 positions. We expect to reach profitability in the latter half of 2006.

Key performance drivers

The following key performance drivers are essential to the successful implementation of our strategy and the achievement of the objectives we set for ourselves.

Market share	Be the leader in Canada in all provinces and increase market share in Ontario, Canada and Europe.
Revenue growth	Grow revenues by approximately 5%, excluding acquisitions.
Margin	Generate margins of between 5% and 7%.

Capability to deliver results

Our capability to deliver on the objectives we set for ourselves is dependent on our financial and non-financial resources, both of which have contributed to the success of our strategies and the attainment of our objectives in the past.

Our financial resources include:

Cash	Our cash balances not held in trust or otherwise reserved, totalling $310.9 million as at October 31, 2004, are strong, and our continued focus on expense reductions is expected to maintain these cash balances at healthy levels.

Our non-financial resources include:

Brand	The Corporation has taken the necessary steps, including a new logo and an integrated branding platform, to create a unique, strong and visible corporate identity across its main business units, in order to maximize customer awareness on both the B2C and B2B markets, fully leverage the contribution of all its business units and create value.
Structure	Our vertically integrated structure enables us to ensure a better quality control of our products and services. In addition, we successfully enhanced our approach to vertical integration in Canada when we created Transat Tours Canada, which has considerably increased our ability to manage inventories and marketing.
Relationship with suppliers	We have exclusive access to certain hotels at sunshine destinations as well as almost 20 years of privileged relationships with many hotels at these destinations and in Europe.
Employees	In recent years we have intensified our efforts towards building a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction, as well as improving the Corporation's efficiency. In addition, we believe the Corporation benefits from strong leadership since its founders are still at the helm, bringing expertise and depth.

Transat has the resources required to meet the objectives it set for itself in 2005 and to continue to build on its long-term strategies.

Comparison of 2004 objectives with 2004 performance

In 2004, Transat set itself various objectives. Listed below are our 2004 objectives along with the actual 2004 performance, which we will discuss in more detail along with our analysis of the 2004 fiscal year throughout the MD&A.

- **Return Look Voyages to profitability in 2005.**
  In July 2004, Transat announced the implementation of a plan to reorganize and reposition Look Voyages. This plan is the latest effort to return this subsidiary to profitability. As a result, we modified our objective related to Look Voyages and believe we will be able to return this subsidiary to profitability beginning in the latter part of fiscal 2006 instead of fiscal 2005.
- **Pursue Internet technology integration into our business model.**
  In 2004, we prepared the plan and set the stage for this integration in 2005.
- **Leverage flexibility gains and continue to lower costs at the airline company.**
  In 2004, we managed to reap the benefits of consolidating our Canadian tour operators. Additionally, we reduced our airline-related costs due to the simplification of our fleet ahead of plan. The combination of these two events helped increase profitability in our Canadian operations.
- **Reposition our brand in the marketplace to support our vertical integration strategy.**
  The launch of our new corporate brand in 2004 facilitated the recognition of our various companies for both our customers and employees. The creation of a unique, strong and visible corporate identity across our main business units, in order to maximize customer awareness on both the B2C and B2B markets, fully leveraged the contribution of all of our business units and created value.
- **Identify growth opportunities in North America and France.**
  We have developed a list of potential growth opportunities in the United States and France, as well as elsewhere in Europe. In 2005, we will begin to implement our acquisition strategy.

Acquisitions

On June 10, 2004, the Corporation acquired an additional 50% stake in Tourgreece S.A. (“Tourgreece”), an incoming tour operator, for a total consideration of 1.8 million euros ($3.0 million) in cash, including 0.2 million euros ($0.4 million) in transaction costs. As a result, the percentage ownership in Tourgreece is 90%. This step acquisition was accounted for using the purchase method and the results have been included in the Corporation’s results since the acquisition date. Previously, the results were recorded under the equity method.

Under the Agreement, the Corporation has a call option related to the acquisition of the balance of shares at any time prior to 2011.

On April 8, 2004 the Corporation completed the acquisition of the remaining 50% stake in Jonview Corporation ("Jonview"), a Canadian incoming tour operator, in partnership with a minority shareholder of Jonview for $12.8 million, including $0.1 million in transaction costs.

A total of $9.6 million was paid at closing with the balance to be paid in cash in three instalments until September 2006. In connection with this transaction, a $3.2 million debenture was issued to the minority shareholder in order to finance a portion of this acquisition.

The transaction was accounted for using the purchase method. The results of Jonview's operations have been included in the Corporation's results since April 8, 2004, the date of acquisition.

Our percentage ownership in Jonview is 80.07% as a result of this transaction.

As a result of these transactions, the goodwill on the balance sheet increased by almost $19.0 million. (See note 15 to the audited Consolidated Financial Statements.)

Geographic business areas

Revenues

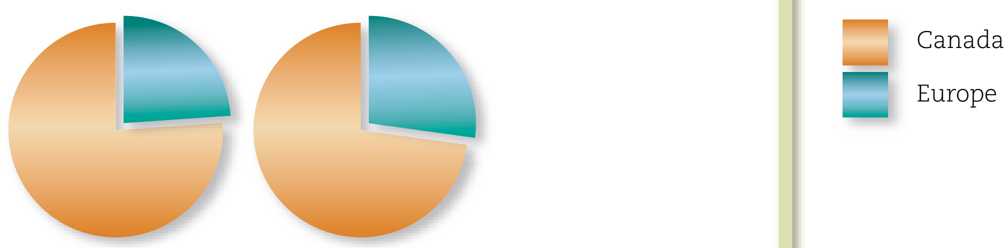
Years ended October 31 (in thousands of dollars)	**2004** **$**	2003 $	Variance $	Variance %
Canada	**1,673,530**	1,525,846	147,684	9.7
Europe	**526,292**	570,803	(44,511)	(7.8)
Total	**2,199,822**	2,096,649	103,173	4.9

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

The overall increase in revenues is due to a 9.7% growth in revenues in Canada, offset by a 7.8% decrease in revenues in our French operations. The terms "travellers" and "passengers" will be used throughout the MD&A to explain these increases and decreases. Basically, tour operators record round-trips in terms of travellers and airlines record flight segments in terms of passengers. The number of travellers increased by 11.1% overall compared with 2003. This increase is the result of an 11.0% increase in Canada and an 11.2% increase in France. In France however, the increase in travellers was offset by a 37.5% decrease in the number of air-only passengers. This decrease in passengers is mainly due to Transat's abandonment of its air-only operations at Look Voyages in accordance with our announced strategy. Increases in prices in Canada also contributed to the increase in revenues.

We expect the overall number of travellers to continue to climb in 2005, resulting in an increase in revenues compared with 2004.

Geographic Segmentation of Revenues (continuing operations)



	2004	2003
Canada	**76.1%**	72.8%
Europe	**23.9%**	27.2%

Operating expenses

Years ended October 31
(in thousands of dollars)

	2004 $	As a % of revenues	2003 $	As a % of revenues	Variance $	Variance %
Direct costs	**1,075,861**	**48.9**	1,023,199	48.8	52,662	5.1
Salaries and employee benefits	**227,626**	**10.4**	228,320	10.9	(694)	(0.3)
Commissions	**179,873**	**8.2**	171,791	8.2	8,082	4.7
Aircraft fuel	**128,112**	**5.8**	137,716	6.6	(9,604)	(7.0)
Aircraft maintenance	**88,684**	**4.0**	112,960	5.4	(24,276)	(21.5)
Aircraft rent	**59,640**	**2.7**	67,988	3.2	(8,348)	(12.3)
Airport and navigation fees	**59,379**	**2.7**	60,382	2.9	(1,003)	(1.7)
Other	**216,892**	**9.9**	219,331	10.4	(2,439)	(1.1)
Total	**2,036,067**	**92.6**	2,021,687	96.4	14,380	0.7

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

The overall growth in our operating expenses is due to a 4.2% increase in expenses in Canada, offset by a 7.9% decrease in expenses in our French operations. These fluctuations are the result of increased business activity in Canada and reduced air-only activity in France.

Approximately 30% of our operating expenses is payable in U.S. dollars. We did not fully benefit from the strengthening Canadian dollar, however, due to our hedging program.

Direct costs include the cost of the various components of a trip to be sold to the consumer through travel agencies and incurred by our tour operators. They include the cost of hotel rooms as well as the cost of blocks of seats or complete flights, mainly from third-party air carriers. In 2004, these costs represented 48.9% of our revenues, which were comparable to 2003. The dollar increases are due to increased business activity and our partnership agreement with WestJet Airlines Ltd. (“WestJet”).

Salaries and employee benefits decreased as a percentage of revenues due to our restructuring efforts undertaken in 2003, which resulted in the termination of over 700 employees.

Commissions include the cost paid by tour operators to travel agencies for their services as intermediaries between them and the consumer. The dollar increase is due to increased business activity.

Aircraft fuel costs decreased both in terms of dollars and as a percentage of revenues. These decreases are due to the retirement of our remaining Lockheed L-1011-500s as part of our 2003 restructuring efforts related to our fleet simplification and to the stronger Canadian dollar, and are offset, in part, by increased business activity and the recent surge in fuel prices.

Aircraft maintenance costs relate mainly to the engine and airframe overhaul expenses incurred by Air Transat. The decreases in both aircraft maintenance and aircraft rent costs compared with 2003 are also due mainly to our 2003 restructuring efforts related to our fleet simplification and the stronger Canadian dollar.

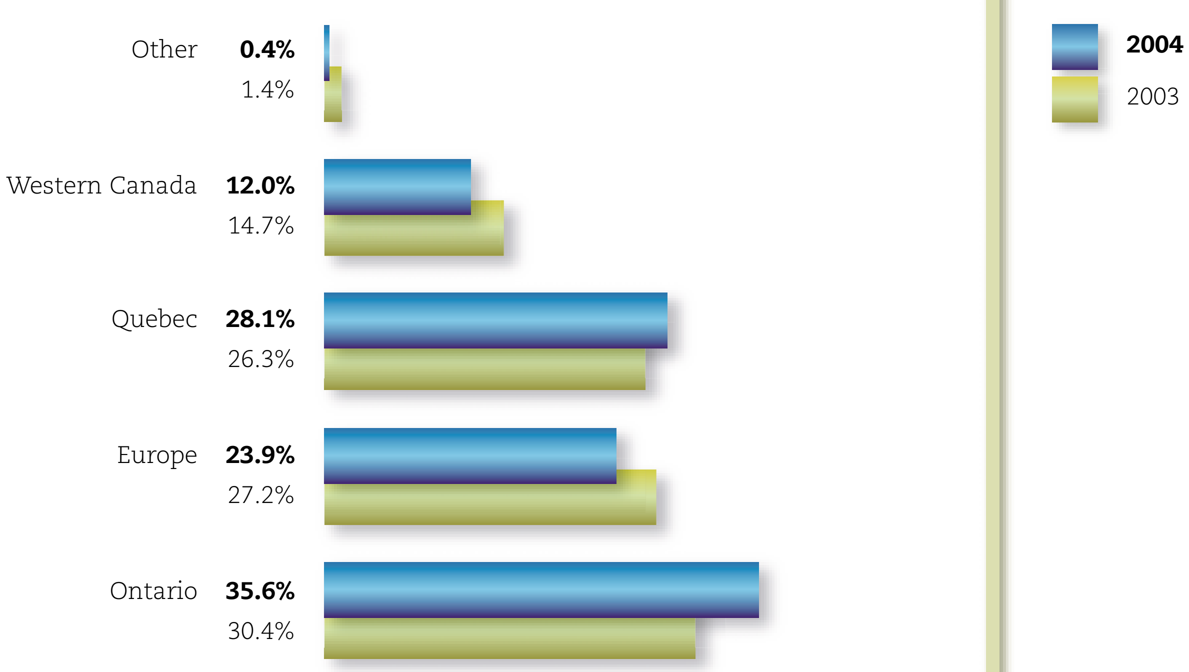
Airport and navigation fees relate mainly to fees charged by airports. The slight decrease is due to our simplified fleet with fewer aircraft compared with 2003, offset by increased landing fees adopted by airports to recover lost revenues due to decreased traffic.

Other expenses included a US$4.6 million ($6.2 million or $3.9 million after-tax) amount paid to the Corporation in August 2004 for the settlement of litigation it was party to through the Air Transport Association of Canada against the U.S. government related to fees paid pursuant to U.S. regulations that were subsequently deemed null and void by the U.S. courts.

Although we expect to continue to incur savings as a result of our restructuring efforts, we expect our overall operating expenses to increase as a result of increased business activity in 2005.

Due to the adoption of Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15 ("AcG-15") "Consolidation of Variable Interest Entities" as of November 1, 2004, aircraft rental costs are expected to decrease by approximately $12.1 million. This Guideline requires us to consolidate certain aircraft financing transactions that were treated as operating leases in fiscal 2004. (See *Future accounting changes*.)

Source of Revenues (continuing operations)



Canada

Winter season

Years ended October 31 (in thousands of dollars)	**2004** **$**	2003 $	Variance $	Variance %
Revenues	**993,373**	976,336	17,037	1.7
Operating expenses	**884,185**	921,857	(37,672)	(4.1)
Margin	**109,188**	54,479	54,709	100.4
Margin (%)	**11.0**	5.6	5.4 ppt*	96.4

** ppt: percentage point*

In Canada, revenues increased slightly in the 2004 winter season compared with the corresponding season in 2003. This increase is due to an increase in the number of travellers by 5.3% compared with the corresponding season in 2003, offset by a reduction in sales made to external tour operators (i.e., tour operators outside the Transat group of companies). Demand was strong for destinations to the Caribbean, Europe and Florida. Higher prices also contributed to these increases.

The restructuring efforts undertaken in 2003 were felt in the current winter season. The consolidation of the Canadian tour operators and distribution activities resulting in a better management of airline seats and hotel rooms, combined with a better utilization of our aircraft, along with reduced expenses and increased demand by travellers, led to improved margins. For the 2004 winter season, our margins increased to 11.0% compared with 5.6% in the corresponding season in 2003.

During the 2004 winter season, Air Transat served over 50 destinations in 25 countries, flying primarily to southern or other sunshine destinations. In the summer, Air Transat shifts more of its capacity to Europe, while maintaining flights to southern destinations. In 2004, Air Transat offered direct flights to some 30 cities in 11 countries in Europe.

In accordance with an agreement reached in January 2004 between Transat and Aéroports de Montréal, Air Transat moved all its Montreal flights from Montréal-Mirabel to Montréal-Trudeau, in Dorval, in November 2004. New maintenance facilities and offices were also made available in December 2004 and Air Transat's head office and Montreal operations have now moved. This move has had no impact on our cost structure.

If current trends are maintained, the 2005 winter season is expected to be better than 2004 in terms of traveller volumes. Bookings are up and there appears to be a desire to travel. Increased capacity in the marketplace (especially Ontario) has led to pricing pressures, however, which may result in lower margins.

During the summer season in Canada, revenues increased by 23.8% due to an increase in the number of travellers by over 20% compared with the 2003 summer season and to the additional revenues generated by the recent acquisition of Jonview, totalling approximately $35.0 million. The comparative season also had a reduced number of travellers due to the impact of SARS in 2003. Demand was strong for European destinations, especially the United Kingdom and France. Higher prices also contributed to these increases.

The restructuring efforts undertaken in 2003 also had a positive impact in the current summer season. These initiatives led to increased margins. For the summer season, our margins increased to 10.1% from 6.6% in 2003.

At this time, it is too early to comment on what the 2005 summer season will be like.

Increase in the number of Canadian travellers (2004 summer season).

Canada

Summer season

Years ended October 31 (in thousands of dollars)	**2004** $	2003 $	Variance $	Variance %
Revenues	**680,157**	549,510	130,647	23.8
Operating expenses	**611,786**	513,333	98,453	19.2
Margin	**68,371**	36,177	32,194	89.0
Margin (%)	**10.1**	6.6	3.5 ppt	53.0

In 2004, we implemented a plan announced on September 11, 2003, for the phasing out of our six Lockheed L-1011-500s, which was completed by the end of 2004. We also added four Airbus A310s to Air Transat's fleet in 2004. The resulting harmonization and simplification of the fleet, now all-Airbus, was key to Air Transat successfully reducing its operating expenses. At the beginning of fiscal 2005, Air Transat will operate a fleet composed of 14 Airbus wide-body aircraft (10 A310s and 4 A330s). In addition to reduced costs derived from simplified maintenance and training, Air Transat has successfully pursued its efforts at enhancing its operational performance, resulting in both high levels of customer satisfaction and other cost reductions ahead of plan.

Moreover, fiscal 2004 was the first full year of operations under a partnership agreement between our Canadian outgoing tour operators and WestJet announced on August 20, 2003. Through this agreement, our Canadian tour operators charter WestJet aircraft, which are smaller than Air Transat's, to broaden our service offering, penetrate new markets and more efficiently manage peak periods. During the 2004 winter season the contract was worth an estimated $28.0 million and during the 2004 summer season the contract was worth an estimated $18.0 million.

Europe

Winter season

Years ended October 31 (in thousands of dollars)	**2004** $	2003 $	Variance $	Variance %
Revenues	**240,051**	271,562	(31,511)	(11.6)
Operating expenses	**252,953**	280,796	(27,843)	(9.9)
Margin	**(12,902)**	(9,234)	(3,668)	(39.7)
Margin (%)	**(5.4)**	(3.4)	(2.0) ppt	(58.8)

In France we operate outgoing tour operators Vacances Transat (France) and Look Voyages.

Vacances Transat (France) is the market leader for Canadian destinations and for years has successfully followed a strategy of specializing as a long-haul holiday tour operator with a focus on selling packages. It has reached a top-tier position in that market segment and is the leader for several sunshine destinations.

Look Voyages benefits from a strong brand on the French market and its flagship product, the Lookéa Clubs, continues to appeal to French travellers. In 2003, Look Voyages introduced a new product called Lookéko. Based on individual agreements with various hotels, Lookéko calls for a very aggressive pricing strategy, as price remains a key decision factor for tourists.

In July 2004, we announced a plan to reposition Look Voyages and pursue our efforts to bring it back to profitability. (Please refer to *Restructuring charge* for more information related to this plan.)

In Europe, both revenues and expenses decreased in the 2004 winter season compared with the corresponding season in 2003, resulting in negative margins.

Despite an 8.9% increase in the number of travellers in the current season, our French operations recorded lower revenues and negative margins due to a drop in passengers for air-only travel at Look Voyages of approximately 22%.

The increase in travellers was mostly due to increased demand for long-haul travel from Europe to Caribbean destinations both at Vacances Transat (France) and Look Voyages at lower prices overall. The lower prices are the result of competitive pressure.

Increase in the number of long-haul trips from Europe to the Caribbean.

In Europe, the 2005 winter season outlook is mixed. We expect long-haul travel from Europe to Caribbean destinations (travel packages) to do well but we expect to generate lower revenues due to the abandonment of air-only activities at Look Voyages. We also expect to reduce our losses at Look Voyages by approximately 50%.

Europe

Summer season

Years ended October 31 (in thousands of dollars)	**2004** **$**	2003 $	Variance $	Variance %
Revenues	**286,241**	299,241	(13,000)	(4.3)
Operating expenses	**287,143**	305,701	(18,558)	(6.1)
Margin	**(902)**	(6,460)	5,558	86.0
Margin (%)	**(0.3)**	(2.2)	1.9 ppt	86.4

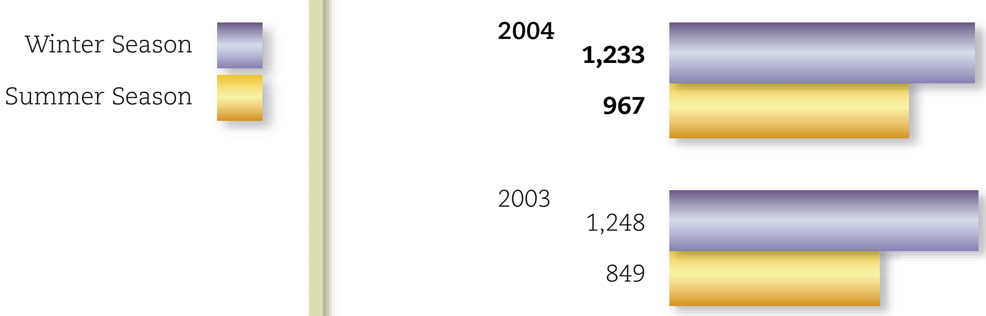
In France, although revenues decreased, our margins were almost break-even, which was a significant improvement compared with the 2003 summer season. The reasons for this improvement were decreased losses at Look Voyages, increased demand for long-haul travel from Europe to Canada and the United States at Vacances Transat (France) and the positive effects of foreign exchange at Vacances Transat (France).

The number of travellers increased by almost 13% compared with 2003 but these increases were offset by a 49% decrease in air-only passengers.

It is too early to tell what the 2005 summer season will be like in France but we expect the number of travellers from France to Canada to grow compared with 2004. We also expect travel packages to the Caribbean and the Mediterranean Basin to increase.

On October 31, 2003, we had announced that we had completed the sale of our online travel agency, Caïd S.A. (carrying out business under the name Anyway.com ("Anyway")) for $83.2 million. (See *Discontinued operations*.)

Revenues by Season — Canada and Europe (continuing operations) (in millions of dollars)



Amortization

Years ended October 31 (in thousands of dollars)	**2004** $	2003 $	Variance $	Variance %
Amortization	**33,027**	42,138	(9,111)	(21.6)

Amortization expense relates to capital assets and other assets that consist mostly of long-term financing costs and development costs.

Amortization expense decreased by more than 21%. This decrease is due to lower overall property, plant and equipment balances due to the simplification of our fleet, offset by the accelerated depreciation on the remaining Lockheed L-1011-500 aircraft, which were still operational during the winter season.

We expect amortization expense to increase in fiscal 2005 by approximately 30% due mainly to the adoption of AcG-15 as of November 1, 2004. Since we will be required to consolidate certain aircraft financing transactions that were treated as operating leases in 2004, our property, plant and equipment balances and thus amortization expense will increase.

Restructuring charge

As previously discussed, in July 2004 we announced a plan to reposition Look Voyages and pursue our efforts to bring it back to profitability. The plan involves abandoning certain operations considered non-strategic, namely the marketing and sale of air-only activities. The plan calls for Look Voyages to intensify the development of its holiday packages business and to increase the use of Web-based technologies to stimulate sales to travel agents and the general public. In accordance with French labour regulations, we submitted our plan and ensuing negotiations led to a staff reduction of approximately 90 individuals. Implementation of this plan resulted in Transat recording a restructuring charge in the amount of $11.4 million in the fourth quarter of 2004. The amount recorded included cash charges totalling $8.3 million and asset writeoff in the amount of $3.0 million. We anticipate the plan to result in a 50% reduction of the losses at Look Voyages in fiscal 2005. A return to profitability is expected in the latter part of fiscal 2006.

The following table highlights the activities and balance of the restructuring provision for the 2004 restructuring charge for the year ended October 31, 2004.

Restructuring charge

(in thousands of dollars)	Amount incurred during the year	Cumulative drawdowns cash	Cumulative drawdowns non-cash	Balance as at October 31, 2004
Employee termination benefits	4,590	—	—	4,590
Contract termination costs	2,526	—	—	2,526
Writeoff of property, plant and equipment and other assets	3,031	—	3,031	—
Other costs	1,203	88	—	1,115
Total	**11,350**	**88**	**3,031**	**8,231**

Restructuring charge (2003)

In 2003, we focused our efforts on reducing our costs, worked on operational efficiencies and ensured that all products and services not generating targeted returns were remedied. As a result, we developed a restructuring program during the second quarter of the 2003 fiscal year. This program included a change in the management structure and a reorganization that affected both the nature and focus of our operations in France and Canada. The war in Iraq and SARS, which contributed to a slowdown in demand, accelerated the need for a restructuring program. These events also significantly affected our fleet composition.

During 2003, we recorded a restructuring charge in the amount of $48 million before taxes. Of this amount, $33.7 million related to the restructuring of our fleet.

In accordance with our fleet review, we announced the implementation of a plan to phase out the use of our six Lockheed L-1011-500s (which were capitalized on our balance sheet) by April 30, 2004. Three of these aircraft ceased operations by October 31, 2003, resulting in a writedown in the amount of $21.5 million. We wrote down the three remaining aircraft that were still operating in 2004 to their fair values, resulting in an impairment charge in the amount of $12.2 million.

The amount recorded for the 2003 year included cash charges totalling $13.5 million and asset writedowns in the amount of $34.5 million. The cash charges were mostly for employee termination benefits and contract termination costs.

The 2003 restructuring program has been substantially completed.

The following table highlights the activities and balance of the 2003 restructuring provision for the year ended October 31, 2004.

Restructuring charge (2003)

(in thousands of dollars)

	Balance as at October 31, 2003	Cumulative drawdowns cash	Cumulative drawdowns non-cash	Balance as at October 31, 2004
Employee termination benefits	5,614	2,341	—	3,273
Contract termination costs	50	—	—	50
Other costs	440	—	47	393
Total	**6,104**	**2,341**	**47**	**3,716**

Interest

Interest

Years ended October 31 (in thousands of dollars)	**2004** $	2003 $	Variance $	Variance %
Interest on long-term debt, obligations under capital leases and debentures	**7,581**	9,771	(2,190)	(22.4)
Other interest and financial expenses	**1,907**	3,071	(1,164)	(37.9)
Interest income	**(11,307)**	(9,530)	1,777	18.6

Interest on long-term debt, obligations under capital leases and debentures

Interest on long-term debt, obligations under capital leases and debentures decreased in 2004 compared with 2003 due to lower debt obligations, the favourable impact of exchange rates and lower interest rates.

In 2005, we expect this expense to increase by approximately $5.3 million because of the adoption of AcG-15. Under this Guideline, a portion of the off-balance sheet debt will be reflected on our balance sheet, thereby increasing our balance sheet debt and our interest expense.

Total debt, however, will continue to decrease.

Other interest and financial expenses

Other interest and financial expenses decreased in 2004 compared with 2003 due to lower average bank loans for our French operations.

The expense for 2005 is not expected to fluctuate dramatically compared with 2004.

Interest income

The increase in interest income is due to higher balances in average cash and cash equivalents during the year. We expect interest income to grow slightly in 2005.

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

For the current year, the Corporation recorded a foreign exchange loss on long-term monetary items due to the strengthening Canadian dollar against the U.S. dollar. A stronger Canadian dollar reduces the value of our long-term monetary assets and liabilities. Due to our reduced debt levels, the favourable impact of exchange rates on our debt levels is minimal. However, we continue to incur exchange losses on the deposits we make related to engine and airframe overhaul expenses to certain aircraft lessors in U.S. dollars. In the comparative period, this loss was offset by foreign exchange gains on higher debt levels.

Share of net income (loss) of companies subject to significant influence

On February 1, 2004, we discontinued using the equity method in accounting for our investment in Star Airlines ("Star"), our French airline company, with a carrying value of $1.0 million. Although we still own 44.3% of the voting shares of Star, we no longer exercise significant influence over its strategic operating, investing and financing policies. We are also unable to obtain sufficient information to perform equity accounting. (See *Accounting Changes*.)

The fact that we have not had any equity pickup since January 31, 2004, is the main reason for the variance when comparing 2004 with 2003. The corresponding period included a full year of results for Star whereas the current year includes the results of the first quarter only, which generated a loss.

Income taxes

Our total income tax provision amounted to $45.0 million for the fiscal year ended October 31, 2004, compared with a recovery of $5.5 million for the preceding fiscal year. Excluding the share of net income (loss) of companies subject to significant influence, the effective tax rates were 37.6% for the fiscal year ended October 31, 2004, and 37.9% for the preceding fiscal year. The variance in our effective tax rate from the preceding fiscal year is primarily due to the general reduction of statutory tax rates on taxable income generated by our Canadian operations, which was offset by our decision to not record tax recoveries on losses (including the restructuring charge) generated from our French operations beginning August 1, 2004.

Net income (loss) from continuing operations

As a result of the items discussed in *Consolidated operations*, our net income was $72.5 million or $2.07 per share for the current year ($83.8 million or $2.41 per share excluding the $11.4 million restructuring charge) compared with a net loss of $9.1 million or $0.38 per share for the comparative year ($22.2 million of net income or $0.58 per share excluding the after-tax effect of the 2003 restructuring charge). The weighted average number of common shares outstanding used to establish the per share amounts was 33,374,000 for the current year and 32,796,000 for the comparative year.

On a diluted per share basis, the current year's earnings per share was $1.76 per share ($2.04 per share excluding the 2004 restructuring charge) compared with a $0.38 loss per share in the comparative year ($0.58 per share excluding the effect of the 2003 after-tax restructuring charge). The adjusted weighted average number of outstanding shares used in computing diluted earnings per share was 41,156,000 for the current year and 32,796,000 for 2003. (See note 12 to the audited Consolidated Financial Statements.)

Discontinued operations (2003)

On October 31, 2003, Transat completed its sale of its online agency in France, Anyway, to IAC/InterActiveCorp for a cash consideration of 53.8 million euros ($83.2 million) resulting in a net gain of $53.1 million. (See note 16 to the audited Consolidated Financial Statements.)

Selected quarterly unaudited financial information

Quarterly information

(in thousands of dollars, except amounts per share)

	Q1		Q2		Q3		Q4	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Revenues	**537,200**	529,076	**696,224**	718,822	**499,118**	444,121	**467,280**	404,630
Margin	**16,945**	4,799	**79,341**	40,446	**28,120**	2,531	**39,349**	27,186
Net income (loss) from continuing operations	**2,807**	(6,974)	**45,453**	15,376	**12,823**	(10,088)	**11,368**	(7,461)
Earnings (loss) per share from continuing operations	**0.06**	(0.24)	**1.35**	0.45	**0.36**	(0.33)	**0.31**	(0.25)
Diluted earnings (loss) per share from continuing operations	**0.06**	(0.24)	**1.10**	0.39	**0.31**	(0.33)	**0.27**	(0.25)
Net income (loss)	**2,807**	(6,974)	**45,453**	15,376	**12,823**	(10,088)	**11,368**	46,622
Earnings (loss) per share	**0.06**	(0.24)	**1.35**	0.45	**0.36**	(0.33)	**0.31**	1.40
Diluted earnings (loss) per share	**0.06**	(0.24)	**1.10**	0.39	**0.31**	(0.33)	**0.27**	1.40

The trend in revenues in 2004 was an increase compared with 2003 due mainly to an increase in travellers and acquisitions (Q3 and Q4). Q2, however, showed a decrease. This decrease was mainly due to the reorganization of our Canadian tour operator Americanada, a reduction in air-only passengers and a reduction in third-party revenues. We generated revenues of $10.5 million from Americanada in Q2 of 2003 and none in Q2 of 2004.

Our margins demonstrated significant quarterly fluctuations in 2004 compared with 2003. In Q1 and Q2, the increase in our margins relates mainly to a decrease in operating expenses as a result of our 2003 restructuring efforts, offset, in part, by increased costs as a result of increased business activity. In Q3 and Q4, the increase in our margins is due mainly to a profitable increase in business activity, the strengthening Canadian dollar and our 2003 restructuring efforts, offset by the surge in fuel prices.

The above also describes the variances in net income and net loss for the quarters. Additionally, in Q4 of 2003, the sale of Anyway was recorded, resulting in a $53.1 million net gain. This transaction was recorded as part of discontinued operations in 2003.

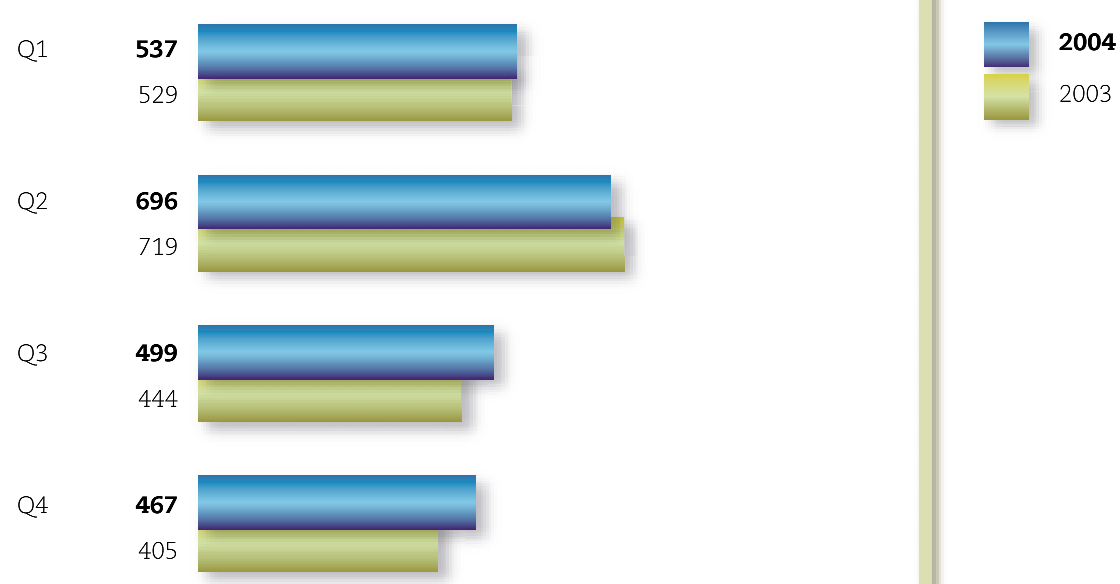
Fourth quarter highlights

In the fourth quarter of fiscal 2004, we posted revenues of $467.3 million, compared with $404.6 million for the same period in the previous year, representing an increase of $62.7 million or 15.5%. There was an overall increase in travellers of over 16%, broken down between Canada at almost 19% and France at over 10%. Air-only passengers at Look Voyages fell by almost 54% during the quarter. The increase in Canada was mainly due to our strategy of increasing the utilization of our aircraft in October 2004.

The Corporation also generated a margin of $39.4 million or 8.4% in the quarter, compared with $27.2 million or 6.7% in 2003. The increase in operating expenses during the quarter was mainly due to an increase in business activity. Net income for the quarter was $11.4 million or $0.27 per share on a fully diluted basis ($22.7 million or $0.54 per share excluding the restructuring charge) compared with a net loss from continuing operations of $7.5 million or $0.25 per share fully diluted in 2003 ($17.1 million of net income from continuing operations or $0.50 per share excluding the after-tax effect of the 2003 restructuring charge).

In 2003, net income in the fourth quarter was $46.6 million ($1.40 per share). The 2003 fourth-quarter net income included $54.1 million ($1.65 per share) related to the sale and operations of Anyway presented as part of discontinued operations in the Consolidated Financial Statements.

Revenues by Quarter (continuing operations) (in millions of dollars)



Cash flows

Years ended October 31 (in thousands of dollars)	2004 $	2003 $	Variance $
Cash flows relating to operating activities	**185,100**	71,697	113,403
Cash flows relating to investing activities	**(32,970)**	(4,275)	(28,695)
Cash flows relating to financing activities	**(32,702)**	(56,278)	23,576
Net change in cash and cash equivalents	**119,428**	11,144	108,284

The above table sets forth a summary of cash flow activity from continuing operations and should be read in conjunction with the audited Consolidated Statements of Cash Flows.

As at October 31, 2004, we had $468.5 million in cash and cash equivalents (including $157.7 million in trust or otherwise reserved), compared with $349.1 million (including $106.2 million in trust or otherwise reserved) in 2003. Our balance sheet reflects a current ratio of 1.5 and working capital of $204.3 million, compared with a current ratio of 1.4 and working capital of $144.5 million in 2003. We also have access to unused lines of credit totalling $13.5 million in France (8.7 million euros).

Total assets increased by $123.6 million (17.3%) to $838.4 million from $714.8 million as at October 31, 2003, due mainly to the cash increase. Shareholders' equity increased by $72.2 million to $313.5 million from $241.3 million as at October 31, 2003, due mainly to the $72.5 million in net income generated in the current year.

Operating activities (continuing operations)

During the year, cash flows of $185.1 million were generated from operating activities, an increase of $113.4 million compared with 2003. This increase is due mainly to the strong increases in our margins generated during the year as well as to increases in the net change in working capital balances related to operations due to increased business activity.

The net change in the working capital balances is due mainly to an increase in current liabilities.

We expect to continue to generate positive cash flows from our operating activities in 2005.

Investing activities (continuing operations)

During the year, cash flows of $33.0 million were used for investing activities, an increase of $28.7 million compared with 2003. This increase is mostly due to additions to property, plant and equipment, which were mostly related to aircraft improvements and the acquisitions of Jonview and Tourgreece.

We expect that capital asset acquisitions will total between $20.0 million and $25.0 million in 2005.

Financing activities (continuing operations)

During the year, cash flows of $32.7 million were used for financing activities, a $23.6 million decrease compared with 2003. This decrease is primarily due to the absence of bank loans to repay in the current year (compared with a repayment in the amount of $17.5 million in 2003), offset by an increase in 2004 of proceeds generated from the issuance of shares in the amount of $9.7 million.

In 2005, we expect to pay down our $21.9 million debenture. Furthermore, our normal course issuer bid announced in June 2004 and discussed elsewhere in this MD&A, if completed, would require additional funds.

Our revolving line of credit in the amount of $90.0 million expired in August 2004 and was not renewed at our request due to our strong financial position.

Cash flows from discontinued operations (2003)

Cash flows from discontinued operations in the amount of $77.9 million relate mainly to the cash proceeds received from the sale of Anyway.

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 Consolidated Financial Statements at year-end. Total debt obligations amounted to $30.8 million as at October 31, 2004 ($65.3 million in 2003). 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 (see notes 9 and 22 to the audited Consolidated Financial Statements)
- Operating leases (including any guaranteed residual values) (see note 21 to the audited Consolidated Financial Statements)

The off-balance sheet debt that can be estimated was approximately $503.5 million as at October 31, 2004 ($529.9 million in 2003) and can be reconciled as follows:

Off-balance sheet debt

(in thousands of dollars)	**2004** **$**	2003 $
Guarantees		
Irrevocable letters of credit *(note 9)*	—	20,256
Irrevocable letters of credit *(note 22)*	**17,663**	22,468
Security contracts *(note 22)*	**1,045**	1,420
Operating leases		
Commitments under operating leases *(note 21)*	**415,832**	411,188
Guaranteed residual value *(note 21)*	**68,992**	74,586
	503,532	529,918

Guarantees are required in the normal course of operations in the travel industry to provide indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and security contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them. Due to the adoption of AcG-15, we expect our off-balance sheet debt to decrease by over $100.0 million in 2005.

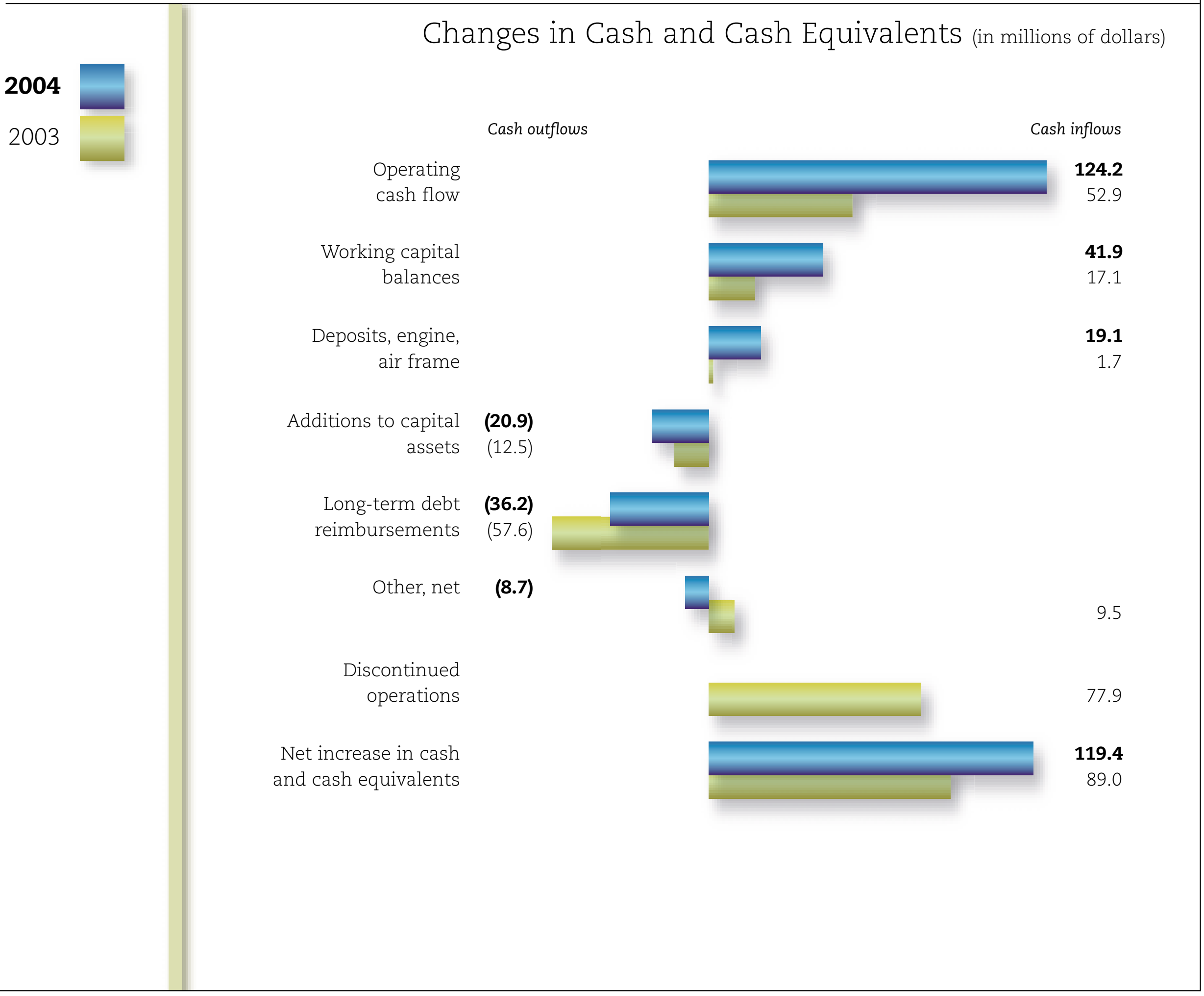
We believe that the Corporation will be able to meet its anticipated cash requirements with current funds, internally generated funds from operations and borrowings under existing credit facilities.

Contractual obligations

Payments due by period

Year ended October 31 (in thousands of dollars)	Total	Less than 1 year	1–3 years	4–5 years	More than 5 years
Debentures	35,021	21,865	10,000	3,156	—
Operating leases (aircraft)	304,121	61,113	118,647	89,546	34,815
Operating leases (other)	111,711	23,010	21,840	10,949	55,912
Guaranteed residual value	68,992	—	16,698	66,550	—
Total	**519,845**	**105,988**	**167,185**	**170,201**	**90,727**

The above table contains a summary of the Corporation's obligations and commitments to make future payments under contracts, including debt, leases and debentures. Additional information is contained in notes 9, 10, 11 and 21 to the audited Consolidated Financial Statements.



Normal course issuer bid

The Board of Directors of Transat A.T. Inc. announced on June 10, 2004, that it had obtained approval from the Toronto Stock Exchange to proceed for a twelve-month period with a normal course issuer bid. In the notice, the Corporation stated its intention to purchase for cancellation up to a maximum of 1,662,847 Common Shares of the Corporation, representing 5% of the issued and outstanding Common Shares and 5.9% of the public float of Common Shares, and a maximum of 25,546 Convertible Debentures representing 5% of the public float of Convertible Debentures. As at June 9, 2004, there were 33,256,955 Common Shares issued and outstanding, and 510,920 Convertible Debentures, of which the respective public float was 28,174,385 Common Shares and 510,920 Convertible Debentures.

This program is designed to allow the Corporation to purchase Common Shares or Convertible Debentures in the normal course, when the Corporation estimates that the Common Shares or Convertible Debentures are undervalued by the market.

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 that the Corporation will pay for any Common Shares or Convertible Debentures will be the market price at the time of acquisition, plus brokerage fees. Purchases began on June 15, 2004, and will terminate no later than June 14, 2005.

During the year, 230,000 Common Shares were purchased for cancellation for a cash consideration of $5.0 million. No Convertible Debentures were purchased during the year.

Air Transat Flight TS 236 of August 24, 2001

In October 2004, the Portuguese civil aviation authorities concluded their investigation into the emergency landing in the Azores of Flight TS 236 on August 24, 2001, and made public the final report containing their findings and recommendations. Transat supports the recommendations included in the report, all of which apply to the industry as a whole.

The occurrence resulted from a fuel leak and a complex combination of events and risk factors, including human errors, all of which are analyzed at great length in the report.

Among other things, the report recommended the mandatory installation of a new warning system for detecting fuel leaks. The report acknowledged that it had been difficult for the crew of Flight TS 236 to identify and subsequently isolate the fuel leak. Other recommendations aim at improving maintenance and training processes. Also recommended is a review of checklists.

The investigation was led by Portuguese authorities. Canada, France, the United Kingdom, Air Transat, Airbus and Rolls-Royce also participated.

Following the occurrence, Air Transat developed and implemented a comprehensive action plan that was submitted to Transport Canada, and took additional precautionary initiatives.

Subsequent events

On January 10, 2005, Transat redeemed debentures in the amount of $21.9 million. These debentures had a maturity date of January 2009 and were redeemable in advance as of January 2005.

The cash outlay was approximately $30.0 million, including unpaid interest already reflected in fiscal 2004 in the amount of $7.3 million and an interest penalty in the amount of $0.8 million that will be recorded in the first quarter of fiscal 2005. Additionally, this early redemption will also result in a non-cash charge in the amount of $1.7 million that will also be recorded in the first quarter of fiscal 2005 related to the difference between the nominal value and book value of the debentures as at January 10, 2005. The debentures, which are non-convertible, were issued on January 10, 2002, to certain shareholders and management members.

On November 1, 2004, Transat acquired 70% of the operations of Air Consultants Europe ("ACE") at a cost of 1.0 million euros. This Dutch company, based in The Hague, is Air Transat's sole commercial representative in Germany and the Netherlands since 1991 and in Belgium and Luxembourg. The transaction was accounted for using the purchase method. The results of operations of ACE will be included in the Corporation's results as of November 1, 2004.

Nominations

In December 2004, Transat's two Executive Vice-Presidents, Lina De Cesare and Philippe Sureau, were respectively named President, Tour Operators and President, Distribution.

In October 2004, Olivier Kervella was appointed General Manager of Look Voyages.

In August 2004, Nelson Gentiletti was appointed Executive Vice-President, Transat Tours Canada. Mr. Gentiletti will also remain in his current position of Vice-President, Finance and Administration and Chief Financial Officer until a new person is appointed.

Financial instruments

The Corporation is exposed to risks related to exchange rate variations for certain currencies, interest rate variations and fuel cost variations in the normal course of business. These risks are managed by entering into various financial instruments. Note 23 to the audited Consolidated Financial Statements describes the nature and extent of the risks related to these instruments.

Critical accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates. We periodically evaluate these estimates, which are based on historical experience, changes in the business environment and other factors that management believes to be reasonable under the circumstances. Our estimates involve judgements we make based on information available to us. Actual results may differ materially from these estimates.

In the discussion below, we have identified critical accounting estimates that required our Corporation to make assumptions about matters that were highly uncertain at the time the estimate was made and for which our results, financial position or cash flows could be materially affected if we had used different estimates in the current period or if changes to the estimates occur in the future.

This discussion addresses only those estimates that we consider important based on the degree of uncertainty and the likelihood of a material impact if we had used a different estimate. There are many other areas in which we use estimates about uncertain matters.

Aircraft maintenance/
Provision for engine and airframe overhaul

We provide for engine and airframe overhaul expenses for aircraft based on an estimate of these future expenses until the expiry of the leases for these aircraft, or for their remaining useful lives while held, amortized over the total number of engine cycles and the total number of flying hours anticipated for the airframe over the same periods. These expenses are charged to income according to the number of cycles used or the number of flying hours recorded during the year by the amortization of the capitalized overhaul costs or by a provision for future costs, as the case may be. Any change in demand for air travel, in the economy as a whole or in additional actions by management may alter the factors used in estimating this provision. This may result in charges that could materially affect our results, financial position and cash flows.

Goodwill

We include material amounts on our balance sheet related to goodwill based on historical costs. We are required to evaluate goodwill on an annual basis, or more often if events or changes in circumstances warrant it, to determine if it is impaired. The evaluation is based on the asset's ability to generate future cash flows. We perform an analysis by estimating the discounted future cash flows attributable to these assets and this analysis requires us to make a variety of judgements about our future operations. These forecasted cash flows used to support the asset values may change in the future due to market conditions, competition or other factors. The changes may result in non-cash charges that could materially affect our results and financial position.

Property, plant and equipment

Property, plant and equipment on our balance sheet includes material amounts based on historical costs. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This review is based on the assets' ability to generate future cash flows. We perform an analysis by estimating the net undiscounted future cash flows attributable to these assets and this review requires us to make a variety of judgements about our future operations. These forecasted cash flows used to support the asset values may change in the future due to market conditions or other factors. The changes may result in non-cash charges that could materially affect our results and financial position.

Accounting changes

During fiscal 2004, we adopted the CICA amendments to Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments," and CICA Accounting Guideline 13 (AcG-13), "Hedging Relationships," and we changed the method of accounting for one of our long-term investments.

Effective November 1, 2003, Transat adopted the amendments introduced by Section 3870. These amendments require that the fair value-based method be applied to awards granted to employees, which previously had not been accounted for at fair value. Enterprises will therefore be required to account for the effect of such awards in their financial statements for fiscal years beginning on or after January 1, 2004. Retroactive or prospective application is allowed. However, prospective application is only available to enterprises that elect to apply the fair value-based method of accounting for fiscal years beginning before January 1, 2004. Thus all other enterprises that adopt the fair value-based method in a fiscal year beginning on or after January 1, 2004, will be required to adopt a retroactive application, with or without restating prior periods. The adoption of this Section resulted in a $0.1 million reduction in our results for the year ended October 31, 2004, but had no effect on our financial position or cash flows during the same period.

AcG-13 came into effect on November 1, 2003. The new Guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for hedge accounting purposes. In addition, it deals with the discontinuance of hedge accounting and establishes conditions for applying hedge accounting. Under the Guideline, an enterprise is required to document its hedging relationships and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. The adoption of this Guideline did not have any effect on our results, financial position, or cash flows.

Effective February 1, 2004, we discontinued using the equity method with regards to Star due to the fact that we no longer exercise significant influence over this entity. As a result, the value of our investment in Star will be its carrying value as at February 1, 2004. Accumulated dividends received by the Corporation subsequent to February 1, 2004, and that exceed our share of the accumulated earnings of Star for such periods will be applied in reduction of its carrying value.

Future accounting changes

In June 2003, the CICA issued Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities." This new Guideline presents clarification on the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Therefore, AcG-15 provides guidance for determining when an enterprise includes the assets, the liabilities and the results of activities of a variable interest entity in its consolidated financial statements. As a general principle set out in AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest, or combination of variable interest, that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both (the "primary beneficiary"). Transat has conducted certain aircraft financing transactions whereby it guaranteed a portion of the residual value at the end of the lease term under structures involving special purpose entities. These structures are considered variable interest entities and the Corporation is considered to be the primary beneficiary. At Transat, this Guideline will come into effect on November 1, 2004. Although this Guideline will not have any impact on our cash flows, it will have an impact on our balance sheet and results. Property, plant and equipment and long-term debt will increase by approximately $116.0 million and $102.0 million (US$83.0 million) respectively, and our results will be negatively affected by approximately $3.8 million.

The $3.8 million is reconciled as follows: a $12.1 million decrease in aircraft rental, offset by a $10.6 million increase in amortization expense and a $5.3 million increase in interest on long-term debt.

Economic and general factors

Economic factors such as a significant downturn in the economy, a recession or a decline in the employment rate in Canada, France and key international markets may have a negative impact on our business and operating results by affecting demand for our products and services. Our operating results could also be affected by general factors such as extreme weather conditions, war, political instability or terrorism, or any threat thereof, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perception of airline safety, demographic trends, disruptions to the air traffic control system, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

Competition

We face many competitors in the holiday travel industry, some of which are larger in size, have strong brand name recognition and presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to individual travellers at preferential prices. These pressures may adversely impact our revenues and margins since we would likely have to match competitors' prices.

Fluctuation of currency exchange rates and interest rates

Transat is exposed, by reason of its many arrangements with foreign-based suppliers, to fluctuations in exchange rates as regards the U.S. dollar against the Canadian dollar and the euro. These fluctuations could increase our costs of operations. Changes in interest rates could also impact our interest income from our cash and cash equivalents and interest expense from variable-rate debt instruments, in turn affecting our earnings. We currently purchase derivative financial instruments to hedge against exchange rate fluctuations as well as interest rates on a portion of our long-term debt, obligations under capital leases and off-balance sheet financing for aircraft.

Fuel costs and supply

Transat is exposed in particular to fluctuations in the cost of fuel. Due to the competitive pressures in the industry, there can be no assurance that we would be able to pass on any increase in fuel prices to our customers by increasing fares and that any fare increase would offset increased fuel costs, which could in turn adversely impact the business, financial condition or results of our operations. We currently purchase futures contracts to hedge against the risk of fluctuations in the cost of fuel. Furthermore, to the extent that there may be a reduction in the supply of fuel, our operations could be adversely impacted.

Changing industry dynamics: new methods of distribution

The widespread adoption of the Internet has resulted in travellers being able to access information about travel products and services and to purchase such products and services directly from suppliers, thereby bypassing both vacation providers such as Transat and retail travel agents through whom we receive a substantial portion of our revenues. In order to remain competitive, we launched an online booking service in Canada several years ago, **www.exitnow.ca**, allowing consumers to purchase their travel products on line.

Additionally, the recent erosion of commissions paid to travel distributors by travel suppliers, particularly airlines, has weakened the financial condition of many travel agents. Because we currently rely to some extent on retail travel agencies for access to travellers and revenues, a shift in consumer purchasing away from travel agencies and toward direct purchasing from travel suppliers could have an impact on the Corporation.

Reliance on contracting travel suppliers

Despite being well positioned by reason of our vertical integration, we are nonetheless dependent on travel suppliers for the sale of our products and services. Furthermore, we increasingly rely on airlines that are not part of our group to transport our passengers to their vacation destination. Our travel suppliers may generally terminate or modify existing agreements with us upon relatively short notice. The inability to replace these agreements with similar suppliers or to renegotiate agreements at reduced rates could have an adverse effect on our results. Furthermore, any decline in the quality of travel products and services provided by these suppliers, or a perception by travellers of such a decline, could adversely affect our reputation. The loss of contracts, changes in our pricing agreements, more restricted access to travel suppliers' products and services or less favourable public opinion about certain travel suppliers resulting in low demand for their products and services could have a significant effect on our results.

Dependence on technology

Our business is dependent on our ability to access information, manage reservation systems, including handling a high volume of telephone calls on a daily basis, and distribute our vacation products to retail travel agents and other travel intermediaries. To this end, we rely on different information and telecommunications technologies. Rapid changes in these technologies may require greater-than-anticipated capital expenditures to improve or upgrade the level of customer service, which could impact our operating results. Additionally, any failure or outage of these systems could adversely affect our business, customer relationships and operating results.

Dependence on customer deposits and advance payments

Transat derives significant interest income from consumer deposits and advance payments. Our investment policy restricts us to investing these deposits and advance payments only in investment-grade securities. A failure of these investment securities to perform at their historical levels could reduce the interest income realized by the Corporation.

Negative working capital

Our activities generate customer deposits and advance payments. If the flow of money from these advance payments were to diminish and Transat were required to find an alternative source of capital, there is no assurance that such source would be available at terms and conditions acceptable to the Corporation, and this could have a significant effect on our business.

Fluctuation of financial results

The travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuation. We therefore believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as an indication of future performance. Furthermore, due to all of the economic and general factors described above, our operating results in future periods may fall below the expectations of securities analysts and investors, thus affecting the market price of our shares.

Government regulation and taxation

Future results of Transat may vary based upon any actions that governmental authorities with jurisdiction over the Corporation's operations may take, including the granting and timing of certain governmental approvals or licences, the adoption of regulations that impact customer service standards, such as new passenger security standards, the adoption of more restrictive noise restrictions or curfews and the adoption of provincial regulations that impact operations of retail and wholesale travel agencies. Additionally, new or different regulatory schemes or changes with respect to tax policy could have an effect on our operations as regards hotel taxes, car rental taxes, airline excise taxes as well as airport taxes and fees.

Future capital requirements

Transat may need to raise additional funds in the future in order to take advantage of growth opportunities or to respond to competitive pressures. There can be no assurance that additional financing will be available on terms and conditions acceptable to the Corporation, and this could adversely affect our business.

Interruption in operations

Should operations be interrupted for any reason, including unavailability of aircraft due to mechanical reasons, loss of revenues associated with the utilization of aircraft could have an impact on the business, financial condition and results of our operations.

Insurance coverage

Following the terrorist attacks of September 11, 2001, the airline insurance market gave notice to cancel all aircraft hull and liability coverage with respect to risks resulting from war and terrorist acts. This notice was subsequently rescinded, but the limit of liability applicable to civil liability to third parties for bodily injury and property damage was reduced to US$50.0 million.

There being no commercial market immediately available to insure airlines worldwide for their civil liability to third parties resulting from war and terrorist acts in excess of US$50.0 million, it was necessary for individual governments to cover their airlines against this risk until commercial insurance became available at commercially reasonable terms. Both France and Canada covered their air carriers accordingly.

Over the last two and a half years, a commercial market has become available to insure this risk, but it is a subject of some discussion as to whether the terms are reasonable. Moreover, some market players are not licensed to transact business in Canada. Nevertheless, the French government has withdrawn its protection, forcing the Corporation's French airline affiliate, Star, to revert to the commercial insurance market. The Canadian Government continues to afford protection to its air carriers, prompted by the licensing situation and the fact that the U.S. government continues to provide protection to its own carriers for such risk. However, there can be no assurance that the Canadian government will not withdraw its protection, particularly if the U.S. government should change its position.

In the meantime, the International Civil Aviation Organization ("ICAO") continues to lobby for support from all governments to achieve an industry solution financially aided by each government that would provide the requisite protection at reasonable cost. Thus far, ICAO has failed to obtain majority support for such a plan from its member governments. There is no assurance that such a solution will be found or if found, how long it will take to be implemented.

Casualty losses

We believe that our suppliers and the Corporation have adequate liability insurance to cover risks arising in the normal course of business, such as claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying our customers. Although we have never experienced a liability claim for which we did not have adequate insurance coverage, there is no assurance that our insurance coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. Additionally, there is no assurance that we will be able to obtain insurance coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operations.

Slot and gate availability

Access to landing and departure runway slots, airport gates and facilities is critical to our operations and our strategy for future growth. The availability or cost of these facilities in the future could have a negative effect on our operations.

Aircraft lease obligations

Transat has significant lease obligations relating to its fleet of aircraft, which obligations may not be cancelled. To the extent that the revenues derived from the operation of aircraft decrease in the future, payments to be made on our lease agreements could have a substantial impact on the Corporation's operations.

Key personnel

Transat's future success will depend on our ability to attract and retain qualified personnel. The loss of key individuals could adversely affect our business and operating results.

Uncertainty of future collective bargaining agreements

Transat's operations could be adversely affected by our inability to reach an agreement with any labour union representing employees, such as pilots.

Our Annual Information Form filed with Canadian securities commissions also contains information on risks and uncertainties.

Transat completed its best year ever in fiscal 2004 by concentrating on its cost control efforts and remaining committed to its core business. In 2005, we plan to continue to pursue these efforts and commitments while growing the business on both sides of the Atlantic.

In Canada, Transat's strategy is to increase its market share in Ontario and continue its cost reduction efforts for the airline. Booking trends for the winter season are ahead of last year by approximately 8% but the excess capacity in the marketplace (especially Ontario) has led to pricing pressures, which we expect will result in lower margins for the first quarter of 2005 and possibly for the entire 2005 winter season. However, we also believe that as a result of these pricing pressures, we may have opportunities to expand our market in Ontario more quickly.

In France, Transat intends to reduce its losses at Look Voyages by 50% and develop an Internet strategy at this subsidiary as well. All indications point to the reduced losses being on track for the first quarter of 2005.

Overall, therefore, we expect reduced margins in the first quarter of 2005 compared with the comparative period in 2004, which was exceptional, and a challenging winter season in general.

Despite these anticipated results for the 2005 winter season, our balance sheet has never been healthier and the Corporation's management has never been more committed to maximizing shareholder value.

Canada

	2004	2003

Outgoing tour operators and air transportation

Tour operators under the **Transat Tours Canada*** banner and the airline company **Air Transat**

* *Transat Holidays and World of Vacations/Nolitour*

	2004	2003
Revenues ($)	1,570,000,000	1,433,000,000
Employees	2,500	2,608
Passengers[1]	2,394,500	2,571,000
Travellers[2]	1,017,500	905,000

Rêvatours

	2004	2003
Revenues ($)	19,000,000	14,000,000
Employees	26	25
Travellers	7,000	5,000

Americanada

	2004	2003
Revenues ($)	—	20,000,000
Employees	—	—

Travel agencies and distribution

Consultour/ Transat Distribution Canada**

** *Club Voyages, exitnow.ca, TravelPlus and Voyages en Liberté*

	2004	2003
Revenues ($) (commissions and franchise)	19,600,000	18,100,000
Outlets owned	22	27
Employees	203	225
Outlets franchised	173	182

Other airline services

Handlex

	2004	2003
Revenues ($)	29,000,000	25,000,000
Employees	857	861

Incoming tour operators and services at travel destinations

Jonview Canada

	2004	2003
Revenues ($)	81,000,000	77,000,000
Employees	123	121
Travellers	168,000	165,000

DMC Transat

	2004	2003
Revenues ($)	27,000,000	21,000,000
Employees	33	38
Travellers	38,000	31,000

Transat Holidays USA

	2004	2003
Revenues ($)	5,300,000	6,100,000
Employees	18	19

Europe

Outgoing tour operators

Vacances Transat (France)

	2004	2003
Revenues (€)	133,000,000	102,000,000
Employees	177	160
Travellers	95,000	77,000

Look Voyages

	2004	2003
Revenues (€)	179,000,000	235,000,000
Employees	319	409
Passengers	465,000	740,000
Travellers	145,000	140,000

Brok'Air

	2004	2003
Revenues (€)	24,000,000	38,000,000
Employees	14	14

Travel agencies and distribution

Club Voyages (France)

	2004	2003
Revenues (€)	8,700,000	8,600,000
Employees	167	178
Outlets	59	63

Anyway

	2004	2003
Revenues (€)	—	8,300,000
Employees	—	—

Incoming tour operators and services at travel destinations

Tourgreece

	2004	2003
Revenues (€)	10,421	—
Employees	20	—
Travellers	46,000	—

Transat owns a 100% stake in its subsidiaries listed above with the exception of Jonview Canada and DMC Transat, which are held at 80.07% and Tourgreece, which is held at 90%.

1 *Airlines record flight segments in terms of passengers.*
2 *Tour operators record round-trip travellers.*

Management's report

The consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. Management's responsibility in this respect includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with Canadian generally accepted accounting principles which are adequate in the circumstances. The financial information presented throughout this annual report is consistent with that appearing in the financial statements.

The Corporation and its related companies have set up accounting and internal control systems designed to provide reasonable assurance that the Corporation's assets are safeguarded against loss or unauthorized use and that its books of account may be relied upon for the preparation of financial statements.

The Board of Directors is responsible for the consolidated financial statements through its Audit Committee. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors of the accounting methods and policies used as well as of the internal control systems set up by the Corporation. These financial statements have been audited by Ernst & Young LLP, the external auditors. Their report on the consolidated financial statements appears opposite.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer

Nelson Gentiletti
Vice-President, Finance and Administration
and Chief Financial Officer

Auditors' report

To the Shareholders of Transat A.T. Inc.
We have audited the consolidated balance sheets of Transat A.T. Inc. as at October 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Montréal, Canada
December 23, 2004
[Except as to note 25 (b)
which is as of January 10, 2005]

Consolidated balance sheets

As at October 31 [In thousands of dollars]

	2004 $	2003 $
ASSETS		
Current assets		
Cash and cash equivalents *[note 4]*	**468,553**	349,125
Accounts receivable	**72,745**	72,929
Future income tax assets	**586**	959
Inventories	**4,053**	7,829
Prepaid expenses	**39,729**	40,379
Current portion of deposits	**28,830**	24,053
Total current assets	**614,496**	495,274
Deposits *[note 5]*	**22,111**	14,172
Future income tax assets *[note 18]*	**10,656**	13,371
Property, plant and equipment *[notes 6 and 17]*	**93,128**	101,741
Goodwill	**86,966**	69,682
Other assets *[note 7]*	**11,032**	20,517
	838,389	714,757
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**202,337**	181,971
Income taxes payable	**29,455**	2,699
Customer deposits and deferred income	**158,396**	146,025
Debentures *[notes 11 and 25]*	**20,058**	—
Current portion of long-term debt and obligations under capital leases	**—**	20,102
Total current liabilities	**410,246**	350,797
Long-term debt *[note 9]*	**—**	4,811
Obligations under capital leases *[note 10]*	**—**	10,437
Debentures *[note 11]*	**10,734**	29,981
Provision for engine and airframe overhaul in excess of deposits	**62,818**	43,495
Non-controlling interest and other liabilities	**24,036**	22,474
Future income tax liabilities *[note 18]*	**17,027**	11,416
	524,861	473,411
Shareholders' equity		
Share capital *[note 12]*	**120,306**	111,247
Convertible debentures and equity component of a debenture *[notes 11 and 13]*	**53,514**	52,855
Retained earnings	**135,322**	70,336
Contributed surplus	**118**	—
Warrants *[notes 11 and 12]*	**3,994**	4,122
Deferred translation adjustments	**274**	2,786
	313,528	241,346
	838,389	714,757

On behalf of the Board:
Jean-Marc Eustache, Director
André Bisson, O.C., Director

Commitments and contingencies *[note 21]*
See accompanying notes to consolidated financial statements.

Consolidated statements of income

Years ended October 31 [In thousands of dollars, except per share amounts]

	2004 $	2003 $
Revenues	**2,199,822**	2,096,649
Operating expenses		
Direct costs	**1,075,861**	1,023,199
Salaries and employee benefits	**227,626**	228,320
Commissions	**179,873**	171,791
Aircraft fuel	**128,112**	137,716
Aircraft maintenance	**88,684**	112,960
Aircraft rent	**59,640**	67,988
Airport and navigation fees	**59,379**	60,382
Other	**216,892**	219,331
	2,036,067	2,021,687
	163,755	74,962
Amortization *[note 14]*	**33,027**	42,138
Restructuring charge *[note 17]*	**11,350**	47,972
Interest on long-term debt, obligations under capital leases and debentures	**7,581**	9,771
Other interest and financial expenses	**1,907**	3,071
Interest income	**(11,307)**	(9,530)
Foreign exchange loss (gain) on long-term monetary items	**1,474**	(3,873)
Share of net loss (income) of companies subject to significant influence	**1,509**	(673)
	45,541	88,876
Income (loss) before the following items	**118,214**	(13,914)
Income taxes (recovery) *[note 18]*		
Current	**34,057**	6,122
Future	**10,953**	(11,655)
	45,010	(5,533)
Income (loss) before non-controlling interest in subsidiaries' results	**73,204**	(8,381)
Non-controlling interest in subsidiaries' results	**(753)**	(766)
Income (loss) from continuing operations	**72,451**	(9,147)
Income from discontinued operations, net of related income taxes of $18,775 in 2003 *[note 16]*	**—**	54,083
Net income for the year	**72,451**	44,936
Basic earnings (loss) per share *[note 12]*		
Continuing operations	**2.07**	(0.38)
Discontinued operations	**—**	1.65
	2.07	1.27
Diluted earnings (loss) per share *[note 12]*		
Continuing operations	**1.76**	(0.38)
Discontinued operations	**—**	1.65
	1.76	1.27

Consolidated statements of retained earnings

	2004 $	2003 $
Retained earnings, beginning of year, as previously reported	**70,336**	30,243
Change in accounting policy *[note 3]*	**—**	(1,607)
Retained earnings, beginning of year	**70,336**	28,636
Net income for the year	**72,451**	44,936
Premium paid on redemption of common shares *[note 12]*	**(4,161)**	—
Interest on equity component of debentures, net of related income taxes of $1,446 [$1,431 in 2003]	**(3,304)**	(3,236)
Retained earnings, end of year	**135,322**	70,336

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flow

Years ended October 31 [In thousands of dollars]

	2004 $	2003 $
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	**72,451**	(9,147)
Operating items not involving an outlay (receipt) of cash		
Amortization	**33,027**	42,138
Write-off of property, plant and equipment and other assets *[note 17]*	**3,031**	34,483
Foreign exchange loss (gain) on long-term monetary items	**1,474**	(3,873)
Share of net loss (income) of companies subject to significant influence	**1,509**	(673)
Non-controlling interest in subsidiaries' results	**753**	766
Future income taxes	**10,953**	(11,655)
Interest on debentures	**827**	824
Compensation expense related to stock option plan	**145**	—
Operating cash flow	**124,170**	52,863
Net change in non-cash working capital balances related to operations	**41,860**	17,101
Net change in deposits, expenses and provision for engine and airframe overhaul	**19,070**	1,733
Cash flows relating to operating activities	**185,100**	71,697
INVESTING ACTIVITIES		
Repayment of deposits	**4,264**	5,595
Cash and cash equivalents from acquired companies	**5,905**	—
Consideration paid for acquired companies	**(12,660)**	—
Net change in other assets	**3,143**	4,434
Increase in deposits	**(12,720)**	(1,791)
Additions to property, plant and equipment	**(20,902)**	(12,513)
Cash flows relating to investing activities	**(32,970)**	(4,275)
FINANCING ACTIVITIES		
Change in bank loans	—	(17,536)
Increase in other long-term debt	—	136
Repayment of other long-term debt and obligations under capital leases	**(36,172)**	(40,112)
Repayment of a debenture	**(2,500)**	—
Proceeds from issue of common shares	**9,718**	744
Redemption of common shares	**(4,961)**	—
Proceeds from issue of a debenture	**3,156**	—
Interest paid on convertible debentures	**(4,600)**	(4,600)
Net change in other liabilities	**2,657**	5,090
Cash flows relating to financing activities	**(32,702)**	(56,278)
Cash flows relating to continuing operations	**119,428**	11,144
Cash flows relating to discontinued operations *[note 16]*	—	77,858
Net change in cash and cash equivalents	**119,428**	89,002
Cash and cash equivalents, beginning of year	**349,125**	260,123
Cash and cash equivalents, end of year	**468,553**	349,125
Supplementary information		
Income taxes paid	**4,739**	1,178
Interest paid	**10,423**	11,348

See accompanying notes to consolidated financial statements.

1 INCORPORATION AND NATURE OF BUSINESS

Transat A.T. Inc. [the "Corporation"], incorporated under the *Canada Business Corporations Act*, is an integrated company specializing in the organization, marketing and distribution of holiday travel. The core of its business consists of tour operators based in Canada and France. The Corporation is also involved in air transportation and value-added services at travel destinations. Finally, the Corporation has secured a dynamic presence in distribution through travel agency networks.

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of consolidation
The consolidated financial statements include the accounts of the Corporation and its subsidiaries.

Cash equivalents
Cash equivalents consist primarily of term deposits, bankers' acceptances and commercial paper that are readily convertible into known amounts of cash with initial maturities of less than three months. These investments are recorded at cost plus accrued interest and their carrying value approximates their fair market value.

Inventories
Inventories are valued at the lower of cost, determined according to the first-in, first-out method, and replacement cost.

2 SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

Property, plant and equipment is recorded at cost and is amortized, taking into account its residual value, on a straight-line basis over its estimated useful life as follows:

Property under capital leases	
Aircraft	7 to 10 years
Aircraft engines	Cycles used
Other property	Lease term
Owned property, plant and equipment	
Hangar and administrative buildings	35 years
Aircraft	7 to 10 years
Improvements to aircraft under operating leases	Lease term
Aircraft equipment	5 to 10 years
Computer hardware and software	3 to 7 years
Aircraft engines	Cycles used
Office furniture and equipment	4 to 10 years
Leasehold improvements and other	Lease term
Rotable aircraft spare parts	Use

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate that it might be impaired. The impairment test consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to income in the year in which the loss is recognized. The Corporation uses the discounted cash flows method to assess the fair value of its reporting units.

Other assets

Other assets consist in particular of long-term financing costs, development costs and long-term investments.

Deferred long-term financing costs are amortized over the financing period of the related debts and development costs are amortized over periods not exceeding five years. Long-term investments over which the Corporation has the ability to exercise significant influence are accounted for using the equity method.

Impairment of long-lived assets

Long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value [net recoverable value]. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the net recoverable value.

Deposits, expenses and provision for engine and airframe overhaul

The Corporation provides for engine and airframe overhaul expenses for each aircraft based on an estimate of all such future expenses until the expiry of the leases for these aircraft, or for their remaining useful lives while held, amortized over the total number of engine cycles and the total number of flying hours anticipated for the airframe over the same periods.

These expenses are charged to income according to the number of cycles used or the number of flying hours recorded during the year, by the amortization of the capitalized overhaul costs or by a provision for future costs, as the case may be. Actual results could differ from those estimates and differences could be significant.

The Corporation makes deposits representing a portion of engine and airframe overhaul expenses to certain aircraft lessors. These deposits are usually recoverable upon presentation of claims for eligible overhaul expenses. Amounts so claimed are included under "Accounts receivable." The excess of the provision for future overhaul expenses over deposits made and unclaimed is included in liabilities as "Provision for engine and airframe overhaul in excess of deposits." The unamortized balance related to engine and airframe overhaul expenses is included, if any, in assets as "Deposits."

2 SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Foreign currency translation

(a) **Self-sustaining foreign operations**
The Corporation translates the accounts of its self-sustaining foreign subsidiaries using the current rate method. All assets and liabilities of self-sustaining foreign operations are translated at the exchange rates in effect at year-end. Revenues and expenses are translated at average rates of exchange during the period. Net gains or losses resulting from the translation of assets and liabilities are shown in shareholders' equity.

(b) **Accounts and transactions in foreign currencies**
The accounts and transactions of the Corporation denominated in foreign currencies are translated using the temporal method. Under this method, monetary items on the balance sheet are translated at the exchange rates in effect at year-end, while non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange on the transaction date or at the average exchange rates for the period. Gains or losses resulting from the translation are included in the consolidated statement of income.

Stock-based compensation plans

The Corporation accounts for its stock option plan for directors, management and employees, for stock option awards granted after October 31, 2003, using the fair value method. The fair value of stock options at the grant date is determined using an option pricing model. Compensation expense is recognized in income over the vesting period of the stock options.

Prior to November 1, 2003, the Corporation accounted for its stock option plan for directors, management and employees as capital transactions. Accordingly, the issuance of options did not give rise to compensation expenses. The Corporation disclosed the impact of applying the fair value-based method on pro forma net income and earnings per share by way of a note to the consolidated financial statements for the awards granted during 2003.

The Corporation's contributions to the permanent stock ownership incentive plan for senior executives are recognized in income when the shares are awarded. No compensation expense is recognized for the other plans when shares are issued to directors, management and employees. Any consideration paid by directors, management and employees upon purchasing shares is credited to share capital.

A description of the stock-based compensation plans offered by the Corporation is included in note 12.

Revenues

The Corporation recognizes revenues once all the significant risks and rewards of the service have been transferred to the customer. As a result, revenues earned from passenger transportation are recorded upon each return flight. Revenues of tour operators and the related costs are recorded at the time of the departure of the passengers. Commission revenues of travel agencies are recorded at the time of reservation. Amounts received for services not yet rendered are included in current liabilities as "Customer deposits and deferred income."

Financial instruments

The Corporation uses foreign exchange forward contracts to hedge against future currency exchange rate variations related to aircraft operating lease payments, receipts of revenue from certain tour operators and disbursements pertaining to certain operating expenses in other currencies. The gains or losses on contracts designated as hedges resulting from exchange rate variations are recorded in income when the related hedging transactions are realized. The gains or losses on contracts not designated as hedges or that cease being designated as such are recognized at their fair value on the balance sheet and any subsequent change in fair value is recognized in the statement of income.

In addition, the Corporation has entered into interest-rate and currency swap agreements related to certain operating leases. The amounts charged to income are based on the rates provided in the contracts. The gains or losses on contracts not designated as hedges or that cease being designated as such are recognized at their fair value on the balance sheet and any subsequent change in fair value is recognized in the statement of income.

To protect itself against variations in fuel costs, the Corporation has entered into fuel price hedging contracts. The gains or losses resulting from designated hedge contracts are recorded in fuel costs as purchases of fuel are made.

It is the Corporation's policy not to speculate on financial instruments; thus, these instruments are normally designated as hedges and maintained until maturity according to the primary objective of hedging risks.

2 SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes

The Corporation provides for income taxes using the liability method. Under this method, future income tax assets and liabilities are calculated based on differences between the carrying value and tax bases of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse. A valuation allowance has been recorded to the extent that it is more likely than not that future income taxes will not be realized.

Employee future benefits

The Corporation offers defined benefit plans to certain members of senior management. The cost of pension benefits earned by employees is determined from actuarial calculations using the projected benefit method prorated on services and management's most likely estimate of expected plan investment performance, salary escalation and the retirement age of employees. Plan obligations are discounted using current market interest rates and are included in "Other liabilities."

Earnings per share

Earnings per share is calculated based on the weighted average number of common shares outstanding during the year. The diluted earnings per share is calculated using the treasury stock method and takes into account all the elements that have a dilutive effect.

3 CHANGES IN ACCOUNTING POLICIES

Hedging relationships

On November 1, 2003, the Corporation adopted the Canadian Institute of Chartered Accountants Handbook ["CICA"] Accounting Guideline 13 [AcG-13], "Hedging Relationships." AcG-13 addresses the identification, designation, documentation and effectiveness of hedging relationships for hedge accounting purposes. In addition, it deals with the discontinuance of hedge accounting and establishes conditions for applying hedge accounting. Under the new Guideline, an enterprise is required to document its hedging relationships and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. In accordance with the Guideline, gains and losses related to derivatives designated as eligible for hedge accounting are booked in the income statement in the same period as for the hedged item. Derivatives that are no longer eligible for hedge accounting are recorded at their fair value on the balance sheet and any subsequent changes in fair value are recorded in the income statement. The adoption of this Guideline had no impact on the Corporation's results, financial position or cash flows.

Stock-based compensation and other stock-based payments

On November 1, 2003, the Corporation adopted prospectively the amended CICA Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." The amendments require that the fair value-based method be applied to awards granted to employees and that a compensation charge be accounted for. Enterprises are required to account for the effect of such awards in their financial statements for fiscal years beginning on or after January 1, 2004. Retroactive, with or without restating prior periods, or prospective application is allowed. However, prospective application is only available to enterprises that elect to apply the fair value-based method of accounting for fiscal years beginning before January 1, 2004. The adoption of these amendments resulted in a reduction in net income for the year ended October 31, 2004 of $145 and a decrease in earnings per share of $0.01.

Foreign currency translation

On November 1, 2002, the Corporation adopted, on a retroactive basis with restatement, the amended CICA Handbook Section 1650, "Foreign Currency Translation." The standards require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies, including gains and losses on long-term monetary assets and liabilities, such as long-term debt and obligations under capital leases, be included in income for the year. Prior to November 1, 2002, unrealized translation gains and losses on long-term monetary assets and liabilities were deferred and amortized on a straight-line basis over the remaining lives of the related items. As a result of the adoption of these amendments on November 1, 2002, deferred foreign exchange losses in the amount of $1,607 included in other assets were written off and charged to retained earnings.

4 CASH AND CASH EQUIVALENTS

	2004 $	2003 $
Cash and cash equivalents	**310,875**	242,952
Cash in trust or otherwise reserved	**157,678**	106,173
	468,553	349,125

As at October 31, 2004, cash in trust or otherwise reserved included $118,146 [$106,173 as at October 31, 2003] in funds received from customers for services not yet rendered and $39,532 [nil as at October 31, 2003] was pledged as collateral security against letters of credit and foreign exchange forward contracts.

5 DEPOSITS

	2004 $	2003 $
Deposits on leased aircraft and engines	**10,473**	11,344
Deposits with suppliers	**40,468**	26,881
	50,941	38,225
Less current portion	**28,830**	24,053
	22,111	14,172

6 PROPERTY, PLANT AND EQUIPMENT

	2004 Cost $	2004 Accumulated amortization $	2003 Cost $	2003 Accumulated amortization $
Property under capital leases				
Aircraft	—	—	17,781	14,017
Aircraft engines	—	—	20,358	3,819
Other property	—	—	1,347	677
	—	—	39,486	18,513
Owned property, plant and equipment				
Hangar and administrative buildings	**7,640**	**2,302**	7,485	2,056
Aircraft	—	—	8,754	7,540
Improvements to aircraft under operating leases	**19,214**	**6,108**	12,674	5,291
Aircraft equipment	**33,750**	**26,160**	29,941	22,245
Computer hardware and software	**70,633**	**50,082**	70,581	43,934
Aircraft engines	**20,358**	**5,151**	—	—
Office furniture and equipment	**20,855**	**16,096**	21,845	16,611
Leasehold improvements and other	**18,367**	**10,411**	17,540	8,807
Rotable aircraft spare parts	**24,139**	**5,518**	23,784	5,352
	214,956	**121,828**	192,604	111,836
	214,956	**121,828**	232,090	130,349
Accumulated amortization	**121,828**		130,349	
Net book value	**93,128**		101,741	

7 OTHER ASSETS

	2004 $	2003 $
Deferred costs, unamortized balance	**6,220**	6,870
Investments in companies subject to significant influence and other investments	**2,186**	6,788
Miscellaneous	**2,626**	6,859
	11,032	20,517

On February 1, 2004, the Corporation ceased being able to exercise significant influence over Star Airlines S.A. ["Star"]. As a result, the investment in Star has been carried at its carrying value as of that date. In addition, accumulated dividends received by the Corporation subsequent to February 1, 2004 that exceed the Corporation's share of the earnings previously realized by Star will be applied against its carrying value. During the year ended October 31, 2004, the Corporation received a dividend amounting to €880 [$1,416] of which €694 [$1,116] was recorded in income and €186 [$300] was applied against the investment in Star. Previously, the investment was accounted for using the equity method.

8 BANK LOANS

Operating lines of credit totalling €8,665 [$13,485] [€12,094 [$18,465] in 2003] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were unused as at October 31, 2004 and 2003. For the year ended October 31, 2004, operating lines of credit bore interest at an average rate of 2.8% [3.3% for the year ended October 31, 2003].

9 LONG-TERM DEBT

	2004 $	2003 $
Term loan in the amount of US$3,532 in 2003, bearing interest at Libor plus 2.5%, or 3.64% as at October 31, 2003, repayable in instalments of varying amounts, maturing in 2004 and collateralized by a movable hypothec on an aircraft	—	4,661
Term loan in the amount of US$1,842 in 2003, bearing interest at 8%, repayable in monthly instalments of capital and interest totalling US$44, maturing in 2004 and collateralized by a movable hypothec on rotable aircraft spare parts	—	2,431
Loans of €1,732 in 2003, bearing interest at rates ranging from 5.4% to 5.9% in 2003 and maturing in 2006	—	2,644
Term loans in the amount of €2,509 in 2003, bearing interest at Euribor plus 0.7%, or 2.8% as at October 31, 2003 and maturing at various dates through 2007	—	3,831
Other, maturing at various dates through 2007	—	3,464
	—	17,031
Less current portion	—	12,220
	—	4,811

During the year, the Corporation fully repaid its long-term debt.

As at October 31, 2003, the Corporation and its subsidiaries Air Transat A.T. Inc. ["Air Transat"] and Transat Tours Canada Inc. ["Transat Tours"] had a revolving line of credit amounting to $55,000 under a banking syndicate agreement.

Under the terms of this agreement, it was possible to make drawings by way of bankers' acceptances and bank loans, as well as through the issuance of letters of credit denominated in Canadian or U.S. dollars. The interest rate was determined based on a grid of rates that varied based on the level of certain financial ratios calculated on a consolidated basis.

9 LONG-TERM DEBT [Cont'd]

As at October 31, 2003, letters of credit had been issued for a total of $20,256, thus reducing by the same amount the balance available on the revolving term loan.

For the purpose of guarantee agreements related to its operations, the subsidiary, Air Transat, also benefited from a special revolving term loan in the amount of $35,000, subject to the same terms and conditions as the revolving term loan. As at October 31, 2003, letters of guarantee had been issued for a total of $31,768 under this special revolving term loan.

Under these agreements, the Corporation had granted its lenders most of the assets as collateral on its long-term debt.

The credit facilities expired during the year and were not renewed.

10 OBLIGATIONS UNDER CAPITAL LEASES

	2004 **$**	2003 $
Obligations totalling US$3,204 in 2003 related to aircraft, maturing at various dates through 2004	—	4,228
Obligations totalling US$8,088 in 2003 related to an aircraft engine, maturing in 2009	—	10,675
Obligations totalling US$1,528 in 2003 related to an aircraft engine, maturing in 2005	—	2,017
Other obligations, maturing at various dates through 2005	—	1,399
	—	18,319
Less current portion	—	7,882
	—	10,437

During the year, the Corporation fully repaid its obligations under capital leases.

Obligations under capital leases related to aircraft, aircraft engines and other obligations were determined based on interest rates ranging from 3.2% to 9.5% in 2003.

11 DEBENTURES

(a) The $10,000 debenture of Transat Tours bears interest at 17.5% and matures on November 1, 2005. The debenture is repayable at the option of Transat Tours at a price such that the holder earns a compound annual return of 20.5% from its issuance on November 1, 1995, taking into consideration annual interest already paid and recorded at a rate of 17.5%. The debenture, if not redeemed, is convertible into 25% of the common shares of Transat Tours.

The debenture is collateralized by certain intercorporate guarantees and by a movable hypothec on the shares of a number of the Corporation's subsidiaries and on all of the tangible assets of Air Transat and of Transat Tours. Should the Corporation be subject to a takeover bid, the lender has the option to acquire all of the outstanding shares of Transat Tours at a price determined under an agreed formula.

(b) In September 2001, a subsidiary of the Corporation issued a debenture in the amount of $2,500 bearing interest at a rate of 8.25%. The debenture was repayable in one instalment in September 2009 in cash or shares of the Corporation at the Corporation's option. The debenture was also repayable in advance at the subsidiary's option as of September 2004 in return for a premium whereby the holder would earn a return of 11.25% from its issuance, taking into consideration annual interest already paid and recorded at the rate of 8.25%. On September 8, 2004, the subsidiary redeemed the debenture in advance in accordance with the terms thereof.

As at October 31, 2003, the liability and equity components of the debenture totalled $750 and $1,750 respectively.

11 DEBENTURES [Cont'd]

(c) On January 10, 2002, the Corporation and Air Transat issued debentures to certain shareholders and management members of the Corporation in the amount of $21,865, bearing interest at a rate of 6% and maturing in January 2009. The debentures are redeemable in advance as of January 2005 in return for payment of a penalty equal to three months' interest. The Corporation and Air Transat must also pay the holders a premium at maturity, upon advance redemption or at conversion, such that the holders earn a compound annual return of 15%, taking into consideration interest already paid at a rate of 6%.

In the course of this financing, the Corporation issued 1,421,225 warrants entitling the holders to subscribe to the same number of common shares of the Corporation at an exercise price of $6.75 each. These warrants expire on January 10, 2007.

On January 10, 2002, the initial liability component of the debentures totalled $17,743, and an amount of $4,122 was allocated to warrants *[note 12]*. As at October 31, 2004, the liability component of the debentures amounted to $20,058 [$19,231 as at October 31, 2003].

(d) On April 6, 2004, a subsidiary of the Corporation issued a debenture in the amount of $3,156, bearing interest at a rate of 6%. The debenture is repayable in one instalment in September 2009 in cash or shares of the Corporation at the Corporation's option. The debenture is also redeemable in advance at the subsidiary's option as of April 2007 in return for a premium whereby the holder will earn a return of 9% from its issuance, taking into consideration annual interest already paid and recorded at the rate of 6%.

The initial liability and equity components of the debenture totalled $802 and $2,354 respectively. As at October 31, 2004, they totalled $734 and $2,422 respectively.

12 SHARE CAPITAL

Authorized

An unlimited number of common 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

	Number of shares	$
Balance as at October 31, 2002	32,460,353	110,200
Add-back of capital	258,207	303
Issued from treasury	144,993	744
Balance as at October 31, 2003	32,863,553	111,247
Issued from treasury	44,047	602
Exercise of options	1,231,541	8,817
Conversion of warrants	44,200	427
Conversion of debentures	1,484	13
Repurchase and cancellation of shares	(230,000)	(800)
Balance as at October 31, 2004	**33,954,825**	**120,306**

Under the *Canada Transportation Act*, the proportion of the Corporation's common shares that can be held by non-residents is limited to 25%.

Following a transaction carried out in March 1997, a total of 51,671 preferred shares, series 3, became the property of Transat Tours. These shares were excluded from the balance of issued and outstanding shares, and were the only preferred shares, series 3, outstanding. The preferred shares, series 3, were non-voting and were entitled to a dividend equal to any dividend declared on the common shares. They were convertible at the rate of one preferred share, series 3, for three common shares and redeemable at the holder's option at their issue price.

12 SHARE CAPITAL [Cont'd]

On October 31, 2000, as part of the completion of the acquisition of Regent Holidays Limited, now merged into Transat Tours, 123,800 preferred shares, series 3, were converted into 371,400 common shares. A total of 103,194 of these common shares became the property of Regent Holidays Limited and were excluded from the number of issued and outstanding shares.

On November 8, 2002, the 51,671 preferred shares, series 3, held by Transat Tours were converted into 155,013 common shares of the Corporation. Subsequent to the conversion, the number of common shares held by Transat Tours and excluded from the share capital of the Corporation totalled 258,207. On the same date, all of the common shares held by Transat Tours were then sold on the market and immediately reintegrated into the share capital of the Corporation at their original issue price, namely $303. The transaction had no impact on the results of the Corporation.

Normal course issuer bid
The Corporation filed a normal course issuer bid for a 12-month period that began June 15, 2004. With this bid, the Corporation intends, among other things, to purchase for cancellation up to a maximum of 1,662,847 common shares of the Corporation, which represented approximately 5% of issued and outstanding common shares at the offer date. Shares are purchased at market prices plus brokerage fees.

During the year ended October 31, 2004, the Company repurchased and cancelled 230,000 common shares under its normal course issuer bid for a net cash consideration of $4,961.

Subscription rights plan
At the annual meeting held on March 27, 2002, the shareholders ratified the renewal, by the Corporation, of a shareholders' subscription rights plan ["rights plan"]. The rights plan entitles holders of common shares to acquire, under certain conditions, additional common shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider offers, thus allowing shareholders to receive full and fair value for their shares. The rights plan will terminate at the annual shareholders' meeting in 2005, unless it is terminated earlier by the Corporation's Board of Directors.

Share purchase plan
A share purchase plan is available to eligible employees and management members of the Corporation and its subsidiaries. Under the plan, as at October 31, 2004, the Corporation was authorized to issue up to 672,977 common shares. The plan allows each eligible employee to purchase shares for a subscription limit up to 10% of his or her annual salary in effect at the time of the subscription. The purchase price of the shares under the plan is equal to the weighted average price of the common shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 44,047 common shares [144,993 in 2003] for a total of $602 [$744 in 2003] under the share purchase plan.

Permanent stock ownership incentive plan
Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation attributes annually to each eligible senior executive a number of common shares, the aggregate subscription price of which is equal to the maximum percentage of salary contributed, which may not exceed 10% thereof. Common shares so attributed by the Corporation will vest progressively to the eligible senior executive, subject to the senior executive's retaining, during the vesting period, all the common shares subscribed for under the Corporation's share purchase plan.

12 SHARE CAPITAL [Cont'd]

Stock option plan

Options on common shares are granted under a stock option plan for directors, management and employees. Under the plan, as at October 31, 2004, the Corporation may grant 1,161,679 additional common shares to eligible persons at a share price equal to the weighted average price of the common shares during the five trading days prior to the granting of the options. Options granted prior to 1999 may be exercised during a five-year period after the grant date, whereas those granted as of 1999 may be exercised during a ten-year period subject to a maximum of one-third during the first two years after the grant date, an additional third in the third year and a final third after the start of the fourth year. The tables below summarize all outstanding options:

	2004		2003	
	Number of options	**Weighted average price $**	Number of options	Weighted average price $
Beginning of the year	**2,281,666**	**6.75**	2,120,690	7.91
Granted	**171,500**	**16.06**	629,473	3.84
Exercised	**(1,231,541)**	**7.14**	—	—
Expired	—	—	(45,000)	12.55
Cancelled	**(95,947)**	**7.33**	(423,497)	7.63
End of the year	**1,125,678**	**7.69**	2,281,666	6.75
Options exercisable at the end of the year	**455,461**	**9.20**	1,408,675	7.17

	Outstanding options			**Exercisable Options**	
Range of exercise prices $	**Number of outstanding options as at October 31, 2004**	**Weighted average remaining life**	**Weighted average price $**	**Number of options exercisable as at October 31, 2004**	**Weighted average price $**
3.00 to 4.50	422,801	8.5 years	3.81	8,695	3.80
4.51 to 6.00	6,667	8.0 years	5.80	—	—
6.01 to 7.50	213,204	6.9 years	6.89	96,615	6.78
7.51 to 9.00	136,871	5.4 years	7.90	136,871	7.90
9.01 to 11.50	177,663	6.4 years	9.84	162,663	9.86
15.68 to 22.25	168,472	9.6 years	16.07	50,617	16.11
	1,125,678		7.69	455,461	9.20

12 SHARE CAPITAL [Cont'd]

Compensation expense related to stock option plan

During the year ended October 31, 2004, the Corporation granted 171,500 common stock options to certain key employees and to its directors. The average fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant for the year ended October 31, 2004 are as follows:

Risk-free interest rate	4.82%
Expected life	6 years
Expected volatility	56%
Dividend yield	—
Weighted average grant-date fair value	$8.99

During the year ended October 31, 2004, the Corporation recorded a compensation expense of $145, of which $27 was recorded in share capital subsequent to the exercise of options.

Pro forma disclosure of fair value of stock options

Prior to November 1, 2003, the Corporation accounted for options granted under its stock option plan as capital transactions. The following table shows what the impact on the financial statements would have been had the Corporation recorded the options granted between November 1, 2002 and October 31, 2003 using the fair value method. The pro forma figures do not take into account stock options granted prior to November 1, 2002.

	2004 $	2003 $
Income (loss) from continuing operations	**72,451**	(9,147)
Adjustment – Stock based compensation	**(291)**	(149)
Pro forma income (loss) from continuing operations	**72,160**	(9,296)
Pro forma earnings (loss) per share from continuing operations	**2.06**	(0.38)
Pro forma diluted earnings (loss) per share from continuing operations	**1.76**	(0.38)

The assumptions used and the weighted average fair value of the options on the date of grant for the year ended October 31, 2003 are as follows:

Risk-free interest rate	4.73%
Expected life	6 years
Expected volatility	55%
Dividend yield	—
Weighted average grant-date fair value	$2.09

12 SHARE CAPITAL [Cont'd]

Warrants

On January 10, 2002, the Corporation granted 1,421,225 warrants *[note 11 (c)]*. As at October 31, 2004, the balance of the warrants amounted to 1,377,025 [1,421,225 as at October 31, 2003] and 44,200 warrants were exercised during the year [nil in 2003].

Earnings per share

Basic earnings (loss) per share and diluted earnings (loss) per share were computed as follows:

[In thousands, except amounts per share]	2004 $	2003 $
NUMERATOR		
Income (loss) from continuing operations	**72,451**	(9,147)
Interest on convertible debentures	**(3,304)**	(3,245)
Income (loss) from continuing operations attributable to common shareholders	**69,147**	(12,392)
Income from discontinued operations attributable to common shareholders	**—**	54,083
Income attributable to common shareholders	**69,147**	41,691
Interest on convertible debentures	**3,304**	—
Interest on debentures that may be settled in common shares	**95**	—
Income used in calculating diluted earnings per share	**72,546**	41,691
Income (loss) from continuing operations used in calculating diluted earnings (loss) per share	**72,546**	(12,392)
Income from discontinued operations used in calculating diluted earnings per share	**—**	54,083
Income used in calculating diluted earnings per share	**72,546**	41,691
DENOMINATOR		
Weighted average number of outstanding shares	**33,374**	32,796
Effect of dilutive securities		
Convertible debentures	**5,841**	—
Debentures that may be settled in common shares	**211**	—
Stock options	**918**	—
Warrants	**812**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**41,156**	32,796
Basic earnings (loss) per share		
Continuing operations	**2.07**	(0.38)
Discontinued operations	**—**	1.65
	2.07	1.27
Diluted earnings (loss) per share		
Continuing operations	**1.76**	(0.38)
Discontinued operations	**—**	1.65
	1.76	1.27

Convertible debentures and debentures that may be settled in common shares were excluded from the computation of diluted loss per share from continuing operations for the year ended October 31, 2003 due to their antidilutive effect. The potential effect of these securities on the denominator was 6,307,387 shares.

In computing diluted loss per share from continuing operations for the year ended October 31, 2003, a total of 2,281,666 common stock options were excluded from the computation as a result of their antidilutive effect.

In addition, for the year ended October 31, 2003, the warrants were not taken into consideration in the computation of the diluted loss per share from continuing operations as a result of their antidilutive effect. The potential effect of these securities on the denominator was 1,421,225 shares.

13 CONVERTIBLE DEBENTURES

On February 19, 2002, the Corporation issued $51,105 of convertible unsecured subordinated debentures maturing on March 1, 2007. The debentures bear interest at 9%, payable semi-annually in cash or in common shares of the Corporation, at its option. The debentures are convertible into common shares of the Corporation, at a conversion price of $8.75 per share, at the holder's option at any time. During the year, debentures totalling $13 were converted into 1,484 common shares of the Corporation.

On or after March 1, 2005 and prior to March 1, 2006, the debentures may be redeemed at par by the Corporation provided its common shares are traded at a price of $10.94 or more for 20 consecutive trading days before the notice of redemption. After March 1, 2006, the debentures may be redeemed at par. The Corporation will have the option to repay the debentures, in whole or in part, in cash or by delivering a number of common shares obtained by dividing the principal amount of the debentures by 95% of the market price of the Corporation's shares at the redemption date or at maturity.

The Corporation, under its normal course issuer bid starting on June 15, 2004 *[see note 12]*, may repurchase and cancel up to a maximum of $2,555 in convertible debentures of the Corporation, representing approximately 5% of the floating convertible debentures at the offer date. The convertible debentures would be repurchased at market prices plus brokerage fees.

During the year ended October 31, 2004, the Corporation, in connection with its normal course issuer bid, did not repurchase or cancel any convertible debentures.

14 AMORTIZATION

	2004 $	2003 $
Property, plant and equipment	**30,312**	36,654
Other assets	**2,715**	5,484
	33,027	42,138

15 ACQUISITIONS

Jonview Corporation

On April 8, 2004, the Corporation acquired the balance of the outstanding shares [50%] of incoming tour operator Jonview Corporation ["Jonview"] for a total consideration of $12,771, including acquisition costs of $113. A cash amount of $9,593 was paid at the closing of the transaction and the balance of $3,065 will be paid in cash in three instalments through September 2006. The minority shareholder's portion was financed, in part, by the issuance of a debenture *[see note 11 (d)]*. The acquisition was recorded using the purchase method. Jonview's results were included in the Corporation's results as of the acquisition date. Previously, the results were recorded on a proportionate consolidation basis. Subsequent to these transactions, the Corporation now holds an 80.1% interest in Jonview.

Tourgreece S.A.

On June 10, 2004 the Corporation acquired an additional 50% interest in Tourgreece S.A. ["Tourgreece"], an incoming tour operator, for a total cash consideration of €1,797 [$2,954], including acquisition costs of €219 [$354]. The acquisition was accounted for as a step acquisition and the results of Tourgreece were included in the Corporation's results as of the acquisition date. Total goodwill resulting from the two acquisition transactions amounted to $6,996. Previously, the results were recorded using the equity method.

Subsequent to this transaction, the Corporation now holds a 90% interest in Tourgreece. Under the agreement, the Corporation has a call option to acquire the balance of shares at any time prior to 2011.

15 ACQUISITIONS [Cont'd]

The business acquisitions are summarized as follows:

	Jonview $	Tourgreece $	Total $
Assets acquired			
Cash and cash equivalents	1,623	2,141	3,764
Other current assets	1,635	963	2,598
Property, plant and equipment	798	43	841
Goodwill	11,956	3,338	15,294
	16,012	6,485	22,497
Liabilities assumed			
Current liabilities	3,033	3,531	6,564
Long-term debt	208	—	208
	3,241	3,531	6,772
Net assets acquired at fair value	12,771	2,954	15,725

16 DISCONTINUED OPERATIONS

On October 31, 2003, the Corporation completed the sale of its online travel agency in France, Caïd S.A. [carrying out business under the name Anyway.com], for a cash consideration of €53,824 [$83,163] resulting in a gain on disposal of €34,356 [$53,101], net of related income taxes and selling expenses totalling €12,151 [$18,775] and €3,991 [$6,166] respectively.

The results from the discontinued operations presented in the statement of income for the year ended October 31, 2003 are detailed as follows:

	$
Revenues	12,860
Operating expenses	10,611
	2,249
Amortization	946
Other interest and financial expenses	340
Interest income	(19)
	1,267
Income before income taxes and gain on disposal	982
Income taxes (recovery)	
Current	345
Future	(345)
	—
Income before gain on disposal	982
Gain on disposal, net of related income taxes of $18,775	53,101
Income from discontinued operations	54,083

Net cash flows relating to the discontinued operations presented in the statement of cash flows for the year ended October 31, 2003 are detailed as follows:

	$
Operating activities	9,466
Investing activities	69,277
Financing activities	(885)
Cash flows relating to discontinued operations	77,858

16 DISCONTINUED OPERATIONS [Cont'd]

At the time of the disposal of the assets and liabilities relating to the discontinued operations, the carrying amount was detailed as follows:

	$
Cash and cash equivalents	6,620
Accounts receivable	19,437
Property, plant and equipment	2,817
Other assets	5,291
Total assets	34,165
Accounts payable and accrued liabilities	25,876
Other liabilities	3,168
Total liabilities	29,044
Net assets relating to discontinued operations	5,121

17 RESTRUCTURING CHARGE

2004 Restructuring program

During the year ended October 31, 2004, the Corporation recorded a restructuring charge totalling $11,350 related to its restructuring program, which aims to change the management structure and reposition the Corporation's subsidiary Look Voyages S.A.

The amount recorded includes a cash charge of $8,319 and a write-off of property, plant and equipment and other assets of $3,031. The cash charge consists mainly of employee termination benefits and contract termination costs.

The following table highlights the activity and balance of the 2004 restructuring provision for the year ended October 31, 2004.

	Employee termination benefits $	Contract termination costs $	Write-off of property, plant and equipment and other assets $	Other costs $	Total $
Amount incurred during the year ended October 31, 2004	**4,590**	**2,526**	**3,031**	**1,203**	**11,350**
Cumulative drawdowns:					
Cash	—	—	—	**88**	**88**
Non-cash	—	—	**3,031**	—	**3,031**
Balance as at October 31, 2004	**4,590**	**2,526**	—	**1,115**	**8,231**

17 RESTRUCTURING CHARGE [Cont'd]

2003 Restructuring program

During the year ended October 31, 2003, the Corporation recorded a restructuring charge totalling $47,972. This program included a change in the management structure and a reorganization that affected both the nature and focus of its operations in France and Canada.

The amount recorded includes a cash charge of $13,489 and a write-off of property, plant and equipment and other assets of $34,483. The cash charge consists mainly of employment termination benefits and contract termination costs.

The write-off of property, plant and equipment and other assets arises primarily from the gradual phase-out of the six Lockheed L-1011-500 aircraft of the Corporation through April 30, 2004. This amount includes $21,462 in the form of a write-off for the three aircraft that ceased operations in September 2003, as well as $12,253 for an impairment write-down corresponding to the excess of the carrying amount, at the time recoverability is assessed, over the fair value of long-lived assets calculated using the estimated future cash flows directly related to the three remaining aircraft phased out by April 30, 2004.

The following table highlights the activity and balance of the 2003 restructuring provision for the years ended October 31, 2003 and 2004.

	Employee termination benefits $	Contract termination costs $	Write-off of property, plant and equipment and other assets $	Other costs $	Total $
Amount incurred during the year ended October 31, 2003	11,663	767	34,483	1,059	47,972
Cumulative drawdowns:					
Cash	6,049	717	—	619	7,385
Non-cash	—	—	34,483	—	34,483
Balance as at October 31, 2003	5,614	50	—	440	6,104
Amount incurred during the year ended October 31, 2004	—	—	—	—	—
Cumulative drawdowns:					
Cash	**2,341**	—	—	**47**	**2,388**
Non-cash	—	—	—	—	—
Balance as at October 31, 2004	**3,273**	**50**	—	**393**	**3,716**

18 INCOME TAXES

Income taxes on income (loss) from continuing operations as presented differ from the amount calculated by applying the statutory income tax rate to income (loss) before income taxes, non-controlling interest in subsidiaries' results and income (loss) from discontinued operations.

The reasons for this difference and the effect on income tax expense are detailed as follows:

	2004 $	**2004** %	2003 $	2003 %
Income taxes at the statutory rate	**37,947**	**32.1**	(4,745)	34.1
Change in income taxes arising from the following:				
Non-deductible items	**898**	**0.8**	1,811	(13.0)
Recognition of previously unrecorded tax benefits	**(598)**	**(0.5)**	(5,321)	38.2
Unrecorded tax benefits	**6,887**	**5.8**	957	(6.9)
Large corporations tax	**240**	**0.2**	386	(2.8)
Other	**(364)**	**(0.3)**	1,379	(9.9)
	45,010	**38.1**	(5,533)	39.7

18 INCOME TAXES [Cont'd]

The tax effects of temporary differences giving rise to future income tax assets and liabilities are as follows:

	2004 $	2003 $
Future income taxes		
Net operating loss carry-forwards and other tax deductions	**25,896**	24,685
Carrying amount of capital assets over tax basis	**(16,848)**	(12,410)
Other	**4,774**	3,624
Total future income taxes	**13,822**	15,899
Valuation allowance	**(19,607)**	(12,985)
Net future income tax assets (liabilities)	**(5,785)**	2,914
Current future income tax assets	**586**	959
Long-term future income tax assets	**10,656**	13,371
Long-term future income tax liabilities	**(17,027)**	(11,416)
Net future income tax assets (liabilities)	**(5,785)**	2,914

Non-capital losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which no related income tax benefits have been recognized, amounted to €32,401 [$50,425] as at October 31, 2004 [€22,829 [$35,157] as at October 31, 2003]; these losses and differences have no expiry date.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

During the year, the Corporation recognized a tax savings totalling $1,420 as a reduction of goodwill. This savings was not recognized when the purchase price of an acquisition was allocated.

19 RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of its operations, the Corporation enters into transactions with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. Significant transactions between related companies are as follows:

	2004 $	2003 $
Revenues from companies subject to significant influence	**3,897**	2,157
Operating expenses incurred from companies subject to significant influence	**90,691**	120,729

Operating expenses consist primarily in the purchase of airplane seats.

The balances receivable from and payable to related companies included in accounts receivable and accounts payable and accrued liabilities are as follows:

	2004 $	2003 $
Accounts receivable from companies subject to significant influence	**984**	2,028
Accounts payable and accrued liabilities due to companies subject to significant influence	**782**	2,129

20 EMPLOYEE FUTURE BENEFITS

As at October 31, 2004, accrued benefit obligations and the actuarial deficit amounted to $5,348 [$3,360 as at October 31, 2003]. For the year ended October 31, 2004, the pension expense totalled $811 [$627 for the year ended October 31, 2003]. The Corporation issued a letter of credit to the trustee in the amount of $4,635 in order to guarantee its benefit obligations *[see notes 4 and 22]*.

21 COMMITMENTS AND CONTINGENCIES

(a) The Corporation's commitments under operating leases relating to aircraft, land, automotive equipment, telephone systems, maintenance contracts and office premises amounted to $415,832, broken down as follows: $94,105, US$252,948 and €8,323. In addition, as part of certain aircraft financing arrangements maturing through 2008, the Corporation guaranteed a portion of the residual value amounting to US$56,518 [$68,992].

The residual values guaranteed by the Corporation and the annual instalments to be made under these leases and related derivative financial instruments during the next five years are as follows:

	Residual value $	Instalment $
2005	—	84,123
2006	—	73,937
2007	16,698	66,550
2008	52,294	57,828
2009	—	42,667

(b) In 2009, the minority shareholder in Jonview's parent company may require the Corporation to buy the shares of Jonview's parent company which it holds at a price equal to the fair market value. The price paid may be settled, at the Corporation's option, in cash or by a share issue.

(c) On June 10, 2004, the Corporation acquired an additional 50% interest in incoming tour operator Tourgreece. Subsequent to this transaction, the Corporation now holds a 90% interest in Tourgreece. Under the agreement, the Corporation has a call option to acquire the balance of shares at any time prior to 2011.

(d) In the normal course of its operations, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position.

22 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, 10, 11, 13 and 21 to the 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 through 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance protecting them for the obligations undertaken.

Irrevocable letters of credit
The Corporation has entered into irrevocable letters of credit with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms 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 renewable. 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. As at October 31, 2004, the amount guaranteed totalled $17,663. 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 Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2004, the amount guaranteed totaled $1,045. Historically, the Corporation has not made any significant payments under such agreements.

As at October 31, 2004, no amounts have been accrued with respect to the above-mentioned agreements.

23 FINANCIAL INSTRUMENTS

In the normal course of its operations, the Corporation is exposed to risks related to exchange rate variations for certain currencies, interest rate variations and fuel cost variations. The Corporation manages these risks by entering into various financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses financial instruments to hedge existing commitments or obligations and not to realize a profit on trading operations.

Credit risk related to financial instruments
The theoretical risk to which the Corporation is exposed in relation to financial instruments is limited to the replacement cost of contracts at market rates in effect in the event of default by one of the parties. Management is of the opinion that the credit risk related to financial instruments is well controlled because the Corporation only enters into agreements with large financial institutions and multinational companies.

23 FINANCIAL INSTRUMENTS [Cont'd]

Management of fuel price, foreign exchange and interest rate risks

The Corporation has entered into fuel purchasing contracts to manage fuel price fluctuation risks. As at October 31, 2004, 9% of the requirements for fiscal 2005 were covered by fuel purchasing contracts [45% of the requirements for fiscal 2004 were covered as at October 31, 2003].

The Corporation has also entered into foreign exchange forward contracts for the purchase and sale of foreign currencies, expiring in less than one year, to manage foreign exchange risks. As at October 31, 2004, the face value of these contracts to purchase foreign currencies amounted to $334,754 [$267,370 as at October 31, 2003].

The fair value of financial instruments generally reflects the estimated amounts that the Corporation would receive from settlements of favourable contracts or that it would be required to pay to cancel unfavourable contracts at year-end. These estimated fair values are based on the rates obtained from large financial institutions and multinational companies. As at October 31, 2004 and 2003, the fair values in the event of a settlement are as follows:

	2004		2003	
	Favourable $	**Unfavourable $**	Favourable $	Unfavourable $
Foreign exchange forward contracts	**122**	**29,764**	152	19,113
Fuel purchase contracts	**4,640**	**—**	3,145	686
	4,762	**29,764**	3,297	19,799

In addition, the Corporation, as part of commitments under operating leases, has entered into interest rate and foreign currency swap agreements maturing on various dates through 2008. These swaps effectively modify the features of these operating leases in order to set the commitments in U.S. dollars payable based on a floating interest rate. As at October 31, 2004, the face value of the interest rate and foreign currency swap agreements amounted to $32,272 [$40,358 as at October 31, 2003].

As at October 31, 2004 and 2003, the fair value of these swap agreements, which the Corporation is required to retain, is detailed as followed:

	2004		2003	
	Favourable $	**Unfavourable $**	Favourable $	Unfavourable $
Interest rate swap agreements	**6,396**	**—**	13,064	—
Foreign currency swap agreements	**12,297**	**—**	10,526	—
	18,693	**—**	23,590	—

Credit risk

The Corporation believes it is not exposed to a significant concentration of credit risk. Cash and cash equivalents are invested on a diversified basis in corporations benefiting from an excellent credit rating. Accounts receivable generally arise from the sale of vacation packages to individuals through retail travel agencies and the sale of seats to tour operators which are dispersed over a wide geographic area. As at October 31, 2004 and 2003, no debtor represented more than 10% of the total accounts receivable.

Fair value of financial instruments presented on the balance sheets

Due to their short-term nature, the carrying amount of current financial assets and liabilities reflected on the consolidated balance sheets approximates their fair value.

The fair value of long-term debt and obligations under capital leases, including the current portion, is based on the rates in effect for financial instruments with similar terms and maturities. As at October 31, 2004 and 2003, the carrying value and fair value of long-term financial instruments are as follows:

	2004		2003	
	Carrying value $	**Fair value $**	Carrying value $	Fair value $
Long-term debt	**—**	**—**	17,031	17,121
Obligations under capital leases	**—**	**—**	18,319	18,367

The fair value of the liability component of the debentures could not be determined with sufficient reliability due to their specific nature.

24 SEGMENT DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in Canada and in Europe. Geographic intersegment sales are accounted for at prices that take into account market conditions and other considerations.

	Canada $	France and other $	Total $
2004			
Revenues from third parties	**1,673,530**	**526,292**	**2,199,822**
Operating expenses	**1,495,971**	**540,096**	**2,036,067**
	177,559	**(13,804)**	**163,755**
Amortization	**28,585**	**4,442**	**33,027**
Restructuring charge	**—**	**11,350**	**11,350**
Additions to property, plant and equipment	**19,819**	**1,083**	**20,902**
Property, plant and equipment and goodwill	**127,485**	**52,609**	**180,094**
2003			
Revenues from third parties	1,525,846	570,803	2,096,649
Operating expenses	1,435,190	586,497	2,021,687
	90,656	(15,694)	74,962
Amortization	36,514	5,624	42,138
Restructuring charge	42,214	5,758	47,972
Additions to property, plant and equipment	7,807	4,706	12,513
Property, plant and equipment and goodwill	128,816	42,607	171,423

25 SUBSEQUENT EVENTS

(a) On November 1, 2004, the Corporation acquired a 70% ownership interest in Air Consultants Europe, an outgoing tour operator, for a cash consideration of €1,000 [$1,656].

(b) On January 10, 2005, the Corporation redeemed debentures with a face value of $21,865 in advance. The early redemption resulted in a total payment of $30,009, including accrued interest amounting to $7,324 and an $820 penalty, which was recorded at redemption. Furthermore, this early redemption resulted in an additional non-cash charge at the redemption date of $1,644 corresponding to the difference between the nominal value of the debenture and its carrying amount at that time.

26 COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the presentation adopted in the current year.

Supplementary financial data

[In thousands of dollars, except per share data]

	2004	2003	2002	2001	2000
Consolidated statements of income					
Revenues	**2,199,822**	2,096,649	2,073,508	2,121,886	1,922,550
Operating expenses	**2,036,067**	2,021,687	1,999,360	2,063,863	1,820,026
	163,755	74,962	74,148	58,023	102,524
Expenses and other income					
Amortization	**33,027**	42,138	43,189	49,659	33,252
Restructuring charge	**11,350**	47,972	—	116,972	—
Interest on long-term debt, obligations under capital leases and debentures	**7,581**	9,771	12,418	11,310	10,524
Other interest and financial expenses	**1,907**	3,071	4,563	3,762	2,417
Interest income	**(11,307)**	(9,530)	(5,628)	(10,043)	(10,296)
Foreign exchange (gain) loss on long-term monetary items	**1,474**	(3,873)	(984)	2,303	2,021
Share of net (income) loss of companies subject to significant influence	**1,509**	(673)	(919)	(939)	(1,023)
	45,541	88,876	52,639	173,024	36,895
Income (loss) before the following items	**118,214**	(13,914)	21,509	(115,001)	65,629
Income taxes (recovery)	**45,010**	(5,533)	9,649	(19,909)	27,522
Non-controlling interest in subsidiaries' results	**(753)**	(766)	(182)	(117)	—
Income (loss) before goodwill charges	**72,451**	(9,147)	11,678	(95,209)	38,107
Goodwill charges	—	—	—	4,442	2,862
Income (loss) from continuing operations for the year	**72,451**	(9,147)	11,678	(99,651)	35,245
Income (loss) from discontinued operations for the year	—	54,083	(1,853)	—	—
Net income (loss) for the year	**72,451**	44,936	9,825	(99,651)	35,245
Basic earnings (loss) per share					
Before goodwill charges	**2.07**	(0.38)	0.30	(2.95)	1.18
Continuing operations	**2.07**	(0.38)	0.30	(3.09)	1.09
Discontinued operations	—	1.65	(0.06)	—	—
	—	1.27	0.24	(3.09)	1.09
Diluted earnings (loss) per share [2]					
Before goodwill charges	**1.76**	(0.38)	0.30	(2.95)	1.17
Continuing operations	**1.76**	(0.38)	0.30	(3.09)	1.08
Discontinued operations	—	1.65	(0.06)	—	—
	1.76	1.27	0.24	(3.09)	1.08
Cash flows relating to:					
Operating activities (continuing operations)	**185,100**	71,697	183,234	(12,001)	52,585
Investing activities (continuing operations)	**(32,970)**	(4,275)	(25,864)	(59,441)	(88,048)
Financing activities (continuing operations)	**(32,702)**	(56,278)	17,700	8,660	8,996
Net change in cash and cash equivalents from continuing operations	**119,428**	11,144	175,070	(62,782)	(26,467)
Net change in cash and cash equivalents from discontinued operations	—	77,858	434	—	—
Net change in cash and cash equivalents	**119,428**	89,002	175,504	(67,782)	(26,467)
Cash and cash equivalents, end of year	**468,553**	349,125	260,123	84,619	147,401
Operating cash flow	**124,170**	52,863	74,015	59,357	75,226
Total assets	**838,389**	714,757	773,468	626,442	681,162
Long-term debt and obligations under capital leases (including current portion)	—	35,350	82,702	147,496	144,135
Debentures	**30,792**	29,981	29,226	10,894	10,000
Shareholders' equity	**313,528**	241,346	193,743	132,223	229,507
Debt ratio [1]	**0.63**	0.66	0.75	0.78	0.66
Book value per share	**9.23**	7.34	5.97	4.09	7.14
Return on weighted average shareholders' equity	**24.92%**	20.66%	6.03%	(55.17%)	16.31%
Shareholding statistics [In thousands]					
Common shares outstanding at year-end	**33,955**	32,864	32,460	32,324	32,144
Weighted average number of common shares outstanding (before dilution)	**33,374**	32,796	32,418	32,248	32,158
Weighted average number of common shares outstanding (after dilution) [2]	**41,156**	32,796	32,497	32,248	34,353

[1] *Represents liabilities over liabilities plus shareholders' equity.*

[2] *See note 12 of the audited consolidated financial statements.*

Board of Directors

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer,
Transat A.T. Inc.

André Bisson, O.C.
Chairman of the Board, CIRANO

Lina De Cesare
President, Tour Operators,
Transat A.T. Inc.

Benoît Deschamps
President, Champré Capital Inc.

Jean Guertin
Corporate Advisor and Director,
Honorary Professor, HEC Montréal

H. Clifford Hatch Jr.
President and Chief Executive Officer,
Aurdisyl Management Corporation
and Cliffco Investments Limited

Jacques Simoneau
President and Chief Executive Officer,
Hydro-Québec CapiTech Inc.

Helen K. Sinclair
President and Chief Executive Officer,
BankWorks Trading Inc.

Philippe Sureau
President, Distribution,
Transat A.T. Inc.

John D. Thompson
Deputy Chairman,
Montreal Trust Company of Canada

Dennis Wood
President and Chief Executive Officer,
Dennis Wood Holdings Inc.

Officers

Transat
Jean-Marc Eustache
President and Chief Executive Officer

Philippe Sureau
President, Distribution

Lina De Cesare
President, Tour Operators

Jean-Marc Bélisle
Vice-President and
Chief Information Officer

Bernard Bussières
Vice-President, General Counsel
and Corporate Secretary

André De Montigny
Vice-President,
Corporate Development

Nelson Gentiletti
Vice-President,
Finance and Administration and
Chief Financial Officer

Louise Piché
Corporate Vice-President,
Human Resources

Air Transat
Allen B. Graham
President and Chief Executive Officer

Air Consultants Europe
Elizabeth Van Raalte
General Manager

Cameleon
Lina De Cesare
President

Club Voyages (France)
Patricia Chastel
General Manager

Consultour/
Transat Distribution Canada
Philippe Sureau
President

Handlex
Luc Trépanier
President and Chief Executive Officer

Jonview Canada
Donald Obonsawin
President

Look Voyages
Olivier Kervella
General Manager

Rêvatours
Patricia Corcos
General Manager

Tourgreece
Vassilis P. Sakellaris
President

Transat Tours Canada
Lina De Cesare
President

Vacances Transat (France)
Patrice Caradec
General Manager

Head office

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Information

For additional information on the Corporation, investors and analysts are invited to contact, in writing, the Vice-President, Finance and Administration and Chief Financial Officer.

Vous pouvez obtenir un exemplaire de ce rapport annuel en français en écrivant au vice-président, finances et administration et chef de la direction financière.

Stock Exchange

The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol TRZ.

Transfer Agent and Registrar

Computershare Trust
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Montreal, Quebec H3A 3F8

Auditors

Ernst & Young LLP
Montreal, Quebec

The annual meeting of shareholders will be held on April 27, 2005, 10:00 a.m. at:

Fairmont The Queen Elizabeth

Marquette-Jolliet Room

900 René-Lévesque Blvd. West

Montreal, Quebec

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Outgoing tour operators

- Auratours Vacances
- Kilomètre Voyages
- Nolitour Vacances
- Rêvatours
- Transat Holidays
- World of Vacations
- Air Consultants Europe
- Brok'Air
- Look Voyages
- Vacances Transat (France)

Travel agencies and distribution

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

Air transportation

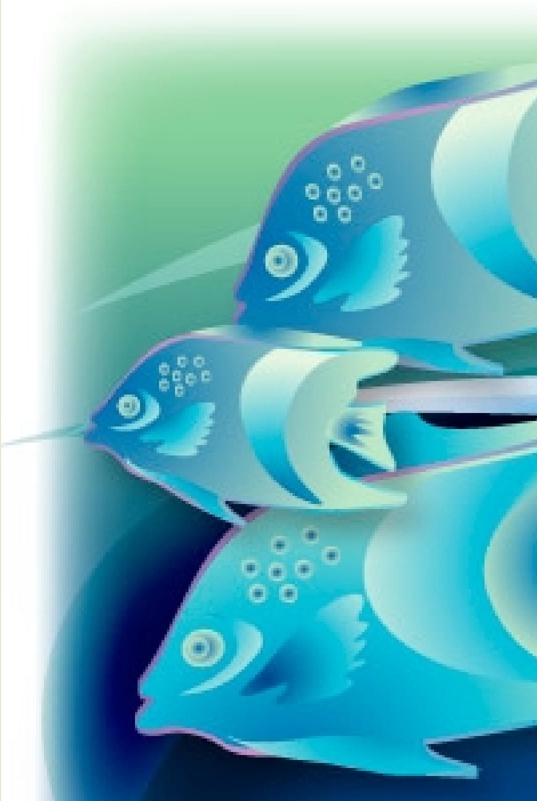
- Air Transat
- Handlex

Incoming tour operators and services at travel destinations

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

In Canada

In Europe

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