TRANSAT A.T. INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED OCTOBER 31, 2005

JANUARY 18, 2006

ANNUAL INFORMATION FORM
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In this Annual Information Form ("AIF"), "we", "our", "us", "Transat" and the "Corporation" refer to Transat A.T. Inc. together with one or more of its subsidiaries or Transat A.T. Inc. itself, as the context may require.

All dollar figures referred to in this AIF are references to Canadian dollars, unless otherwise indicated.

The information contained in this AIF is reported as of October 31, 2005, being our financial year-end, unless otherwise indicated.

The following is a list of our registered and unregistered trademarks that are referred to and used as such in this AIF: our star logo, Transat, Air Transat, Handlex, Transat Tours Canada, Transat Holidays, Nolitours, Auratours Vacances, Americanada, Rêvatours, Look Voyages, Lookéa, Lookéko, Brok'Air, Air Consultants Europe, Tourgreece, Transat Holidays USA, Jonview Canada, Trafictours, Mextour, Turissimo, Kilomètre Voyages, Consultour, Eurocharter, Club Voyages, TravelPlus, Voyages en Liberté, exitnow.ca, and Cameleon. Any other trademarks, or corporate, trade or domain names used in this AIF are the property of their owners. We believe that our trademarks are very important to our success. Hence, we take appropriate measures to protect our intellectual property and to defend our trademarks. We also take great care not to infringe on the intellectual property and trademarks that belong to others.

Forward-Looking Statements

We make "forward-looking statements" throughout this AIF. By their nature, these statements 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 you that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect or unfounded since they are subject to risks and uncertainties that affect us. You will find elsewhere in this AIF certain risks and uncertainties affecting us (see "Risk Factors"). We disclaim any intention or obligation to update or revise any forward-looking statements as of the date of this AIF, whether as a result of new information, future events or otherwise, other than as required by law.

1. CORPORATE STRUCTURE

1.1. NAME AND INCORPORATION

Transat was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "***Canada Business Corporations Act***") by Certificate of Incorporation dated February 13, 1987.

Since its incorporation, Transat has amended its Articles by way of Certificates of Amendment to make the following material changes and:

(i) Change its name to "Transat A.T. Inc.";

(ii) Establish the minimum number of directors at nine and the maximum at fifteen and to enable the Board of Directors to appoint directors during a given year;

(iii) Provide for the creation of an unlimited number of Preferred Shares issuable in series, leading to the creation of 2,400,000 Series 1 Preferred Shares, 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares;

(iv) Subdivide each common share on the basis of three common shares for each issued and outstanding common share;

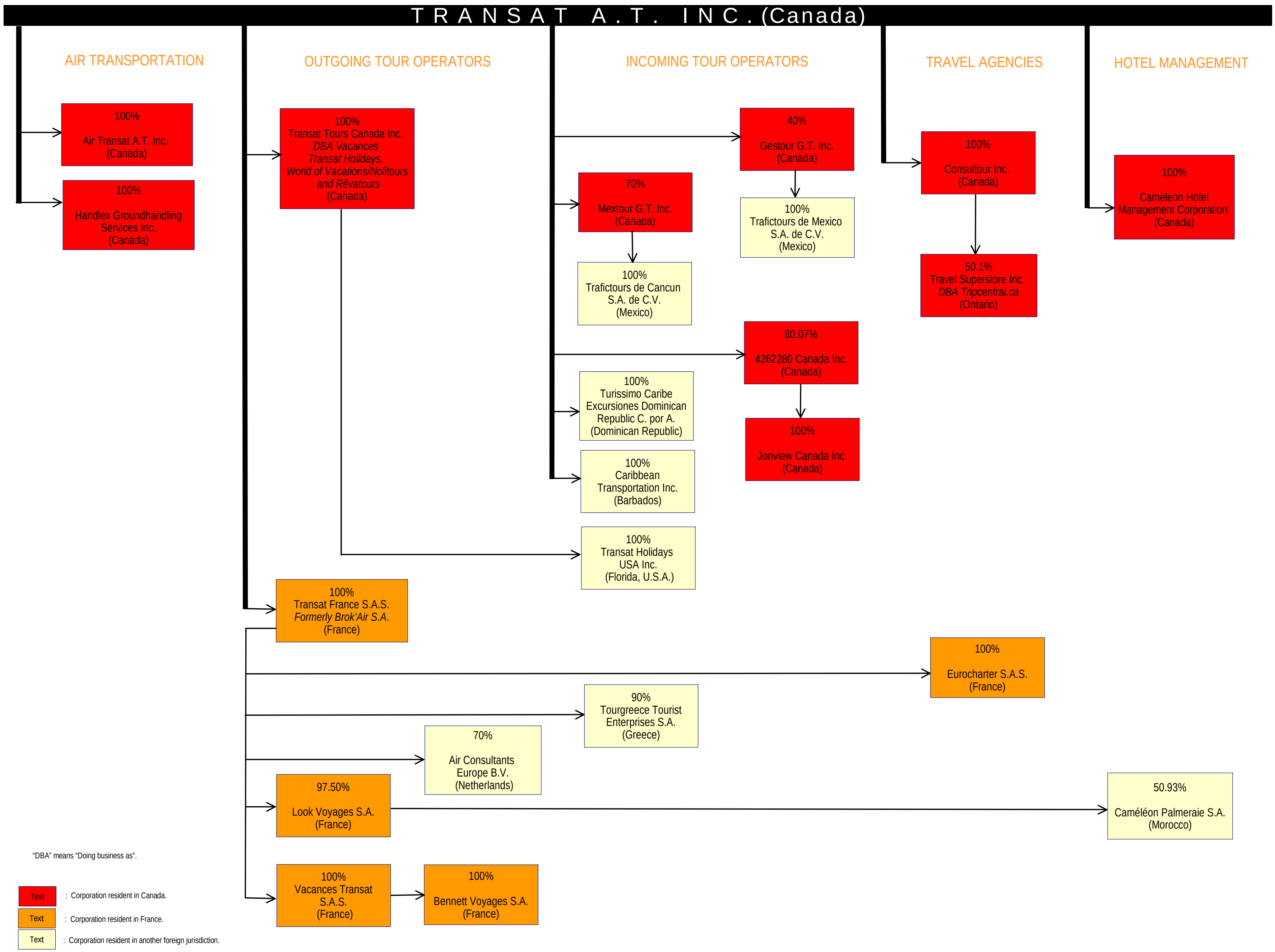
(v) Introduce constraints on issues and transfers of voting shares of Transat's share capital in order for us to remain a "Canadian" corporation within the meaning of the *Canada Transportation Act*, S.C. 1996, c. 10 (the "***Canada Transportation Act***"); and

(vi) Create an unlimited number of Class A Variable Voting Shares and an unlimited number of Class B Voting Shares; to convert each issued and outstanding common share which is not owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Class A Variable Voting Share; to convert each issued and outstanding common share owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Class B Voting Share; to cancel each issued and outstanding common share so converted; to cancel the unissued common shares of Transat and substitute thereto with the required adaptations for the exercise of all rights to subscribe, purchase or conversion, the Class A Variable Voting Shares and the Class B Voting Shares; and to supersede prior restrictions on the issue and transfer of the voting shares of Transat's share capital stated in (v) above.

Transat's head office is located at Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Quebec, H2X 4C2.

1.2. INTER-CORPORATE RELATIONSHIPS

The following chart sets out our corporate structure. We have omitted certain subsidiaries, each of which represents not more than 10% of our consolidated assets and not more than 10% of our consolidated sales and operating revenues and all of which, in the aggregate, represent not more than 20% of our total consolidated assets and our total consolidated sales and operating revenues.


TRANSAT A.T. INC.(Canada)
AIR TRANSPORTATION
OUTGOING TOUR OPERATORS
INCOMING TOUR OPERATORS
TRAVEL AGENCIES
HOTEL MANAGEMENT
100% Air Transat A.T. Inc. (Canada)
100% Handlex Groundhandling Services Inc.. (Canada)
100% Transat Tours Canada Inc. *DBA Vacances Transat Holidays, World of Vacations/Nolitours and Rêvatours* (Canada)
100% Transat Holidays USA Inc. (Florida, U.S.A.)
100% Transat France S.A.S. *Formerly Brok'Air S.A.* (France)
100% Eurocharter S.A.S. (France)
90% Tourgreece Tourist Enterprises S.A. (Greece)
70% Air Consultants Europe B.V. (Netherlands)
97.50% Look Voyages S.A. (France)
50.93% Caméléon Palmeraie S.A. (Morocco)
100% Vacances Transat S.A.S. (France)
100% Bennett Voyages S.A. (France)
40% Gestour G.T. Inc. (Canada)
100% Trafictours de Mexico S.A. de C.V. (Mexico)
70% Mextour G.T. Inc. (Canada)
100% Traficotours de Cancun S.A. de C.V. (Mexico)
80.07% 4262280 Canada Inc. (Canada)
100% Jonview Canada Inc. (Canada)
100% Turissimo Caribe Excursiones Dominican Republic C. por A. (Dominican Republic)
100% Caribbean Transportation Inc. (Barbados)
100% Consultour Inc. (Canada)
50.1% Travel Superstore Inc. *DBA Tripcentral.ca* (Ontario)
100% Cameleon Hotel Management Corporation (Canada)
"DBA" means "Doing business as".
Text : Corporation resident in Canada.
Text : Corporation resident in France.
Text : Corporation resident in another foreign jurisdiction.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1. OVERVIEW OF THE BUSINESS

Transat is an integrated corporation specializing in the organization, marketing and distribution of holiday travel. The core of our business consists of tour operators in Canada and France. We are also involved in distribution through our travel agency networks, hotel management, air transportation and value-added services at travel destinations.

2.2. VISION AND STRATEGY

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 (holiday travel) and operate in two geographic business areas (North America and Europe). Transat’s core business involves holiday packages and a combination of scheduled and charter flights. We operate as both an outgoing and incoming tour operator by bundling products and services bought in Canada and abroad and reselling them in Canada, France and elsewhere, mainly through travel agencies, some of which we own. We operate the leading airline company in Canada specializing in international charter services, with flights scheduled between Canada and thirteen countries. We also provide destination and hotel management services.

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

In late fiscal 2005, we completed a strategic three-year plan focused on growth and profitability. We anticipate that increased international tourism will speed our growth, particularly in North America and Europe. To this end, we will be making new acquisitions while pursuing a dynamic pace of internal growth. Our key strategic focuses are as follows:

In Canada, Transat is the leader in all regions except Ontario. We plan to bolster our presence in Ontario by adding new destinations and by expanding our distribution network to become the market leader in all regions of the country.

In Europe, Transat intends to grow its market share and continue its vertical integration in France and the U.K., building on its strong presence in these two high-potential markets. Transat will also continue its initiatives to expand into other European countries as a tour operator specializing in travel to Canada, among other destinations.

Elsewhere, Transat will strive to invest in new markets and, in particular, to become a tour operator in the U.S., a strategic market it has been analyzing for some time. In addition, Transat will continue studying the possibility of penetrating other markets, such as Asia and Latin America.

Transat wishes to step up development of destination services and to assume a portion of its accommodation needs in order to gain better control over capacity and product quality and to boost margins. In practical terms, this may mean pursuing stakes or acquisitions in the hotel industry. Markets in which Transat has already reached critical mass will be reviewed first.

In light of rapid change in the distribution industry and travellers' expectations, and given the importance of organizational responsiveness and productivity, our strategic plan will include our ongoing technology and training initiatives and investments. To this end, Transat will strive to introduce solutions via agencies and direct sales in order to adapt to new markets and to continue efficiency enhancements.

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

2006 Objectives

As part of its 2006-2008 strategic plan, Transat seeks to pursue growth by increasing its size and improving its profitability. The objective is to remain one of the top integrated tour operators worldwide. For fiscal 2006, our key development initiatives and related priorities will be as follows:

Increasing Transat's Competitiveness in the Canadian and European Markets

We aim to refine our customer segmentation process and to ensure that our tour operators develop and implement separate customized marketing strategies, in line with the market. To this end, we will be upgrading our distribution system, which is based on three pillars: travel agencies; business-to-business (B2B) applications involving our tour operators and their retail network; and online business-to-consumer (B2C) distribution. Lastly, we will continue to integrate certain tour operators activities in both France and Canada, with a view to reducing costs, particularly via synergies.

Emphasizing Vertical Integration of Destination Services

We intend to make additional investments in destination services through partnerships or acquisitions in the hotel and incoming tour operator sectors.

Achieving Growth via New Markets

Transat is already a leading outgoing tour operator in Canada and France. To achieve further growth, we intend to become a leader, particularly in European and North American markets. In 2006, we will be examining other possibilities, including the U.K., which is already an important market for us, and we will complete a U.S. market analysis to ensure proper timing of our entry in that market.

Planning and Implementing the Next Generation of Information Systems

We will be drawing up a long-term plan with a view to implementing the next generation of information systems – the central component of tour operators' activities. These are expected to include a centralized seat inventory management system, which will be integrated into the operating systems of Air Transat A.T. Inc. ("Air Transat"). In addition, we aim to refine our preferred B2B applications and online sales systems (B2C), both in Canada and France. Lastly, we will be developing the information systems used by our Canadian incoming tour operator, particularly as regards multilingual capability and connectivity with customers and suppliers.

Continuing to Build on our "new" Base in France

At Look Voyages, we aim to achieve profitability beginning in the second half of 2006. In light of our new emphasis on holiday packages, we will be redefining the "Clubs Lookéa" concept and drawing up a strategic plan accordingly. Although tour operator Vacances Transat (France) remains strongly focused on Canada, this subsidiary's growing diversification will enable us to pursue growth in continental Europe and the long-haul market while improving the targeting of our offer. In France, we will be mobilizing our entire team to build on the solid base we have already established.

Creating an Environment to Foster Continuous Knowledge Acquisition, Development and Sharing

We aim to use the best tools to identify, promote and attract talented people, thereby building a strong and diversified team capable of assuming responsibility for our ongoing viability. We will also be developing personal development initiatives for high-potential employees as part of an aggressive business succession plan.

2.3. THREE-YEAR HISTORY

We launched our initial public offering in 1987 to create Transat and Air Transat. Since then, we have evolved into one of the largest fully integrated tour operators of international scope in North America. You will find below highlights in the development of Transat on both sides of the Atlantic and events in the three most recent financial years.

2.3.1. Our North American Operations

In Canada, we completed the review of our outgoing tour operator, air transportation and distribution activities and strengthened our incoming tour operator activities through acquisitions.

As regards to our outgoing tour operators' activities, Transat Tours Canada Inc. ("Transat Tours Canada"), which is the backbone of our Canadian operations, operates through three divisions, namely Transat Holidays, Nolitours and Rêvatours and integrates Air Transat's commercial activities. In fiscal 2002, we began pooling Transat Holidays' and Nolitours' resources under the umbrella of Transat Tours Canada by merging their management information systems, combining and integrating their finance and human resources and harmonizing their respective customer service operations. By fiscal 2003, we had in place a single management team responsible for positioning our brands and carrying out a large part of the marketing activities of Transat Holidays, Nolitours as well as those of Air Transat. Today, this single team oversees programming, airline seat and hotel room inventories, product purchasing and pricing. With this new organic approach, we gained in flexibility and reduced our operating costs, while drawing on the reputation of the Transat Holidays and Nolitours brands, whose commercial identities we have kept distinct. You will find in Section 3.1.1 of this AIF more information on the repositioning of these two brands that was initiated during fiscal 2004. During fiscal 2005, we reorganized the corporate structure of Rêvatours whose operations were previously included in a separate wholly-owned subsidiary of Transat. As part of this reorganization, the shares of Rêvatours Inc. were transferred to Transat Tours Canada under the tax-free rollover provisions of the *Income Tax Act* (Canada) on October 14, 2005.

The reorganization of Transat Tours Canada is not the only step we took to realign our activities. During fiscal 2003, we reorganized the operations of Tours Americanada International Inc. ("Tours Americanada") under the tax-free rollover provisions of the *Income Tax Act* (Canada). The latter was our group's consolidator for negotiated fares with various airlines and offered customized Florida and island vacations to Barbados, Bermuda, the Bahamas and Aruba, customized motor coach tours and the rental of motor homes in Canada and the United States, as well as cruises in Europe, Alaska and the Caribbean. The reorganization of Tours Americanada involved transferring some of its assets to its affiliated companies, namely Transat Tours Canada, then Rêvatours Inc. (now rolled-over into Transat Tours Canada Inc. as of October 14, 2005), Air Transat and D.M.C. Transat Inc. ("D.M.C.") (now "Jonview Canada Inc."), and liquidating the company into Transat Tours Canada. This reorganization, which resulted in the termination of approximately 150 employees, allowed the placing of Tours Americanada's product lines in a business setting that provides them with an opportunity for profitable development, in some cases under the Americanada banner.

During fiscal 2005, Transat secured an option expiring on or about September 2008 to purchase the outstanding shares of a North American tour operator. The purchase price will be determined pursuant to a formula without exceeding $5,000,000 and will be payable at closing in cash or in Shares of Transat or a combination of both. The closing of the option is subject to usual conditions including satisfactory due diligence and the receipt of all required regulatory approvals. The owners of the tour operator can require Transat from April 1, 2007 to exercise its option failing which this option will expire. Finally, Transat may elect to purchase the assets of the tour operator instead of the Shares with appropriate adjustment to the purchase price and other terms and conditions of the option.

Also during fiscal 2005 Transat Tours Canada reached a thirty month agreement with WestJet. This agreement, which is effective from May 1, 2005 to October 31, 2007, follows a two-year agreement between the same parties that was implemented in August 2003. As was the case with the first agreement, the new agreement allows Transat Tours Canada to charter WestJet's Boeing 737 aircraft from Canadian cities, to Southern vacation destinations. WestJet's narrow-bodied aircraft complements Air Transat's wide-bodied fleet, allowing us to broaden our service offering in areas which could not otherwise be served by Air Transat, penetrate new markets and more efficiently manage peak periods. Our agreement with WestJet is worth in excess of $65.0 million during the 2005 winter season, compared to $28.0 million during the 2004 winter season. Consistent with our long-term growth strategy based upon vertical integration, we continued to develop our incoming tour operator activities initiated in 2004.

In terms of air transportation, in fiscal 2004, Transat completed renewal of its fleet, adding four Airbus A310 to its existing 6. The resulting harmonization and simplification of the fleet, now smaller and all-Airbus, is key to Air Transat reducing its operating expenses. In addition to reduced costs derived from simplified maintenance and training, Air Transat has pursued its efforts at enhancing its operational performance.

As of November 1, 2004, Air Transat's aircraft began operating out of the Montreal-Pierre Elliott Trudeau International Airport ("**Montreal-Trudeau**") and in December 2004, the airline moved into its new premises located within the Montreal-Trudeau airport zone. You will find more detailed information on Air Transat's 2005 highlights in Section 3.3 of this AIF.

As regards to our incoming tour operators' activities, on April 8, 2004, we completed the acquisition of the remaining 50% participation in Jonview Corporation, a holding corporation that owns the Canadian tour operator Jonview Canada Inc. ("**Jonview Canada**"), in partnership with the Fonds de solidarité des travailleurs du Québec (F.T.Q.), a minority shareholder of D.M.C. Transat (now Jonview Canada), our incoming tour operator operating from Quebec. We had acquired the first 50% interest in Jonview Corporation in fiscal 2001 for a cash consideration of $10.6 million. The acquisition of the remaining 50% interest in fiscal 2004 was made for a cash consideration of $12.8 million, including $0.1 million in transaction costs. We paid a total of $9.6 million upon the closing of the transaction, with the balance to be paid in cash in three instalments through to September 2006. We issued a $3.2 million debenture to the Fonds de solidarité des travailleurs du Québec (F.T.Q.) (see Section 2.3.3 of this AIF). As a result of this transaction, our percentage ownership in Jonview Corporation increased to 80.07%.

On October 31, 2004, we amalgamated D.M.C. Transat with Jonview Canada. The incoming tour operator resulting from this amalgamation is Jonview Canada, which company operates under the banners Jonview Canada, Kilomètre Voyages and Americanada.

On October 31, 2005, Transat acquired 100% of the assets of Turissimo Caribe & Excursiones C. Por A., an incoming tour operator in the Dominican Republic for a cash consideration of US$1.2 million ($1.4 million).

As regards to our distribution activities, we continued working along two parallel orientations, namely: (i) increasing the number of travel agencies that we control, and; (ii) developing online solutions.

On October 15, 2003, we proceeded with the reorganization of Exit Travel Inc. ("**Exit Travel**"), our subsidiary whose mission since its incorporation in 1999 was to develop our retail e-commerce business. The reorganization of Exit Travel was twofold: first, Exit Travel transferred its assets pertaining to its Web call centre and related travel agent activities to Consultour Inc.; second, Exit Travel was liquidated into Transat Tours Canada. Since this reorganization, Exit Travel's online travel agency has become a provider of last minute discounted travel services operating as a division of Consultour under the name exitnow.ca, as well as a "fulfiller" of other Transat companies and divisions as regards to their B2C needs.

Consultour's retail network includes 211 travel agencies, out of which 21 are wholly owned and 190 are franchised. Travel agency networks in Quebec operate under the Club Voyages and Voyages en Liberté banners, elsewhere in Canada under the TravelPlus banner and online under the exitnow.ca banner. Consultour's human resources, finance and administration, information systems and marketing services, all of which are provided by the Transat Distribution Canada business unit, support the entire retail network. Much like Transat Tours Canada for the Corporation's tour operators, this business unit created during fiscal 2003 is Transat's cornerstone in terms of the integration of retail business operations, which integration draws on both travel agents and the Internet, not in parallel, but in a highly integrated and collaborative manner.

During fiscal 2004, we launched our new corporate brand as part of our strategy of vertical integration. Transat, Air Transat, Transat Holidays, TravelPlus and Club Voyages, while keeping each their own name, are now bearing the same colours, the same logo - the pale blue star featured on the cover of this AIF - and the same type face against the same dark blue background. Nolitours also revisited its image with the same logo, featured in red. The creation of a unique, strong and visible corporate identity across our main business units facilitates the recognition of our various companies and divisions for both our customers and employees. It also maximizes customer awareness on both the B2C and B2B markets, while fully leveraging the contribution of all of our business units and creating value.

On May 1, 2005, the Corporation acquired a 50.1% controlling interest in Travel Superstore Inc. ("**Trip Central**"), a Canadian company operating a travel agency network, for a total cash consideration of $4.5 million. Under the agreement, Transat has a call option related to the acquisition of the remaining shares; this option may be exercised prior to 2015. Trip Central, based in Hamilton, Ontario, currently operates a network of 16 travel agencies and a unique travel Web site. On August 1, 2005, Trip Central acquired the assets of Blenus Travel Service Ltd. and Fundy Travel Ltd. for a total consideration of $1.3 million. Both of these Canadian companies operate travel agency networks. A cash payment of $0.3 million was made on the acquisition date, with the balance ($1.0 million) payable over a five-year period without interest.

Through Trip Central, we anticipate acquiring, over the next few years, up to 75 agencies scattered across Ontario and Western Canada. These acquisitions should improve Transat's presence in these regions. Trip Central developed a new and dynamic approach to marketing vacation travel services by leveraging synergies between the Internet, a call centre with several sales outlets and the skills of its travel consultants. We plan to further develop and expand this successful business to our other wholly owned or franchised agencies.

2.3.2. Our French and Other Operations in Europe

In France, we continued the review of our tour operator activities, focusing on Look Voyages S.A. ("**Look Voyages**"), and disposed of our online travel agency Caïd S.A. doing business as Anyway in fiscal 2004. We also strengthened our presence elsewhere in Europe through the acquisition of a majority interest in two companies that are long-standing partners of our group.

Our efforts to return Look Voyages to profitability began during fiscal 2003 with the announcement on May 5, 2003 of a redundancy plan (required under French law) involving severance of some 90 employees of Look Voyages. As a result, the Corporation accrued an amount of $5.1 million as part of its restructuring charge related to this reorganization, mainly for employee termination benefits. We also made changes in the management of this subsidiary and shifted its product and service offering by launching a new hotel product called Lookéko and focusing on destinations where Look Voyages holds substantial volumes: Look Voyages began concentrating on packages and air-only charter flights, while significantly reducing its exposure to air-only on scheduled flights, which had represented roughly half of its business up to 2003.

Another move by the Corporation in keeping with its strategy to focus on its core travel package product was the disposal of Caïd S.A., operating under the trade name Anyway. Anyway was the largest online travel site in France and 99.99% owned by our subsidiary Brok'Air S.A. (now known as Transat France S.A.S.). It had been created in 1988 as a discount travel agency and expanded into online Minitel services in 1995 and into Internet services in 1999. We completed the sale of Anyway on October 31, 2003 for a cash consideration of approximately €53.8 million ($83.2 million). The purchaser was IAC/Inter Active Corp., a world leader in online commerce that encompasses among others leading online travel brands such as Expedia®. The net gain on disposal amounted to €34.4 million ($53.1 million).

In line with our strategy of geographical expansion, on June 10, 2004 we exercised our call option related to the acquisition of the incoming tour operator Tourgreece S.A. ("**Tourgreece**"), our long-standing partner located in Athens, Greece. As a result of the exercise of this call option, we increased our participation in Tourgreece from 40%, which we had acquired in March 2001 for €1.0 million ($1.6 million), to 90%. This transaction was completed for a total cash consideration of €1.8 million ($3.0 million) including €0.2 million ($0.4 million) in transaction costs. Under the related share purchase agreement, Transat has a call option related to the acquisition of the balance of shares at any time prior to 2011.

On July 13, 2004, we announced the implementation of a second redundancy plan to reposition Look Voyages as the recovery of this subsidiary was proving slower than anticipated in fiscal 2003. Our latest restructuring effort calls for the abandonment of certain operations considered non-strategic, namely the marketing and sale of air-only offering. This plan also calls for Look Voyages to intensify the development of its holiday packages and to increase the use of Web-based technologies to stimulate sales to both travel agents and the general public. The implementation of this plan led to a staff reduction of approximately 90 individuals. It also resulted in Transat recording a restructuring charge in the amount of $11.4 million in the fourth quarter of fiscal 2004. The amount recorded included cash charges totalling $8.3 million and asset write-downs in the amount of $3.0 million. The plan called for a 50% reduction of the losses at Look Voyages in fiscal 2005 and the objective has been surpassed. We intend on Look Voyages to continue building on its reputation with consumers, its Club Lookéa products consisting of vacation villages with on-site activities and on a dynamic distribution system that relies on, among other things, B2B and B2C Web-based technologies that are at the core of its strategy.

On October 14, 2004 we also announced the appointment of Mr. Olivier Kervella, formerly the General Manager of the online company Anyway that we use to own in France and a travel industry professional, as General Manager of Look Voyages. Mr. Kervella assumed his new duties on October 22, 2004 and with his appointment, the main components of Look Voyages' repositioning plan were set in motion.

On November 1, 2004, we acquired a 70% ownership interest in Air Consultants Europe (ACE) B.V. ("**Air Consultants Europe**"), a Netherlands-based outgoing tour operator, at a cost of €1.0 million ($1.6 million). A €1 million cash payment ($1.5 million) was made on the acquisition date, with the balance (€0.1 million) payable in two instalments until November 1, 2006. Moreover, under the Agreement, the Corporation has a call option related to the acquisition of the remaining shares; this option may be exercised at any time prior to October 31, 2007. This Dutch company, based in The Hague, is Air Transat's sole commercial representative in Germany, Holland since 1991, in Belgium and Luxembourg.

In June 2005, Look Voyages, our wholly owned subsidiary, disposed of its 44.27% interest in Société de transport aérien régional S.A. to Angel Gage Aviation Limited at a price of €4.5 million ($6.9 million).

On June 26, 2005, we acquired 100% of the outstanding shares of Bennett Voyages, a French outgoing tour operator specialized in packages and tours to Scandinavia, the United Kingdom and Ireland for a total consideration of €1.8 million ($2.6 million). A cash payment of €1.1 million ($1.6 million) was made on the acquisition date, with the balance (€0.7 million, or $1.0 million) payable in monthly instalments until December 31, 2006.

On December 1, 2005, the Corporation acquired, through its French subsidiary *Eurocharter SAS (*which operates under the *Club Voyages* banner), the assets of 20 travel agencies operating in France and belonging to Carlson Wagonlit Travel network (CWT) for a total cash consideration of €2.9 million ($4.0 million). The transaction includes the transfer of 41 CWT employees, entailing no loss of jobs.

2.3.3. *Other Events*

Debentures

In the course of its history, Transat issued several debentures some of which have been redeemed or were converted into TRZ shares, they include:

A debenture in the aggregate principal amount of capital of $10.0 million which we redeemed on November 1, 2005 together will all outstanding interest. This debenture had initially been issued on November 1, 1995 by Air Transat Holidays A.T. Inc. (now Transat Tours Canada) to the Caisse de dépôt et placement du Québec ("CDP"). It bored interest at 17.5% per annum and matured on November 1, 2005.

In September 2001, a subsidiary of the Corporation issued a debenture in the amount of $2.5 million bearing interest at a rate of 8.25%. The debenture was repayable in one instalment in September 2009 in cash or shares of Transat at the latter'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, our subsidiary redeemed the debenture in advance in accordance with the terms thereof.

On January 10, 2005, Transat redeemed debentures in the amount of $21.9 million as announced on December 9, 2004. These non-convertible debentures, which bore interest at a rate of 6%, were to mature in January 2009 and were redeemable in advance as of January 2005 in return for a penalty equal to three months' interest. The Corporation and Air Transat had issued these debentures to CDP, the Fonds de solidarité des travailleurs du Québec (F.T.Q.) as well as to certain management members of the Corporation and its affiliates on January 10, 2002 to complement emergency measures taken in response to the financial impact of the September 11, 2001 terrorist attacks and as part of our efforts to seek cash injections to increase available cash. At the time, these debentures and the financing that we were able to generate were key to our operations. The cash outlay was approximately $30.0 million, including unpaid interests already reflected in fiscal 2004 in the amount of $7.3 million and an interest penalty in the amount of $0.8 million recorded in the first quarter of fiscal 2005. Additionally, this early redemption also resulted in a non-cash charge in the amount of $1.7 million that was also 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.

On February 19, 2002, Transat completed a $51.1 million issue of 9% convertible unsecured subordinated debentures maturing on March 1, 2007 to a syndicate of underwriters led by CIBC World Markets Inc. As with the debentures issued on January 10, 2002 and redeemed on January 10, 2005, this initiative was also part of our efforts to procure additional cash on-hand for working capital purposes to ensure our financial viability following the 9/11 attacks. On March 4, 2005, we entered into a supplemental indenture with Computershare Trust Company of Canada as trustee in order to amend the terms and conditions of these debentures in light of our new capital structure. For more details regarding our new capital structure, please refer to Section 6.2 of this AIF. These debentures were payable semi-annually in cash or in Class A Variable Voting Shares or Class B Voting Shares of the Corporation, as the case may be, at the Corporation's option. They were convertible into Class A Variable Voting Shares or Class B Voting Shares of the Corporation, as the case may be, at a conversion price of $8.75 per share, at the holder's option at any time. During the year 2004, debentures totalling $13,000 were converted into 1,484 common shares of the Corporation. Transat redeemed the residue of these debentures April 26, 2005 pursuant to the notice of redemption given to the debenture holders on March 24, 2005. Following the notice of redemption, the Corporation issued 5,755,198 shares as a result of the conversion of debentures. In addition, the debentures (TRZ.DB) were delisted from the TSX.

On April 6, 2004, Jonview Corporation (now Jonview Canada) issued a debenture to the Fonds de solidarité des travailleurs du Québec (F.T.Q.) in the amount of $3.2 million in order to finance a portion of the acquisition of the remaining 50% ownership interest in that company (see Section 2.3.1 of this AIF). This debenture bears interest at a rate of 6%. It is repayable in one instalment in September 2009 in cash or shares of Transat at the latter's option. The debenture is also redeemable in advance at Jonview Canada's option as of April 6, 2007 in return for a premium whereby the Fonds de solidarité des travailleurs du Québec (F.T.Q.) will earn a return of 9% from its issuance, taking into consideration annual interest already paid and recorded at the rate of 6%.

3. DESCRIPTION OF OUR BUSINESS

We have estimated some of the data contained in this section on competitive positioning and market share of the Transat companies based on our knowledge of the relevant industry segments. Being a vertically integrated business, we have determined that Transat conducts its activities in a single industry segment, namely holiday travel, and operates in two geographic areas, specifically North America and Europe. We recorded 2,364.5 million in revenues for fiscal 2005, compared to $2,199.8 million for fiscal 2004. Canadian operations accounted for 1,896.5 million of our revenues for fiscal 2005 and $1,673.5 million for fiscal 2004. French and other operations amounted to 468.0 million in revenues for fiscal 2005 and $526.3 million for fiscal 2004.

3.1. TOUR OPERATORS

Transat acts as an outgoing tour operator through Transat Holidays, Nolitours and Rêvatours (all three of which are divisions of Transat Tours Canada, with Rêvatours operating as a separate corporate entity until October 31, 2005). As well, it acts as an outgoing tour operator through its French subsidiaries Vacances Transat (France) S.A.S. ("Vacances Transat (France)"), Look Voyages, Bennett Voyages and Air Consultants Europe ("ACE"). Transat Holidays USA Inc. ("Transat Holidays USA"), Jonview Canada, Tourgreece, Trafictours de Mexico S.A. de C.V. and Trafictours de Cancun S.A. de C.V. operate as incoming tour operators in Florida, Canada, Greece and Mexico, respectively. Each of these tour operators operates in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by our vertical integration strategy. You will find below descriptions of the main product and service offering.

3.1.1. Products of Transat Tours Canada

We commercialize the products of our subsidiary Transat Tours Canada destined to Southern and European markets through the brand names of Transat Holidays and Nolitours, both of which have a national presence. We have developed two principal types of products to complement Transat Tours Canada's revenues; notably, travel packages for Southern destinations mainly during the winter season; and a combination of scheduled and charter flights with complimentary product and service offering for travel to Europe and Florida, mainly during the summer season.

We sell our products from our offices located in Montreal, Toronto and Vancouver. Most of our sunshine destinations are available with departures out of nineteen Canadian gateways, namely: Edmonton, Hamilton, Halifax, Kelowna, Montreal-Trudeau, Ottawa, Quebec City, Moncton, Regina, Vancouver, Winnipeg, Saskatoon, Abbotsford, Comax, Calgary, Victoria, St-John's and Toronto.

During fiscal 2005, we completed the repositioning of Transat Tours Canada's brands by realigning their respective offering for Southern destinations. On August 29, 2005, we launched a new national brand under the name Nolitours, which builds on the reputation of our former Nolitour brand in the Quebec market and World of Vacations brand in the rest of Canada. We also revisited Nolitours' product offering and pricing strategy. Product-wise, although both Transat Holidays and Nolitours keep commercializing the three key destinations of Mexico, Cuba and the Dominican Republic, their product offering is different. Thus Transat Holidays carries an inventory mostly composed of four- and five-star properties, the majority being unique to this tour operator. Nolitours focuses on quality products with hotel chains, which are different from the ones commercialized by Transat Holidays, and specializes in more remote destinations in Central and South America. As far as pricing is concerned, Nolitours' strategy is driven by our desire to bolster its agency and affiliated relations with the travel agencies selling its products to the customers. As part of this agency and affiliated strategy, customers may book travel services at www.nolitours.com but they must finalize their transaction by selecting a travel agency of their choice. This strategy draws on a rationale of "Everyday Low Prices" which implies that the customer does not need to wait until the last minute to receive the best selling value.

Transat Holidays offers holiday packages mainly to Mexico, Cuba, the Dominican Republic, Jamaica, St-Martin/St. Maarten, Guadeloupe and Martinique.

For travel to Europe, Transat Holidays also offers short stays (in hotels, studios, apartments, and bed and breakfast inns), car rentals (based either on the straight car rental formula or with a buy-back option) or train tickets. For destinations in France, Transat Holidays sells flights mainly to Paris, Lyon, Marseille, Bordeaux, Nantes, Nice and Toulouse. As for destinations in the United Kingdom and Ireland, it sells flights mainly to London (Gatwick), Birmingham, Exeter, Manchester, Newcastle, Edinburgh, Glasgow, Belfast, Dublin and Shannon. Transat Holidays also sells flights to Basel (Switzerland), Brussels, Münich, Frankfurt and Amsterdam. Flights to London and Paris are offered year-round, but fewer flights are available from November to March.

In addition to sunshine and European destinations, Transat Holidays offers cruises to the Caribbean, Alaska and to Europe, as well as coach tours mainly in Europe.

Nolitours offers a broad range of products for destinations in the United States (including Florida, Las Vegas and Disney Cruise Line®*), as well as quality packages at competitive prices to its sunshine destinations, such as Mexico, Cuba and the Dominican Republic, Venezuela, Costa Rica, Nicaragua, Honduras, Panama, the San Andres Island in Columbia and El Salvador. In the summer, Nolitours adds Greece and Italy to its product line, the latter destination being sold under the Auratours Vacances banner. We served approximately 1,140,000 travellers through Transat Holidays and Nolitours in fiscal 2005, compared to 1,017,500 in fiscal 2004.

3.1.2. Products of Rêvatours

Rêvatours' products are now offered through Transat Tours Canada Inc. Rêvatours branded products are premium-quality guided tours in Asia (China, Vietnam, India and Thailand), Eastern Europe, North Africa (Tunisia, Egypt and Morocco), Spain, Portugal, Greece and Turkey, with specialized offerings for smaller market segments. Through Rêvatours we served approximately 7,000 travellers in fiscal 2005, being the same number as in fiscal 2004.

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* Disney Cruise Line is a registered trademark of Disney Enterprises, Inc.

3.1.3. Products of Vacances Transat (France)

The primary market of Vacances Transat (France) is the distribution, through French travel agencies, of holiday packages to Canada and the United States. Although Canada and North America generally remain long-haul destinations for the French, they have less and less impact on the sales of this subsidiary as we launch new Caribbean destinations, such as the Dominican Republic, Cuba, Mexico as well as in the French West Indies, as well as packages and guided tours in many countries in Latin America, namely in Costa Rica, Ecuador, Brazil, Argentina, Chile, Peru and Bolivia. In 2004, Vacances Transat (France) developed product offerings to Asia and the Indian Ocean. With this array of destinations, Vacances Transat (France) has become a long-haul specialist in the French market with a focus on selling packages.

Vacances Transat (France) served approximately 91,000 travellers in fiscal 2005, compared to 95,000 in fiscal 2004.

3.1.4. Products of Look Voyages

Our subsidiary Look Voyages benefits from a well-known brand on the French market due to its exclusive value-added products in the form of holiday packages in “Club” hotels. “Lookéa” is the trademark used for these all-inclusive hotels situated in choice locations that include group animations and target a youthful family-oriented clientele. We manage Lookéa Clubs according to a hybrid formula calling upon partners to manage the resorts while we handle activities and site supervision.

Look Voyages’ products are sold year-round. Its summer season, which in France runs from April to October, is by far its busiest. Its most popular destinations are located in the Mediterranean region. Our medium-term strategy for Look Voyages is to develop value-added products aimed at focusing on its holiday package activities. Thus, Look Voyages now focuses on destinations where it holds substantial volumes, concentrating on packages. In 2004, Look Voyages abandoned its air-only program on regular flights. Look Voyages served approximately 129,000 travellers in fiscal 2005, compared to 145,000 in fiscal 2004.

3.1.5. Products Sold Under the Brok’Air Brand

Transat France S.A.S. is active in the marketing in France, under the Brok’Air brand, of group-guided tours for North America (Canada and the United States), South America, Asia (mostly Thailand) and South Africa.

3.1.6. Products of Jonview Canada

Jonview Canada, which now regroups products sold under the brand names Jonview Canada, Americanada and Kilomètre Voyages, is the leading incoming tour operator in Canada, with offices in Montreal and Toronto. It also has sale representation offices in France and the United Kingdom. Through Jonview Canada, we sell a range of products mainly to tour operators in Europe, particularly in France, the United Kingdom, Germany, Italy, Switzerland, the Netherlands and Belgium. We also cater to clientele in South America, Latin America, Australia, New Zealand and Asia (mainly Japan).

Jonview Canada offers a full range of Canadian holiday products, including guided bus tours, group travel arrangements, fly and drive holidays, city and activity packages, ski vacations, hotel accommodations, discovery and adventure tourism, and business trips (incentive trips, meeting and conferences). It is also developing new products, such as snow mobile tours as well as pre and post convention tours. In April 2005 Jonview Canada dedicated personnel in its Montreal office to focus on gay and lesbian travel in recognition of the growing importance of this market. Its current “Out By View” product and service offering is designated as the exclusive official receptive partner of the 1st Outgames to be held in Montreal in the summer of 2006. Out by View's new web site www.outbyview.com is totally dedicated to meeting the travel needs of the Outgames event where 16,000 participants and 250,000 visitors are expected according to the Canadian Gay and Lesbian Chamber of Commerce.

Jonview Canada brought 223,000 travellers to Canada in fiscal 2005, compared to 206,000 in fiscal 2004.

3.1.7. Products of Tourgreece

Tourgreece is an incoming tour operator located in Athens, Greece with 26 years of history. It offers a range of holiday packages, such as stays, excursions and cruises in Greece and the Greek Islands, as well as transportation from the airport to the hotel. Tourgreece services Transat's tour operators as well as other tour operators, mainly from the United States and Europe.

Tourgreece served approximately 65,000 travellers in fiscal 2005, compared to 46,000 travellers in fiscal 2004.

3.2. TRAVEL AGENCIES AND DISTRIBUTION

3.2.1. Travel Agencies

Our travel agencies sell a variety of products, including those offered by our own tour operators. Travel agents make the reservation of the products either through a computerized booking system or by telephone.

In the Canadian market, we distribute our products in part through our own retail network, corporate or franchised. We have 211 sales outlets managed by our subsidiary Consultour under the Club Voyages and Voyages en Liberté banners in Quebec and, outside Quebec, under the TravelPlus and Trip Central banners and exitnow.ca. Through our subsidiary Eurocharter, we also own and operate 52 travel agencies throughout France under the Club Voyages banner. However, some of these travel agencies have been re-branded under the Look Voyages colours for marketing purposes, in order to benefit from the reputation of Look Voyages on the French market and build on the latter's marketing initiative.

We intend to operate our travel agencies network in Canada as one business unit by taking advantage of a common administrative system for all of our own corporate agencies across the country, and by putting together our purchasing power. We have developed a new branding initiative whereby both Club Voyages and TravelPlus share a common logo and identity while keeping their distinct names. This initiative is part of our new branding strategy, as described in Section 2.3.1 of this AIF. The know-how acquired by exitnow.ca in distribution on the Internet is being passed along to the "brick and mortar" agencies in order to have all the distribution acting in a coordinated fashion.

3.2.2. E-commerce

We launched our first e-commerce initiative in 1999 with exitnow.ca, which became the first Website specializing in holiday packages and charter flights. It has evolved into a division of our subsidiary Consultour, whose mission is twofold: firstly, it operates the Web call centre dedicated to the last minute discounted segment of the travel market in Canada; secondly, it serves as a "fulfiller" of our other companies and divisions as regards their B2C e-commerce needs. More specifically, exitnow.ca operates the websites of Air Transat, Transat Holidays, Club Voyages and TravelPlus, offering them their Internet know-how and helping them in creating a "brick and click" strategy.

3.3. AIR TRANSPORTATION

Our airline Air Transat offers flights out of its principal bases in Montreal, Toronto, Vancouver, Quebec City, Calgary, Edmonton, Halifax and St-John's, as well as some flights out of Moncton, Winnipeg and Saskatoon. As a result of certain government policy changes that came into effect in 2002, Air Transat now operates scheduled flights between Canada and the following countries: the Netherlands, Belgium, Ireland, Italy, Portugal, Greece, France, the United Kingdom, Germany, the United States, Cuba, Mexico and the Dominican Republic.

During the winter season, we served over 50 destinations in 19 countries, flying primarily to Southern or other sunshine destinations. In the summer, we shift most of our capacity to Europe, while maintaining some flights to Southern destinations. In fiscal 2005, Air Transat offered direct flights to over 30 cities in over 9 countries in Europe.

We have completed the review of our fleet in 2004. This review was initiated during fiscal 2002 in order to avail ourselves of opportunities pertaining to favourable aircraft leasing or purchase conditions that emerged in the aftermath of the September 11, 2001 terrorist attacks. Our fleet now consists of fourteen wide-bodied long-haul Airbus aircraft, namely: three Airbus A330-200s with 363 seats each, one Airbus A330-300 with 362 seats and ten Airbus A310-308s with 259 seats each. This fleet renewal plan resulted in a charge of $33.7 million before taxes related to the phasing-out of Air Transat's six Lockheed L-1011-500 aircraft, which was completed on April 30, 2004. As at October 31, 2004, the Corporation had fully repaid its obligations under capital leases related to aircraft, aircraft engines and other obligations. Our commitment under operating leases relating to aircraft, land, maintenance contracts and office premises amounted to $371.4 million in fiscal 2004, broken down as follows: $67.3 million and US$249.1 million ($304.1 million). In addition, as part of certain aircraft financing arrangements maturing through 2008, Air Transat guaranteed a portion of the residual value amounting to US$56.5 million ($69.0 million).

As of November 1, 2004, Air Transat's Montreal flights that were previously operated out of the Montreal International Airport in Mirabel ("**Montreal-Mirabel**") began flying out of and into Montreal-Trudeau. Since then, all Air Transat flights departing or arriving in Montreal do so exclusively at the Montreal-Trudeau airport. In the spring of 2002, Aéroports de Montréal ("**ADM**") had announced its plans to concentrate all passenger flights at Montreal-Trudeau and to transform Montreal-Mirabel into a platform specialized in cargo and industrial development. Our move was orchestrated as part of an agreement reached in January 2004 with ADM. Pursuant to this agreement, ADM constructed the building housing Air Transat's new head office and hangar, and leased it back to the air carrier for a period of forty years. Air Transat's administrative employees moved into their new headquarters in December 2004. We flew 2,504,000 passengers on Air Transat in fiscal 2005 compared to 2,394,500 passengers in fiscal 2004.

3.3.1. *Distribution and Marketing*

Our tour operators market air services for passenger transportation on a seasonal basis. In the winter season, most of the seats sold are to Southern destinations; in the summer season, seats are primarily sold to Europe. We select Air Transat's destinations in close collaboration with our tour operators. The latter enter into charter agreements with Air Transat six to eight months prior to the beginning of each season and undertake to effect payment pursuant to such charter agreements.

Also, Air Transat's seats are available on its Web site, which uses the exitnow.ca booking engine. Air Transat's Website offers content to travellers in terms of vacation spots, package browsing and flight options and enabling online reservations.

Even though the marketing of the flights is primarily in the hands of our tour operators, Air Transat's status as a scheduled carrier for certain countries, as well as for domestic and transborder flights, allows us to market seats directly to travel agencies through Global Distribution Systems (GDS); to sell seats on the Internet; to enter into agreements with other carriers to offer connecting flights; and to transport freight.

3.3.2. *Maintenance, Inspections and Other Measures*

We perform regular maintenance work on all aircraft of our fleet. Our aircraft maintenance procedures and standards exceed Transport Canada's requirements and equal those set by well-known network or full service air carriers having a reputation for high maintenance standards. We carry an inventory of spare parts for our Airbus A330 and A310.

For five years, we have been committed to a sweeping re-engineering and improvement of processes involving all aspects of our airline operations. The purpose of this project, which is progressing in stages, is to improve the quality of service while optimizing resources. It includes a complete review of processes linked to aircraft maintenance, the integration of functions connected with passenger service and crew and aircraft scheduling, as well as the implementation of a new management information system. We are seeing tangible results in all of these areas of operation, which have translated into improved on-time performance.

Following the emergency landing of one of our Airbus A330-200s in the Azores on August 24, 2001, Air Transat implemented an array of measures some of which were imposed by Transport Canada while others were voluntary, that added to the extensive effort already undertaken by the air carrier to improve its methods. These measures, based on principles of safety and prevention to which we subscribe without reserve, included among others: a comprehensive review of Air Transat's maintenance and operations program that led to an improvement of the performance of its quality assurance activity; the introduction of human factors training for all technical personnel; the integration of fuel leak scenarios into simulator training programs; the introduction of a new Safety Management System; and the introduction of the new fuel leak detection system on Airbus A330 aircraft.

On October 17, 2004, the Aviation Accidents Prevention and Investigation Department of Portugal, the authority conducting the investigation into the emergency landing in the Azores of Flight TS236, released its Investigation Final Report. Other participants in the investigation included the Transportation Safety Board and Transport Canada (Canada), the Bureau d'Enquêtes et d'Analyses pour la Sécurité de l'Aviation Civile and Direction générale de l'Aviation Civile (France), the Air Accidents Investigation Branch (United Kingdom), Air Transat, Airbus® and Rolls-Royce®. The report concludes that 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 recommends the mandatory installation of a new warning system for detecting fuel leaks, as recommended by Airbus to all operators in 2002. The report acknowledges that it had been difficult for the crew of Flight TS236 to identify and subsequently isolate the fuel leak and recommends a review of checklists. Other recommendations aim at improving maintenance and training processes. Air Transat supports and has implemented these recommendations, all of which apply to the aviation industry as a whole.

As a result of the SARS crisis, in April 2003 we had to implement special security measures to prevent the virus from spreading. These measures included the daily sanitization of all our aircraft interiors, special training for flight crews and the provision of special kits on board. We also gave an information letter to all customers at check-in, including a health checklist questionnaire.

Even prior to the SARS crisis, we had a long-standing in-flight medical assistance contract, providing services 24 hours a day 365 days a year with MedAire, Inc., a medical advisory firm specialized with in-flight and on the ground health emergencies. We have also followed, and continue to follow, all the guidelines announced by Transport Canada and Health Canada.

During the last fiscal year, Transat took measures to control costs related to major Check 1 to Check 8 ("C1 to C8") inspection costs for its A310 fleet. C1 to C8 inspections are completed at regular eighteen month intervals pursuant to strict regulatory requirements. Each C1 to C8 inspection for each A310 use to be tendered individually to maintenance specialists, not all of whom were located near Air Transat's hangars, consequently, we would incur unnecessary aircraft down time, personnel displacement and taxiing costs.

Transat tendered bids to several inspection specialists and Air Canada Technical Services ("ACTS") was chosen with an offer which included an announcement that it was moving its main inspection quarters from Vancouver International Airport to Montreal-Trudeau, near Air Transat's hangars. Given the projected C1 to C8 inspection cost controls, ACTS' international reputation and inspection expertise of A310 and proximity of its relocated inspection quarters near Air Transat's hangars, it was deemed beneficial that we enter into a five year inspection agreement with ACTS for all C1 to C8 inspections of our entire A310 fleet.

In January 2005, Air Transat, which leases Airbus A330 aircrafts powered by Rolls-Royce Trent 700 engines, entered into an agreement with Rolls-Royce for the purchase of certain engine maintenance services. It is intended that the term of this agreement shall extend to 2011, being the last year of Air Transat's Airbus A330 leases.

Through our Audit Committee and our Corporate Governance and Nominating Committee, our Board of Directors identifies and evaluates on a yearly basis, at the least, the principal risk factors related to our business and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry. Our Corporate Governance and Nominating Committee in particular oversees the policies and procedures with respect to flight safety. As part of its responsibilities, it regularly reviews the emergency plan implemented by Air Transat. This plan aims to inform and train all of our airline personnel and management on procedures to be followed with respect to an accident or an incident involving an aircraft and the ensuing investigation.

3.3.3. *Insurance*

We maintain insurance in amounts in accordance with industry standards and in compliance with applicable statutory requirements and the covenants of our aircraft lease agreements. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. With the exception of War Risk Bodily Injury/Property Damage to Third Parties, the limit for any single event is US$1.0 billion.

The cost of the September 11, 2001 terrorist attacks continues to be reflected in the war risk and terrorist insurance premiums paid by all air carriers and the War Risk Bodily Injury, Property Damage coverage continues to be severely limited within the overall liability coverage.

Air Transat, in common with all Canadian air carriers, is therefore indemnified by the Canadian government for Third Party War Risk losses that exceed US$50.0 million, up to the maximum limit of its liability policy.

3.3.4. *Fuel Supply*

Fuel costs represent a major component of our airline's operating expenses. During fiscal year 2005, the increase and constant fluctuations in the cost of fuel were a major concern for Transat given the impact of fuel costs on our margin. Our policy calls for hedging a portion of our fuel requirement needs. To achieve this goal, we increased our hedging position on a continuous basis. As at October 31, 2005, fuel-purchasing contracts covered 39% of the fuel requirements for fiscal 2006, compared to 9% as at October 31, 2004 for fiscal 2005.

We negotiate with national and international oil companies to insure that our aircraft are supplied with fuel at all airports where we operate. Fuel prices are agreed to for each season on the basis of fixed margins over fluctuating world prices. When deemed necessary or desirable, we hedge a portion of our fuel requirements. The tariff filed by Air Transat with the Canadian Transportation Agency states that charter agreements signed with tour operators may be amended in the event of significant variations in the price paid for fuel. We also implement fuel surcharges when necessary and in accordance with the legislation to which we are subject in order to partially offset any surge in fuel prices.

3.3.5. Ground Handling and Airport Services

Our subsidiary Handlex provides ground handling and airport services (passenger service, baggage handling and aircraft cleaning) required for the operation of aircraft at the international airports in Montreal and Toronto.

Handlex is our partner on the ground providing handling services and serving approximately 20 other airlines.

3.4. OUR EMPLOYEES

As at October 31, 2005, Transat and its subsidiaries had a total of 4,952 employees. For additional information concerning the number of employees working in our main subsidiaries, we refer you to our Management's Discussion and Analysis for the year ended October 31, 2005 available for consultation on SEDAR at www.sedar.com.

We favour employee ownership of our share capital. For this purpose, we have established a share purchase plan for employees and executives and a stock option plan for directors and officers. Our policy is to promote good relations with our employees, in light of which we have adopted a policy to hinder harassment in the workplace and another regarding the protection of personal information and the right to privacy.

Some of our employees belong to employee associations with which we have negotiated a series of working conditions. The following chart sets out employees' affiliations and the status of their respective collective bargaining agreements as at the date of this AIF.

Employees	Transat's Subsidiary	Affiliation	Status of Collective Bargaining Agreement
Flight crew members (pilots)	Air Transat	Airline Pilots Association (ALPA)	Expired October 31, 2005, a tentative agreement was reached in December 2005 subject to approval by the ALPA members
Flight attendants	Air Transat	Canadian Union of Public Employees (CUPE)	Expired October 31, 2005, negotiations are ongoing
Dispatch	Air Transat	Canadian Airline Dispatcher's Association (CALDA)	In force until October 31, 2006
Crew scheduling and passenger service	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW)	In force until July 31, 2007
Maintenance, stores and technical support	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW), Lodge 140	In force until April 30, 2006
Call centre	Air Transat	Teamsters, Local 1999	In force until October 31, 2007

Employees	Transat's Subsidiary	Affiliation	Status of Collective Bargaining Agreement
Mechanics and station attendants	Handlex	Teamsters, Locals 419-1999	In force until August 1, 2006
Passenger service agents	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada), Local 2002	In force until September 5, 2006
Cabin service attendants – Montreal	Handlex	Union of Local Transport and Various Industry Workers, Local 931	In force until March 26, 2008
Cabin service attendants – Toronto	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada), Local 2002	In force until May 23, 2007

3.5. COMPETITION

Owing to our vertical integration strategy, we face many competitors doing business worldwide as either tour operators, travel agencies (traditional and online) or air carriers.

3.5.1. Tour Operators

The market for tour operators is well established in Europe, Asia, the United States and Canada. Tour operators specialized in outgoing services purchase the various components of a trip and sell them to customers through the services of travel agencies, either as a travel package or separately. The large outgoing tour operators purchase blocks of seats or complete flights mainly from air carriers specializing in charter services and undertake to pay for all the seats so purchased whether they sell them or not, thereby obtaining a better price. Such tour operators also negotiate with hoteliers for blocks of rooms and make arrangements in order to offer travel packages at lower prices than if customers were to make their own reservations.

The Canadian market for sunshine destinations is mainly a "package" driven market, whereas Europe, as a destination, is a market of aircraft seats, car rentals and hotel rooms booked on a nightly basis. Canadian outgoing tour operators finalize agreements with suppliers six to eight months prior to the beginning of each season. The summer season runs essentially from May 1 to October 31 and packages are prepared in the preceding fall. The winter season runs mainly from November 1 to April 30 and packages are prepared in the preceding spring. As part of these preparations, tour operators undertake negotiations with air carriers, hotel and cruise ship operators, and car rental agencies. When such negotiations are completed, brochures illustrating the various destinations and describing the various packages and services offered are prepared and distributed to travel agencies before the beginning of each season and sales presentations are made to travel agents in the main cities of the markets covered.

Certain tour operators specialize as incoming tour operators, making arrangements for foreign tourists at their destinations. They negotiate rates with local suppliers of tourist services (hotels, tour buses, local attractions, etc.), assemble packages and sell them to outgoing tour operators in the countries of origin. Incoming tour operators essentially export a country's attractions to foreigners, while also providing services with respect to the organization of holiday travel, conventions and incentive trips.

Certain tour operators round out the range of services offered to travel agencies with the FIT formula (Foreign Independent Tour), namely the sale of seats along with lodging and car rentals. Online travel agencies, such as Expedia, Inc. and Travelocity.com LP, are particularly active in the FIT business segment, thus becoming both an additional distribution channel and a competitor for tour operators.

Factors required to be a successful tour operator include: a good understanding of the tastes and requirements of the vacationer; a solid reputation with hotel suppliers; sufficient travel volume to achieve competitive air and accommodation costs; an established reputation for the ability to deliver on contracted room guarantees; and a solid relationship with travel agents based upon the tour operator's reputation for value and customer satisfaction.

On the Canadian Market

We are the largest tour operator in Quebec, where we compete with other tour operators, such as Vacances Tours Mont-Royal Inc., Premier choix Inc. doing business as Signature Vacations, Tours Maison Inc., Touram Inc. doing business as Air Canada Vacations, Go Travel Direct.com, etc.

The Ontario market is the largest in Canada. In addition to Transat, a few large tour operators play leading roles in the Ontario market, including MyTravel Canada Holidays Inc. (with Sunquest Vacations® and Alba Tours®), Premier choix Inc. doing business as Signature Vacations Inc., Conquest Vacations Company and Red Seal Vacations Inc., operating as Sunwing Vacations. We have succeeded in establishing a significant market share in the European travel segment, mainly to the United Kingdom during the summer season, as well as for the sunshine destinations segment during the winter season through Transat Tours Canada and its divisions Transat Holidays and Nolitours. In Western Canada, we are the largest tour operator through Transat Holidays and Nolitours.

In terms of our tour operator activities, we have strong market positions in Quebec, Ontario and Western Canada. Geographical diversification involves both departure points and destinations, the purpose being to offer products that best meet customers' expectations in each new market, preferably exclusively. In this respect, our agreement with WestJet allows us to penetrate new markets, as mentioned in Section 2.3.1 of this AIF. In addition, we continue to invest in the expansion of our range of products, in keeping with market trends.

On the French Market and Elsewhere in Europe

The French market consists of approximately 350 tour operators, the largest of which are Club Med-Jet Tours™, Voyages FRAM™, Nouvelles Frontières™ and our own tour operator Look Voyages.

There is a rising demand for long-haul flights during the winter (primarily to sunshine destinations). Aside from the French West Indies (Guadeloupe and Martinique), the demand for countries such as Cuba, the Dominican Republic and Mexico is growing, supported by the affluence of French tourists. This situation enables several players in the industry to increase that proportion of their revenues derived from winter operations.

In terms of organizational structure, France experienced an accelerated consolidation of the tourism industry in 2001 with the arrival of foreign companies and the pooling of interests among French players. In particular, TUI AG (formerly Preussag AG), a German tour operator and a major player in the industry, acquired a minority participation in Nouvelles Frontières™. In contrast to 2001, 2002 saw very limited consolidation activity due to difficult economic conditions in Europe, with the exception of TUI AG, which completed its transaction by acquiring all remaining shares of Nouvelles Frontières™. The arrival of new tour operators TUI France™ and Neckermann™, in the 2003-2004 market, plus the aggressive price positioning of Marsans Transtours™, resulted in an even more competitive market, with at least six generalist tour operators and a plethora of specialized players.

As for Transat, we are firmly established in France, where our tour operator activities rely on Vacances Transat (France), Look Voyages and Brok'Air.

We remain the leading tour operator for packages to Canada through Vacances Transat (France). Over the years, we have been able to build on this base by expanding our product offerings for the entire long-haul market. Taking advantage of synergies with Transat Holidays in Canada, Vacances Transat (France) is the leader in France for travel to the Dominican Republic and Cuba.

Look Voyages ranks fifth amongst tour operators in France. As in Canada, the characteristics of the holiday travel market vary depending on the season: during the winter, the French prefer domestic and long-haul flights, while in the summer they readily opt for the Mediterranean Basin and North Africa. We have succeeded in building a solid brand image for Look Voyages, which ranks first in top of mind surveys with the under-30 age group.

Although quality is an important factor, we believe that competition between tour operators on the Canadian and French markets is mainly based on price, with customers looking for the most affordable way to travel to their destinations. Reduced profit margins in recent years have caused tour operators to seek higher volumes and larger market shares. It is our view that another important factor relative to competition is exclusive access to certain hotels in sunshine destinations, which may enable the major tour operators to improve their position on the market. Thus, we increased exclusivity arrangements with hoteliers over the last few years.

3.5.2. Travel Agencies and Distribution

Travel agencies are the intermediary between the tour operator and the customer. Travel agents meet with, advise and sell the product to the customer. In general, tour operators and other suppliers remunerate travel agencies by way of a commission. Travel agencies also sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services such as cruises. Travel agencies mainly operate independently, as part of large corporate groups, as franchisees or within associations.

As a result of technological advances, online travel agencies now offer a large range of travel products by way of transactional Web sites on the Internet. In both North America and Europe, online travel sales are mostly made up of air tickets, with only a small proportion of packages (including air and hotel).

According to industry sources, there are about 5,000 travel agencies in Canada and 5,000 in France.

We believe that competition between travel agencies is principally based on price and service level. As is the case with tour operators, low profit margins cause travel agencies to seek higher volumes and larger market shares. One of our priorities with regards to integration is to extend our distribution network in our two principal geographic markets.

Retail chains constitute one third of all travel agents in Canada. The major chains are Club Voyages/TravelPlus, which is our own network of travel agencies, CAA™, Carlson Wagonlit Travel®, Thomas Cook Travel Ltd. operating as Thomas Cook/Marlin Travel and Sears Canada Inc. operating as Sears Travel. Retail chains, operating under a common brand, provide a range of services to their members, in the form of centralized negotiated commission levels with major tour operators, as well as training, marketing and information services support.

Consortiums of travel agents, such as Ensemble Travel Ltd. and Advantage Travel T-Comm Inc. operating as Advantage, constitute the second third of Canadian travel agents. They mainly offer centralized negotiated commissions with tour operators.

Finally, the other third is made up of independent travel agents. Vertical integration between travel agent networks and tour operators has been taking place in Canada, as is the case in Europe. All major Canadian tour operators have acquired more travel agencies in recent years.

French customers have a number of ways in which they can purchase either a vacation package or airline tickets: through travel agencies or the Internet, company committees, community organizations or group specialists. With regards to agencies, the market is more fragmented in that large travel agency networks work alongside numerous small, independent, generalized or specialized travel agencies. In keeping with our growth strategy and considering the climate of consolidation that characterizes the market, we intend to further expand our distribution network in France.

There is no doubt that a number of approaches to distribution will continue to coexist. While online travel agencies keep growing, many customers continue to prefer to deal directly with travel advisors, who must demonstrate their added value. Other customers shop on the Internet but insist on finalizing the transaction in person. Even though our short-term plans with regard to distribution focus on the harmonization and deployment of technology platforms, we intend to pursue a hybrid distribution strategy combining traditional travel agencies and the Internet, which strategy will enable us to cater to our customers' preferences. This is where exitnow.ca's technological platform comes in, being the cornerstone of our online operations. It plays a key role in meeting the expectations of both our customers and travel agents, and significantly reducing transaction costs. This in turn can be profitable and efficient for everyone, including the customer.

3.5.3. *Air Carriers*

The air transportation industry is composed of four major segments: (i) network or full-service carriers, such as Air Canada, which primarily operate scheduled flights at major hub airports and rely mostly on the business travel segment and, to a lesser extent, holiday travel markets; (ii) low-cost carriers, such as WestJet, operating short to medium-haul segments at secondary airports on a high-frequency, no frills basis and serving the price-sensitive business and holiday markets; (iii) leisure carriers, such as our own airline Air Transat, serving almost exclusively the holiday travel market through a combination of scheduled and charter air services; and (iv) regional airlines serving local short-haul markets and providing feed traffic to network carriers at major hubs.

Network operators market and distribute their services to the public through in-house reservations departments, global distribution systems and the Internet. Low-cost carriers sell the vast majority of their seats on the Internet. Leisure carriers charter most of their capacity to tour operators and wholesalers who, in turn, consolidate flight services into packages and sell to the public primarily via the travel agency distribution network. The tour operators negotiate bulk hotel room rates and make other arrangements to render the price of a vacation package sold to the customer more attractive than if the same consumer had attempted to make his own reservations.

Network carriers expand their destination offerings through marketing tools such as code sharing and may be part of several large global carrier-alliances, which have been formed over the last decade in this regard. Holiday and low-cost carriers generally do not interline or connect and offer principally direct point-to-point services for the origin-destination traffic segment.

Airline companies either own their aircraft or lease aircraft on a short or long-term basis. Carriers specializing in charter or scheduled flights configure aircraft differently in order to meet their respective needs in terms of service and capacity.

We believe that network carriers, low-cost carriers and holiday or charter carriers increasingly compete in the holiday and the so-called "visiting friends and relatives" travel markets. This is particularly true following certain policy changes enabling air carriers specializing in charter services to operate scheduled flights between certain destinations, as is the case with Air Transat, which offers scheduled services between Canada and thirteen countries listed in Section 3.3 of this AIF.

It is our view that the competition between air carriers is essentially based on price, which is mainly a function of the level of seat capacity, although there are ways to better manage price and increase yield. Prices therefore vary significantly in accordance with seasonal variations in demand and price wars are often triggered whenever carrier capacity exceeds demand or a competitor seeks to increase its market share. It is our view that recent developments in Canada concerning our competitors have brought on capacity that exceeds demand. Furthermore, the large number of air carriers specializing in charter services and scheduled airlines flying to U.S. destinations, combined with the weakness of the Canadian dollar versus the U.S. dollar, has resulted in heavy competition and lower profit margins on flights to these destinations. In addition to price, the image of air carriers and the perception of customers also have an impact on competition.

3.6. FACTORS AFFECTING DEMAND

We are subject to a number of factors that effect demand for our offering, some of which are related or inherent to the travel industry in general. We refer you to our Management's Discussion and Analysis of risk factors for the year ended October 31, 2005 available for consultation on SEDAR at www.sedar.com.

3.7. TRENDS

In recent years, the activities of the Canadian holiday travel sector have been consolidated, hence promoting vertical integration. The sector has also experienced the effect of the globalization of markets. Although a significant number of smaller tour operators remain, four major tour operators, two of which are foreign owned, now dominate the Canadian industry.

Although the United Kingdom has experienced similar trends, France is still a largely fragmented market with several tour operators and a large number of smaller ones.

We believe that France will also be affected by globalization and concentration. For more details on trends, please refer to Section 3.5 of this AIF on competition.

3.8. THE REGULATORY ENVIRONMENT IN WHICH WE OPERATE

As a vertically integrated company, we are involved on all levels of operation specific to holiday travel. Hence, we conduct business in a highly regulated environment as far as our tour operators, travel agencies and air carrier are concerned. All our companies and divisions hold all licences, certificates and permits necessary for their operations and are in compliance with the requirements of applicable legislation. You will find below a description of the legislation to which we are subject.

3.8.1. Tour Operators and Travel Agencies

In Quebec, Ontario and British Columbia, where our operations are centered, tour operators (in this Section, "**Wholesalers**") and travel agencies (in this Section, "**Retailers**") (Wholesalers and Retailers are collectively referred to in this Section as "**Travel Agents**") are governed by legislation providing protection to the travel customer. Pursuant to such legislation, Travel Agents must hold licenses for the performance of their operations and deposit monies received from customers upon the purchase of travel services in a trust account. Travel Agents may withdraw the monies from the trust account prior to their customer's departure solely to make payments to suppliers of the travel services for which the monies were received. Such legislation also requires Travel Agents to provide a security, in the form of a bond or letter of credit, to the authority supervising the carrying out of its provisions as a condition to being granted a Travel Agent's license. Additionally, such legislation establishes compensation funds for the protection against fraud and bankruptcies of Travel Agents and end suppliers, such as airlines or cruise lines. An authority responsible for the application of the legislation is designated in each of the three provinces – being the *Office de la protection du consommateur* in Quebec, the Travel Industry Council of Ontario and the Business Practices and Consumer Protection Authority in British Columbia - to carry out the control and inspection mechanisms provided for in the legislation and to ensure compliance therewith.

Consumer-related concerns for improved transparency and increased consumer protection following the demise of air carriers and Travel Agents in recent years, particularly in the aftermath of the 9/11 attacks and due to fraud, as well as the ensuing depletion of the compensation funds established for travelers' financial protection, prompted all three provincial legislatures to review their travel legislation. Also at stake were Travel Agents' concerns as to being called upon to pay out of their own pocket for events which were not attributable to them, such as in the case of fraud or the demise of suppliers, and to remain competitive in a challenging environment.

The Province of Quebec, which enacted its new *Travel Agents Act*, R.S.Q. c. A-10 and introduced specific amendments to the regulation in effect since December 2002, completed its reform on November 11, 2004 by adopting a new Regulation Respecting Travel Agents, R.S.Q., c. A-10, r.1.

Amongst its most significant changes, the Quebec legislation introduced a new *Fonds d'indemnisation des clients des agents de voyages* ("**Indemnity Fund**") to replace the former Wholesalers' and Retailers' collective security funds, thereby transferring from Travel Agents onto customers the burden of financing their own travelers' protection. This Indemnity Fund is made up of monies including contributions paid by customers equivalent to 0.35% of the total cost of the travel services purchased. It is incumbent upon Retailers to collect these contributions from customers upon purchase of the travel services and to remit them to the *Office de la protection du consommateur* on a quarterly basis, less management expenses. Customers now have quicker access to the Indemnity Fund, as they are able to claim directly on such fund in the event of an end supplier failure that is not attributable to the Travel Agent. In cases where the non-performance of travel services is due to the Travel Agent's fault, the customer, as was the case under the old regime, may be indemnified or reimbursed out of the Travel Agent's trust account for any remaining balance with respect to such customer's booking, then out of the Travel Agent's individual security and, if the latter is insufficient, out of the Indemnity Fund. The indemnity payable to customers out of the Indemnity Fund may not exceed $3,000 per person per trip and $3.0 million per event. Wholesalers must also contribute to the Indemnity Fund at a rate of 0.16% of travel services sold through a Retailer in Quebec, but only until reimbursement of the $6.0 million advance paid by the government into their collective security fund before November 11, 2004.

Under the new Quebec legislation, amounts for the individual security required of Travel Agents to guarantee to customers the performance of their obligations reflect the perceived risk associated to a Travel Agent's operations. Although the amounts required remain based upon a Travel Agent's turnover that appears in its financial statements, Travel Agents that have been in business for five years or less pay more than those who have been operating for six years and over, based on the assumption that the first group is more likely to close down or go bankrupt. Incoming tour operators pay lesser amounts established according to the proportion that their incoming tour operator activities represent over their total turnover.

As for trust accounts, the Quebec legislation provides that the funds collected by a Travel Agent and deposited in a trust account are deemed to be held in trust whether or not they were kept distinctly and separately from the own funds of the Travel Agent. Furthermore, the Quebec legislation makes every director of a Travel Agent solidarily liable for the amounts which to be kept in trust with the individual in whose name the Travel Agent's license is issued on behalf of the Travel Agent and the legal person acting as a Travel Agent, unless the director proves that he acted in good faith.

When it comes to advertising, the provisions of the Quebec legislation promote full disclosure to enable the customer to make informed decisions, namely to ensure that pricing information is not misleading and that the total price is provided at the actual time of purchase to avoid so-called "sticker-shock". Hence, Travel Agents may exclude from the total cost of the services advertised solely the Quebec sales tax, the goods and services tax of Canada and the amount payable as a contribution to the Indemnity Fund. Travel Agents must further indicate whether or not those taxes and that amount are included. In doing so, they must state the fund contribution rate in dollars and comply with a minimum typeface.

Prices advertised in a brochure may not be increased for 60 days after their publication, unless the increase results from an increase in taxes, royalties or charges authorized by a competent public authority. This means that in some cases, the Travel Agent may be forced to absorb the costs of a fuel surcharge paid to an air carrier, as he will not be able to pass it on to customers.

In Ontario, following the bankruptcy of Canada 3000 shortly after the 9/11 attacks, the legislator introduced amendments to the then effective regulation governing Travel Agents in order to allow Travel Agents registered in Ontario to draw directly on the compensation fund to obtain the reimbursement of the money they disbursed to compensate customers in the event of end supplier failures. Prior to this change, Travel Agents could draw from the compensation fund only in the event that they became bankrupt or insolvent themselves.

Further legislative changes followed with the coming into force in Ontario on July 1, 2005 of a new *Travel Industry Act*, 2002, S.O. 2002, c. 30, Sched. D, part of Ontario's new *Consumer Protection Act*, 2002, S.O. 2002, C. 30, Sched. A., and their related regulations, specifically Ontario Regulation 26/05. The new Ontario legislation continues the compensation fund and increases fines that may be levied from persons guilty of an offence under the act. It also limits the liability imposed on Travel Agents for end supplier failure to circumstances where the Travel Agent did not either (i) properly disburse the money received from its customer, or (ii) did not act in good faith and at arm's length with the supplier and the said supplier is not in breach of a requirement to be registered under the legislation. This new legislation gives the Minister of Consumer and Business Services the power to make regulations establishing a code of ethics for the travel industry. Finally, it provides that the Lieutenant-Governor and Council may make regulations dealing with a broad range of matters to regulate the industry, including the maintenance of trust accounts and the money that shall be held in trust and the administration and management of the compensation fund. As regards to the latter, since Ontario did not follow Quebec's lead in opting for a compensation fund financed by customers, Travel Agents remain responsible for financing traveler's financial protection.

The maximum amount that may be reimbursed out of the compensation fund to a customer or registrant for a failure to provide travel services is $5,000 for each person whose travel services were paid for by the customer. The maximum amount that may be reimbursed for a failure to provide travel services with respect to all claims arising out of an event or a major event is capped at $5.0 million.

Effective changes to Ontario Regulation 26/05 amending Ontario Regulation 806/93 include a requirement in any representation that refers to the price of travel services, to show in a clear, comprehensible and prominent manner the total amount to be paid for travel services, either including all fees, levies, service charges and surcharges or excluding them and, in the latter case, to provide either an itemized list of the cost for each fee, levy, service charge and surcharge, or the total cost the customer will be required to pay for fees, levies, service charges or surcharges. Under the regulation, it is not necessary for the representation that refers to the price of travel services to deal with retail sales tax or federal goods and services tax. Prior to the new legislation being effective, Travel Agents had the option to either state that the advertised price included the federal goods and services tax, transportation taxes and related transportation fees or that the advertised price did not include those items. The change is a compromise between the existing all-inclusive pricing in the Province of Quebec and the repealed legislation in Ontario.

So far, it would appear that there is no chance for Travel Agents to attain a level playing field with other travel suppliers such as air carriers as far as advertising of airfare is concerned. Air carriers, which are not subject to provincial legislation, may keep advertising prices that exclude taxes, fees and surcharges, the aggregate of which often represents more than two-thirds of the price initially quoted to the customer.

Although there are talks aimed at harmonizing the provincial and federal legislations with respect to advertising for the travel industry, there is no consensus between travel industry players as to the ultimate unified solution that should be favoured and no indications as to whether such harmonization would take effect and, if so, when this would occur.

British Columbia was the first of the three provinces regulating the activities of Travel Agents to reform its travel legislation. On July 5, 2004, it enacted the *Business Practices and Consumer Protection Act*, B.C.S. 2004 (5th Sess.), c.2 as part of an effort to consolidate former general consumer protection acts, as well as provisions from industry-specific regulatory acts, including the *Travel Agents Act,* R.S.B.C. 1996, c. 49 and the *Travel Agents Act Regulations*, B.C. Reg. 525/77. On the same date, the province of British Columbia also introduced its *Business Practices and Consumer Protection Authority Act*, B.C.S. 2004 (5th Sess.), c. 4 creating the new Business Practices and Consumer Protection Authority, which now assumes responsibility for the oversight of business practices and consumer protection in British Columbia, which functions were previously performed by the Consumer Services Division of the Ministry of Public Safety and Solicitor General.

Among the changes introduced, the most significant ones include file-by-file trust accounting which imposes on Travel Agents the obligation to keep current records of all money deposited into a trust account, all disbursements from a trust account, the trust account balance and the balance for each customer for whom money has been deposited into the trust account. Although this concept does not form part of either Quebec's or Ontario's legislation, the Corporation is equipped in terms of its accounting systems to discharge this new obligation imposed on Travel Agents in British Columbia.

Another novel aspect of the British Columbia legislation is the inclusion of wording with respect to the security required of Travel Agents, specifically of amounts to be provided thereunder by Travel Agents, which are fixed for Retailers and based on the Wholesalers' total sales in that province. Formerly, these amounts were determined on a discretionary basis by the Business Practices and Consumer Protection Authority's predecessor.

As in Ontario, it is up to the licensees under the legislation to contribute to the Travel Assurance Fund. The maximum amount that may be paid from the fund to a claimant in respect of a claim is $5,000 for each person covered by the claim, subject to a $2.0 million cap in respect of all claims relating to a single event.

It remains to be seen how this cap will work out with the contribution holiday applicable to licensees under the legislation when the book value of the Travel Assurance Fund is at least $1.0 million and the contributor has paid the required contributions for successive semi-annual periods totalling three years.

One considerable gain from the reforms in Quebec and British Columbia is the creation of an advisory committee composed of government, industry and consumer groups, as part of an effort to strike a better balance between each group's concerns. So far, Ontario had been the only jurisdiction to favour input from the industry through the board of directors of the Travel Industry Council of Ontario, which includes travel industry representatives. In Quebec and British Columbia, the function of the advisory committee is to advise the regulatory authorities in charge of enforcing the travel legislation on all issues concerning the activities of Travel Agents. The scope of each province's advisory committee remains yet to be seen, as well as its influence on issues that are key to travel industry players.

As at the date of this AIF, our companies and divisions doing business as Travel Agents hold all licenses necessary for their operations and are in compliance with the requirements of applicable legislation.

3.8.2. *Air Carriers*

International Regulatory Framework

Numerous commercial aspects of international air transport are regulated by international conventions, principally the *Convention on International Civil Aviation* signed in Chicago on December 7, 1944 (the "Chicago Convention"), by the domestic legislation of countries in which air transport is conducted, and by network of bilateral and multilateral air transport agreements and treaties.

The Chicago Convention provides the basis for regulation of air carrier operations. Certain principles pertaining to the operation of international charter flights were established between each of the signatory states, which include Canada, namely that the intended transportation comply with, and be duly approved pursuant to, the national regulations of the countries between which it is being conducted.

The Chicago Convention also established ICAO, a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. No other agreement is ordinarily required in order to operate charter flights between most countries, subject to certain exceptions regarding capacity quotas.

The 1995 Air Transport Agreement between the Government of Canada and the Government of the United States of America was recently amended. The changes in question, which will take effect on September 1, 2006, provide for the opening of third-country markets, as well as for tariff and all-cargo services liberalization. In operating trans-border flights, Canadian carriers will henceforth be allowed to embark passengers at U.S. points and carry them onward toward a destination in a third country and *vice versa*. US carriers have been granted reciprocal rights with respect to their operations via Canada. Consequently, Air Transat and Transat Tours Canada are currently reviewing and identifying potential U.S.-third country market opportunities.

On November 5, 2003, the *Montreal Convention of 1999 on Compensation for Accident Victims* (the "Montreal Convention") came into effect. This multilateral agreement updates the rules on passenger, baggage and cargo liability applicable to international air transport and originally established by the Warsaw Convention in 1929 and amended over the years (together the "Warsaw System"). In general, the Montreal Convention establishes a two-tier liability regime for carriers for damages to passengers resulting from personal injury or death. The first tier includes strict liability up to 100,000 Special Drawing Rights (SDR) (approximately US$135,000) regardless of the carrier's fault. The second tier is based on presumption of fault of a carrier and has no limit of liability. The Montreal Convention provides for the review of limits of liability, thus ensuring that the amounts remain relevant with the passage of time. The first such review will take place at the end of the fifth year following the date of entry into force of the Montreal Convention. In addition to establishing new principles of liability, the Montreal Convention modernizes many of the ticketing and air waybill requirements. The Montreal Convention has been ratified by Canada and applies to all flights between Canada and other ratifying states. For flights from Canada to non-ratifying or non-signatory states, the Warsaw System continues to govern.

On February 17, 2005, the European Union (the "EU") Regulation 261/2004 on compensation to passengers came into effect. This regulation applies to passengers departing from any airport in the EU and in the case of flights being operated by an EU airline, to passengers departing from any airport situated outside of the EU and arriving at an airport in the EU. Pursuant to this regulation, airlines must provide passengers who are being denied boarding (due to overbooking, for example, rather than any health or security related reason or the lack of required travel documentation), whose flight has been delayed (provided the passengers presented themselves for check-in as stipulated) or cancelled, with a notice setting out the rules for compensation and assistance. Airlines must also inform passengers in writing of the national body responsible for enforcing the regulation. In the event of denied boarding, the cancellation of a flight or a flight delay of at least four hours, airlines are required to offer all concerned passengers the choice between a full refund of their ticket or any non-utilized segment thereof, as the case may be, and an alternative flight, in accordance with strict criteria established in the regulation. In the event of denied boarding or a flight cancellation for which the airline failed to advise passengers in advance (i.e. if for example, the cancellation occurred less than two weeks prior to the scheduled departure or if the airline was unable to offer an alternative flight in accordance with the strict criteria established under the regulation), the airline is also required to give the concerned passengers a compensation up to €600 depending on the length of the flight. In all cases, airlines must offer meals and drinks as well as hotel accommodations, if need be, and assume any extra costs to the passengers for local communication and transportation.

Canadian Legislation

The *Aeronautics Act*, R.S.C. 1985, c. A-2 and the *Canada Transportation Act* are two of the principal legislative instruments that regulate the operation of a commercial airline in Canada. Such operation is subject to the issuance of the required licenses and operating certificate attesting that the air carrier complies with Canadian standards, as well as to the maintenance of the required liability insurance. In the case of charter flights, permits are required for each proposed flight or series of flights. Licenses and charter permits are issued by the Canadian Transportation Agency (the "Agency"), and the operating certificate is issued by Transport Canada. This certificate attests that the air carrier is properly organized and equipped to conduct its business in compliance with the *Canadian Aviation Regulations*, SOR/1996-433. Such a certificate was issued to Air Transat on November 13, 1987, and was subsequently modified to reflect our changing operating conditions.

Our airline Air Transat is required to obtain a permit from the Agency in respect of each international charter flight or series of charter flights. This authorization is conditional upon various details being provided to the Agency with respect to the flight, the eligibility and financial responsibility of the charterer, and the terms and conditions of the charter contract. Moreover, the issuance of any authorization relating to an international charter flight or a series of international charter flights is subject to the provision by Air Transat of satisfactory evidence that any advance payments by the charterer to Air Transat, for an international charter flight or a series of international charter flights, are protected by way of a guarantee or an irrevocable letter of credit. This guarantee or irrevocable letter of credit provides security in an amount equal to the payments received by Air Transat from charterers in advance of all segments of unperformed flights pursuant to a charter contract. The Agency also determines the conditions regulating the relationship between air carriers and the charterer.

Under current Canadian regulations, an air carrier does not have the right to sell seats on international charter air services directly to the public, but must charter its capacity to one or more competent charterers.

The conditions mentioned previously do not apply to Canadian domestic operations in that the legislation no longer makes any distinction between scheduled and charter flight services. Furthermore, Air Transat's scheduled services to the United States, Cuba, France, Germany, the United Kingdom, the Netherlands, Belgium, Ireland, Italy, Portugal, Greece, Mexico and the Dominican Republic are subject to the rules established under the bilateral agreements concluded by Canada with these respective countries.

As at the date of this AIF, Air Transat holds all necessary licenses, certificates and permits and is in compliance with the requirements of applicable Canadian legislation. Furthermore, all of our aircraft meet the ICAO chapter 3 noise requirements implemented by Transport Canada.

Foreign Legislation

In respect of each jurisdiction other than Canada in which Air Transat operates, we must comply with applicable laws and, when necessary, obtain the required licenses, permits and authorizations. Such permits and authorizations are generally issued to Air Transat provided it meets the applicable criteria, which may vary from country to country. We believe that Air Transat holds all licenses, permits and authorizations necessary for its operations and is in compliance with the requirements of applicable foreign legislation.

3.8.3. *Environment*

We are subject to various environmental laws and monitor our operations to ensure that we comply with the applicable environmental requirements and standards. If necessary, we adopt preventive and corrective measures. In this respect, we have implemented at Air Transat a series of programs and procedures to optimize the recovery, recycling and management of fossil fuels. In 1999, we also formed at Air Transat an environmental committee to ensure that applicable environmental requirements and standards are complied with, in all material respects. Our

Corporate Governance and Nominating Committee of the Board of Directors annually reviews risk measurement and corporate policies and procedures respecting the environment.

We believe we comply in all material respects with the provisions of applicable environmental laws and regulations.

3.9. RISK FACTORS THAT COULD AFFECT OUR BUSINESS

We are subject to a number of risks, some of which are related or inherent to the travel industry in general. We refer you to our Management's Discussion and Analysis for the year ended October 31, 2005 available for consultation on SEDAR at www.sedar.com.

4. DIVIDENDS AND ISSUER BIDS

Since its incorporation, Transat has never declared or paid any dividends. For the time being, we do not expect to declare any dividends on our Variable Voting Shares or Voting Shares, as well, we intend to use some of our future profits to finance our operations and expansion, notably through acquisitions.

Normal Course Issuer Bid

On June 8, 2005, our Board of Directors announced that it had filed a renewal notice with the TSX, for a 12-month extension of its normal course issuer bid, scheduled to expire June 14, 2006. In the notice, which the TSX confirmed acceptance as of June 13, 2005, we stated our intention to purchase for cancellation up to a maximum of 3,935,000 Class A Variable Voting Shares and Class B Voting Shares, representing 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares held by the public. As of June 3, 2005, there were 7,970,922 Class A Variable Voting Shares and 32,602,040 Class B Voting Shares issued and outstanding, of which 39,351,600 Class A Variable Voting Shares and Class B Voting Shares represent the public float.

This program is designed to allow the Corporation to purchase Class A Variable Voting Shares and Class B Voting Shares in the normal course of business, i.e., when the Corporation estimates that the Class A Variable Voting Shares and Class B Voting Shares are undervalued by the market.

These purchases are to be made through the facilities of the Toronto Stock Exchange in accordance with its policy Statement on Normal Course Issuer Bids. The price that we pay for any Class A Variable Voting Shares and Class B Voting Shares will be the market price at the time of acquisition plus brokerage fees. Purchases began on June 15, 2005 and will terminate no later than June 14, 2006.

During the financial year commencing November 1, 2004 and ending October 31, 2005, the Corporation purchased for cancellation for a cash consideration of $22.5 million an aggregate of 1,081,100 voting shares, made up of Class A Variable Voting Shares and Class B Voting Shares.

Transat's normal course issuer bid, which was suspended with the announcement of the substantial issuer bid (described hereunder), and resumed on December 23, 2005.

Substantial Issuer Bid

Transat launched a substantial issuer bid on November 14, 2005 to repurchase for cancellation up to $125 million worth of either Class A Variable Voting Shares or Class B Voting Shares, through a Dutch auction-type substantial issuer bid (the "SIB"). The Dutch auction tender SIB procedure allowed shareholders to select a share price, of not less than $17.50 and not more than $20.00, at which each is willing to sell all or a portion of his or her shares. In accordance with its offer, the Corporation redeemed, on January 3, 2006, a total of 6,443,299 voting shares, consisting of 1,780,797 Class A Variable Voting Shares and 4,662,502 Class B Voting Shares, for a cash consideration of $125.0 million at a purchase price of $19.40.

5. MANAGEMENT'S DISCUSSION AND ANALYSIS

We refer you to our Management's Discussion and Analysis for the year ended October 31, 2005 available for consultation on SEDAR at www.sedar.com.

6. OUR CAPITAL STRUCTURE

6.1. CONSTRAINTS

Pursuant to the *Canada Transportation Act*, S.C. 1996, c. 1010, (the "***Canada Transportation Act***"), Air Transat, a wholly owned subsidiary of the Corporation, must at all times, be in a position to establish that it is "Canadian" within the meaning of such act in order to hold the licenses necessary to operate an air service. Because Transat wholly owns Air Transat, we must qualify as "Canadian" in order for Air Transat to qualify as "Canadian." Currently, we must ensure that no more than 25% of voting interests attaching to our shares are owned or controlled by non-Canadians.

In this respect, our Articles provide for Variable Voting Shares and Voting Shares. The Variable Voting Shares can only be owned or controlled by persons who are not Canadian and carry one vote per share unless (i) the number of issued and outstanding Variable Voting Shares exceeds 25% of all the issued and outstanding voting shares or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above-noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of the Corporation, and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting. The Voting Shares can only be owned and controlled by Canadians and always carry one vote per share. All the other rights, privileges, conditions and restrictions for the two classes of shares are the same.

The holders of Variable Voting Shares and Voting Shares will vote together at any meeting and no separate meeting is being held for any such class of shares. Only votes attached to voting shares represented by shareholders present in person or represented by proxy at a meeting and legally entitled to be voted thereat can be exercised or cast at such meeting.

Pursuant to its powers under Transat By-law No. 1999-1 and the regulations under the *Canada Business Corporations Act*, and in accordance with the provisions of our Articles and the *Canada Transportation Act*, Transat's Board of Directors has implemented a series of administrative measures to ensure that the Voting Shares are owned and controlled by Canadians and the Variable Voting Shares are owned or controlled by non-Canadians at all times (the "**Ownership Restrictions**"). The measures are notably reflected in the forms of declaration of ownership and control. Shareholders who wish to vote at the Meeting either by: (i) completing and delivering a proxy form or a voting instruction form, or (ii) by attending and voting at the Meeting, will be required to complete a declaration of ownership and control in order to enable Transat to comply with the Ownership Restrictions. If a shareholder does not duly complete such declaration or if it is determined by Transat or its transfer agent, CIBC Mellon Trust Company ("**CIBC Mellon**"), that a shareholder indicated (through inadvertence or otherwise) that he or she owns or controls the wrong class of shares, the automatic conversion provided for in our Articles shall be triggered. Where a statement made in a declaration appears inconsistent with the knowledge of Transat (through inadvertence or otherwise), we may take any action that we deem appropriate with a view to ensure compliance with the Ownership Restrictions. Further, if a declaration is not duly completed, executed and delivered to Transat through its transfer agent, CIBC Mellon, the vote attached to such declarant's voting shares will not be tabulated.

6.2. GENERAL DESCRIPTION OF OUR SHARE CAPITAL

As at the date of this AIF, Transat's share capital is composed of Voting Shares and Variable Voting Shares introduced in our latest Articles of Amendment filed on March 4, 2005 and effective as at that date, as well as Preferred Shares. As of January 18, 2006 there were 5,531,299 issued and outstanding Variable Voting Shares and 28,194,175 issued and outstanding Voting Shares. Below is a summary describing the rights, privileges, restrictions and conditions attached to Transat's Variable Voting Shares, Voting Shares and Preferred Shares.

6.2.1. Variable Voting Shares

Exercise of Voting Rights

The holders of Variable Voting Shares are entitled to receive notice of, to attend and vote at all meetings of our shareholders, except those at which the holders of a specific class are entitled to vote separately as a class under the *Canada Business Corporations Act*.

Variable Voting Shares carry one vote per share held, except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Voting Shares (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*), or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting exceeds 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically without further act or formality. Under the circumstances described in paragraph (i) above, the Variable Voting Shares as a class cannot carry more than 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total voting rights attached to the aggregate number of issued and outstanding Variable Voting Shares and Voting Shares of Transat. Under the circumstances described in paragraph (ii) above, the Variable Voting Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at said meeting.

Dividends

Subject to the rights, privileges, restrictions and conditions attached to any other class of Transat shares ranking prior to the Variable Voting Shares, the holders of Variable Voting Shares are entitled to receive any dividends that are declared by Transat's directors at the times and for the amounts that our Board of Directors may, from time to time, determine. The Variable Voting Shares and the Voting Shares shall rank equally as to dividends on a share-for-share basis. All dividends shall be declared in equal or equivalent amounts per share on all Variable Voting Shares and Voting Shares then outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or Voting Shares shall occur unless simultaneously, the Variable Voting Shares or Voting Shares, as the case may be, are subdivided or consolidated in the same manner so as to maintain and preserve the relative rights of the holders of each of these classes of shares.

Rights in the Case of Liquidation, Winding-Up or Dissolution

Subject to the rights, privileges, restrictions and conditions attached to the other classes of Transat shares ranking prior to the Voting Shares, in the case of liquidation, dissolution or winding-up of Transat, the holders of

Variable Voting Shares and Voting Shares shall be entitled to receive Transat's remaining property and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be automatically converted into one Voting Share, without any further intervention on the part of Transat or the holder, if (i) the Variable Voting Share is or becomes owned and controlled by a Canadian; or if (ii) the provisions contained in the *Canada Transportation Act* relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, to be made to all or substantially all the holders of Voting Shares in a given province of Canada to which these requirements apply, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the Offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Variable Voting Shares notwithstanding their conversion. Our transfer agent shall deposit the resulting Voting Shares on behalf of the holder.

Should the Voting Shares issued upon conversion and tendered in response to the offer be withdrawn by shareholders or not taken up by the Offeror, or should the offer be abandoned or withdrawn, the Voting Shares resulting from the conversion shall be automatically reconverted, without further intervention on the part of Transat or on the part of the holder, into Variable Voting Shares.

Variable Voting Shares may not be converted into Voting Shares, and *vice-versa*, other than in accordance with the conversion procedure set out in our Articles of Amendment dated March 4, 2005.

Constraints on Share Ownership

Variable Voting Shares may only be owned or controlled by non-Canadians.

6.2.2. *Voting Shares*

Exercise of Voting Rights

The holders of Voting Shares shall be entitled to receive notice of, and to attend and vote at all meetings of our shareholders, except those at which holders of a specific class are entitled to vote separately as a class under the *Canada Business Corporations Act*. Each Voting Share shall confer the right to one vote at all meetings of our shareholders.

Dividends

Subject to the rights, privileges, restrictions and conditions attached to any class of Transat shares ranking prior to the Voting Shares, holders of Voting Shares are entitled to receive any dividends declared by our directors at the times and for the amounts that the Board of Directors may, from time to time, determine. The Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share-for-share basis. All dividends declared shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares then outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or Variable Voting Shares shall occur unless simultaneously, the Voting Shares or the Variable Voting Shares, as the case may be, are subdivided or consolidated in the same manner so as to maintain and preserve the relative rights of the holders of each of these classes of shares.

Rights in the Case of Liquidation, Winding-Up or Dissolution

Subject to the rights, privileges, restrictions and conditions attached to any class of shares ranking prior to the Voting Shares, in the case of liquidation, dissolution or winding-up of Transat, the holders of Voting Shares and Variable Voting Shares shall be entitled to receive Transat's remaining property and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of Transat or the holder, if such Voting Share is or becomes owned or controlled by a person who is not a Canadian.

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, to be made to all or substantially all the holders of Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the Offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning the voting rights for Voting Shares notwithstanding their conversion. Our transfer agent shall deposit the resulting Variable Voting Shares on behalf of the holder.

Should the Variable Voting Shares issued upon conversion and tendered in response to the offer be withdrawn by shareholders or not taken up by the Offeror, or should the offer be abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be automatically reconverted, without further intervention on the part of Transat or on the part of the holder, to Voting Shares.

The Voting Shares may not be converted into Variable Voting Shares, or *vice-versa*, other than in accordance with the conversion procedure set out in the Articles of Amendment dated March 4, 2005.

Constraints on Share Ownership

The Voting Shares may only be owned or controlled by Canadians.

6.2.3. *Preferred Shares*

The Preferred Shares, if issued, will rank prior to the Variable Voting Shares and the Voting Shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution or liquidation of the Corporation or the distribution of its capital, no amount shall be paid and no asset shall be distributed to the holders of shares of any other class of the Corporation until the holders of the Preferred Shares receive an amount equal to the value of the consideration received by the Corporation upon the issuance of such shares and, in the case of Preferred Shares of a series entitled to cumulative dividends, of all dividends then accrued and unpaid, and, for

Preferred Shares of a series entitled to non-cumulative dividends, of all dividends declared thereon and unpaid, if any, plus any other amount, if any, determined by the directors in respect of each series prior to the issue of any Preferred Shares of such series. The holders of the Preferred Shares of a particular series shall be entitled to the payment of this entire amount from the assets of the Corporation in preference and prior to the holders of any other class of shares of the capital of the Corporation.

The Preferred Shares of each series will rank equally with the Preferred Shares of other series in terms of payment of dividends and distribution of assets upon liquidation or dissolution of the Corporation.

The Series 3 Preferred Shares do not carry any voting rights and entitle the holders thereof to a dividend equal to any dividend declared on the Variable Voting Shares and the Voting Shares. Each Series 3 Preferred Shares is convertible by the holder into three Variable Voting Shares or Voting Shares, as the case may be, in accordance with our Articles of Amendment dated March 4, 2005 and redeemable by the holders at their issue price. The conversion rate is subject to adjustments upon certain circumstances affecting the share capital of the Corporation.

Upon liquidation or dissolution of the Corporation, or any distribution of assets of the Corporation among its shareholders for the purpose of terminating its activities (collectively a "Distribution upon liquidation"), the holders of Series 3 Preferred Shares shall have the right to receive, as payment of capital, an amount per share equal to that amount to which the holders of the Variable Voting Shares and the Voting Shares shall be entitled to, and shall not have the right to participate in any other distribution of assets of the Corporation. No Distribution upon liquidation can be made to holders of the Variable Voting Shares or the Voting Shares before such amount is paid to the holders of Series 3 Preferred Shares.

Subject to the provisions of the governing law and the Articles of the Corporation, Transat may repurchase at any time all, or, from time to time, part of the Series 3 Preferred Shares, at the price equal to the issue price and all declared and unpaid dividends. In addition, the holders of the Series 3 Preferred Shares have the right to require that the Corporation purchase at all times all or part of their Series 3 Preferred Shares at a price equal to the issue price plus dividends declared and unpaid on such shares.

At the Annual Meeting held on March 27, 2002, the shareholders of the Corporation ratified the renewal of a shareholders' subscription rights plan (the "Rights Plan"). This plan entitles holders of Variable Voting Shares and Voting Shares to acquire, under certain conditions, additional Variable Voting Shares or Voting Shares, as the case may be, at a price equal to 50% of their market value at the time the rights are exercised. It is designed to give the Board of Directors time to consider offers to acquire control of the Corporation, thus allowing shareholders to receive full and fair value for their shares. On March 15, 2005, Transat's Board of Directors adopted and renewed the Rights Plan for an additional period of three years and made modifications to harmonize the Rights Plan with the latest amendments to Transat's Articles on March 4, 2005 and, more specifically, the conversion of the common shares into Variable Voting Shares and Voting Shares, as the case may be. At the Annual and Special Meeting held on April 27, 2005, the shareholders of the Corporation ratified the Rights Plan which took effect on March 15, 2005.

7. MARKET FOR SECURITIES

7.1. TRADING PRICE AND VOLUME

Transat's common shares, as they existed prior to the filing of our latest Articles of Amendment on March 4, 2005, are listed on the Toronto Stock Exchange ("TSX"), under the symbol TRZ. Since the coming into effect of the amendments to Transat's Articles, Transat's common shares were converted into Class A Variable Voting Shares, which are listed on the TSX under the symbol TRZ.RV.A and Class B Voting Shares, which are listed on the TSX under the symbol TRZ.B. The Toronto Stock Exchange has informed Transat that its TSX trading symbol "TRZ.RV.A" representing Variable Voting Shares shall be modified sometime during the 2006 calendar year; thereupon the current symbol shall be posted as "**TRZ.A".**

The following tables set out the reported high and low prices and trading volume of: (i) the then existing common Shares for the first part of the fiscal year 2005 during which they were still being traded on the TSX under the symbol "TRZ"; (ii) the foreign owned Class A Variable Voting Shares listed as "TRZ.RV.A" and the Canadian owned Class B Voting Shares listed as "TRZ.B" for the last part of the fiscal year ending October 31, 2005 during which theses shares began trading.

TRZ	High	Low	Volume
November 2004	24,600	22,690	10,709,699
December 2004	25,770	23,290	5,447,511
January 2005	26,480	22,750	6,994,310
February 2005	28,040	26,020	4,073,012

TRZ.B	High	Low	Volume
March 2005	28,290	25,000	4,147,725
April 2005	25,550	23,000	3,432,704
May 2005	24,490	21,250	2,618,050
June 2005	26,200	23,800	3,820,377
July 2005	23,700	22,600	4,015,556
August 2005	22,690	19,900	6,004,096
September 2005	20,680	18,000	7,970,583
October 2005	19,300	16,020	4,234,362

TRZ.RV.A	High	Low	Volume
March 2005	28,150	25,000	937,359
April 2005	25,690	23,000	487,080
May 2005	24,250	21,010	2,378,483
June 2005	26,420	23,610	598,437
July 2005	23,960	22,530	905,624
August 2005	22,800	19,800	2,272,678
September 2005	20,610	17,790	997,099
October 2005	18,900	16,250	722,062

On October 31, 2005, the closing price on the TSX of a Transat Class A Variable Voting Share was $16.25 and Class B Voting Shares closed at a price of $16.02.

8. OUR DIRECTORS AND OFFICERS

8.1. OUR DIRECTORS

The following table states, as at the date of this AIF, the names, province and country of residence, years of election as director and present principal occupations of the directors of Transat, as well as the number of voting shares of Transat over which he or she exercises control or direction. Each of these directors shall hold office until the next annual meeting of Transat or until his or her replacement is elected. Pursuant to a resolution of the Board of Directors of Transat, the number of directors of the Corporation has been established at 11 directors.

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed[1]
Jean-Marc Eustache *Quebec, Canada*	Chairman of the Board, President and Chief Executive Officer, Transat, President, Look Voyages and Chairman of the Board, Transat Tours Canada	February 1987	489,710
André Bisson, O.C. *Quebec, Canada*	Chairman of the Board, CIRANO *(Centre for Interuniversity Research and Analysis on Organizations)*	April 1995	14,262
John P. (Jack) Cashman *Ontario, Canada*	President *Humphrey Management Europe Limited*	April 2005	0
Lina De Cesare *Quebec, Canada*	President, Tour Operators, Transat, President, Cameleon Hotel Management Corporation and President, Transat Tours Canada	May 1989	81,013
Benoît Deschamps *Quebec, Canada*	President, Champré Capital Inc.	April 1997	6,502
Jean Guertin *Quebec, Canada*	Corporate Advisor and Director, Honorary Professor, HEC Montréal	April 1995	5,596
H. Clifford Hatch Jr.[2] *Ontario, Canada*	President and Chief Executive Officer, Aurdisyl Management Corporation and Cliffco Investments Limited	March 2001	3,374
Jacques Simoneau *Quebec, Canada*	President and Chief Executive Officer, Hydro-Québec CapiTech Inc.	November 2000	3,000

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed(1)
Philippe Sureau *Quebec, Canada*	President, Distribution, Transat and President, Consultour	February 1987	364,262
John D. Thompson *Quebec, Canada*	Deputy Chairman, Montreal Trust Company of Canada	April 1995	13,000
Dennis Wood, O.C. *Quebec, Canada*	Chairman of the Board, President and Chief Executive Officer, Dennis Wood Holdings Inc.	March 2004	7,143

(1) Under the guidelines adopted by Transat, each director who is not an employee must hold a number of shares or deferred share units equivalent to three times the base annual fees to which he or she is entitled after having served three years as a director. The number of shares indicated is given as at January 18, 2006 and is based on the declarations of our directors.

(2) Mr. H. Clifford Hatch Jr. was a director of Geneka Biotechnologie Inc. until March 7, 2003. Geneka Biotechnologie Inc. made an assignment in bankruptcy on June 1, 2003.

Each of the directors of the Corporation has had the principal occupation indicated opposite his or her name during the past five years, except as indicated below:

- Mr. André Bisson was Chancellor and Chairman of the Board of Université de Montréal from 1990 until 2003;
- Mr. Benoît Deschamps was a Corporate Director and Corporate Finance Advisor from November 2000 until he took up his current position. He held the position of Vice-President, Financial Planning and Treasurer of Groupe Vidéotron from August 1997 until November 2000;
- Mr. Jean Guertin also held, from 1998 to 2001, the consecutive positions of Chairman of the Board and Senior Executive Advisor at Société Télémédia;
- Mr. Jacques Simoneau was at the Fonds de solidarité des travailleurs du Québec (F.T.Q.), where he held the positions of Senior Vice-President - Industry and Services from 2000 to 2004 and Group Vice-President, Technological Investments from 1999 to 2000; and
- Mr. Dennis Wood, O.C. was Chairman of the Board of Electromed Inc. from 2002 to 2003 and, from 1989 to 2001, Chairman of the Board, President and Chief Executive Officer of C-MAC Industries Inc.

The Board of Directors of Transat has created four committees, to which it has given specific mandates and the necessary powers to assist it in effectively fulfilling its duties. They are: the Executive Committee, the Audit Committee, the Human Resources and Compensation Committee and the Corporate Governance and Nominating Committee.

Mr. Jean-Marc Eustache is Chairman of the Executive Committee, whose members include Messrs. André Bisson, O.C., Jean Guertin and H. Clifford Hatch Jr.

Messrs. André Bisson, O.C., Jean Guertin and H. Clifford Hatch Jr. are the lead directors of Transat. Each assumes responsibility for chairing and coordinating the meetings of the Audit Committee, the Human Resources and Compensation Committee and the Corporate Governance and Nominating Committee, respectively.

Members of the Audit Committee chaired by Mr. André Bisson, O.C. include Messrs. Benoît Deschamps, Jean Guertin and John D. Thompson.

Messrs. H. Clifford Hatch Jr., Dennis Wood and John D. Thompson are members of the Human Resources and Compensation Committee chaired by Mr. Jean Guertin.

Messrs. André Bisson, O.C., Benoît Deschamps and Jacques Simoneau are members of the Corporate Governance and Nominating Committee chaired by Mr. H. Clifford Hatch Jr.

8.2. OUR OFFICERS

The following table sets forth the names, province and country of residence of the officers of Transat, their first year of service and position held with Transat, as well as the number of voting shares of Transat over which he or she exercises control or direction.

Name, Province and of Residence	First Year of Service with Transat	Position Held with Transat	Voting Shares Owned or Controlled or Directed[1]
Jean-Marc Eustache *Quebec, Canada*	1987	Chairman of the Board, President and Chief Executive Officer	489,710
Philippe Sureau *Quebec, Canada*	1987	President, Distribution	364,262
Lina De Cesare *Quebec, Canada*	1989	President, Tour Operators	81,013
Michel Bellefeuille *Quebec, Canada*	2002	Interim Vice-President and Chief Information Officer	317
Bernard Bussières *Quebec, Canada*	2001	Vice-President, General Counsel and Corporate Secretary	22,308
André De Montigny *Quebec, Canada*	2000	Vice-President, Corporate Development	12,566
François Laurin *Quebec, Canada*	2005	Vice-President, Finance and Administration and Chief Financial Officer	0
Louise Piché *Quebec, Canada*	2002	Corporate Vice-President, Human Resources	9,268

(1) The number of shares indicated is given as at January 18, 2006 and is based on the declarations of our officers. You will find information pertaining to the number of shares held by executive officers of certain of our subsidiaries, which executive officers are not mentioned in this AIF, in the Management Proxy Circular in respect of the Special and Annual Meeting of Shareholders to be held on March 15, 2006.

With the exception of Messrs. Jean-Marc Eustache and André De Montigny, who over the past five years have had the principal occupation indicated opposite their name, the other officers of Transat held the following positions:

- Philippe Sureau was Executive Vice-President of Transat, just prior to being named President, Distribution on December 17, 2004. He was President and Chief Executive Officer of Air Transat from March 1997 to November 2000. He is also President of Consultour;

- Lina De Cesare was Executive Vice-President, Tour Operators of Transat, just prior to being named President, Tour Operators on December 17, 2004. She is also President of Cameleon Hotel Management Corporation and Transat Tours Canada;

- Bernard Bussières was a senior partner of Fasken Martineau DuMoulin LLP from January 1995 to February 2001;

- François Laurin was Vice-President, Finance and Administration at Microcell i5 from 2000 to 2001, Group Vice-President Comptroller, Americas and Transit systems at Bombardier Transportation from 2001 to 2003, and Vice-President Investments, Medias and Communication at CDP Capital Private Investments from 2003 until joining Transat in May 2005; he is a chartered accountant (CA) and a certified chartered analyst (CFA).

- Louise Piché was Vice-President, Human Resources at the Business Development Bank of Canada from 1998 to August 2002.

Cease Trade Orders or Bankruptcies

To the knowledge of Transat and except for: (i) Dennis Wood, who is currently a director of Groupe Bocenor Inc., which company was subject to an event which resulted in the company filing a notice of intention to make a proposal under the Bankruptcy and Insolvency Act (Canada) on June 11, 2004, which was ratified by the Quebec Superior Court on August 5, 2004 and (ii) Mr. H. Clifford Hatch Jr. who was a director of Geneka Biotechnologie Inc. until March 7, 2003 and Geneka Biotechnologie Inc. made an assignment in bankruptcy on June 1, 2003, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of our Corporation;

(a) is, as at the date of the AIF or has been, within the 10 years before the date of the AIF, a director or executive officer of any company , that while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

To the knowledge of the Corporation, no director or executive officer of Transat has been subject to : (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of Transat, in the last ten years, no director or executive officer has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

9. LEGAL PROCEEDINGS

In the ordinary course of business, Transat is a defendant in a number of legal proceedings, suits, and claims common to companies operating in the travel industry and engaged in the wholesale, retail or airline business. We believe that the ultimate outcome of these matters will not have a material effect upon the Corporation's financial position, operating results or cash flows.

Transat's tour operators operating as part of Transat Tours Canada are currently the subject of class actions. On February 18, 2005, Rosa Alves and named plaintiffs filed three class actions against several defendants including tour operators MyTravel Canada Holidays Inc. and MyTravel Affiliates Inc. carrying on business as "Sunquest", First Choice Canada Inc. carrying on business as "Signature Vacations", Red Seals Vacations Inc. carrying on business as "Sunwing" and Transat A.T. Inc. (which is erroneously named as a defendant in the proceeding instead of Transat Tours Canada Inc.) carrying on business as "World of Vacations and Air Transat Holidays" in the Ontario Superior Court of Justice, in the Saskatchewan Court of Queen's Bench and in the Quebec Superior Court (the "Alves Class Actions"). The representative plaintiff is claiming unspecified general damages, indemnity for losses, reimbursement of monies paid for travel services and any further relief as may be just and proper on behalf of all persons who have purchased a vacation through defendants to Holguin, Cuba for the period of travel between November 1st, 2004 and February 1st, 2005. The proceedings allege that the defendants should not have sold holidays when there were water supply problems affecting certain hotels in the area. As at the date of this AIF, Alves Class Actions have not been authorized; furthermore, on November 7, 2005, the Quebec Superior Court ruled that it had no jurisdiction in the matter, therefore only the Saskatchewan and Ontario class actions may go forward.

Air Transat is currently the subject of proceedings instituted by passengers on board one of its Airbus A310s that had to return to Varadero, Cuba shortly after take-off due to a mechanical failure, when a portion of the rudder detached from the aircraft as the flight was progressing under normal conditions at its cruising altitude. 261 passengers and 9 crew members were on board the aircraft and no injuries were suffered. Two class actions were instituted as a result of this incident on March 10, 2005 in the Quebec Superior Court by two passengers, namely Herman Croteau and Renaud Brillant, but the latter subsequently abandoned his proceedings and became co-petitioner in the action instituted by the first passenger. Passenger Herman Croteau is claiming damages of $20,000 on behalf of residents of the province of Quebec that were on board Air Transat's flight TS961 departing from Varadero, Cuba on March 6, 2005, as well as punitive damages of $10,000 for himself as a class representative. The motion to authorize the Herman Croteau proceedings was heard and on December 15, 2005, the Court ruled that the petitioners' claim was not founded at Law and therefore the petitioners were not authorized to proceed with their lawsuit. The petitioners appealed the decision on January 13, 2006, which appeal is not expected to be heard before the end of 2007.

None of the above proceedings will have a material adverse effect on either Transat Tours Canada's, Air Transat's or Transat's operating results or financial condition seeing that Transat's insurers will assume all amounts payable by Transat or its subsidiaries in the event of an adverse liability finding, subject to the terms and conditions of their insurance coverage.

On March 1, 2005, Air Transat's insurers reached a settlement agreement in the amount of $7.65 million with 175 passengers of the 293 passengers on board an Air Transat Airbus A300-200 that had to make an emergency landing in the Azores on August 24, 2001 (the 118 others having already settled their cases out of court). The passengers, through their representative plaintiffs Josephine and Jorge Nunes, had instituted a class action in the Ontario Superior Court of Justice against Air Transat, Rolls-Royce Canada Limited and Airbus of North America, Inc., claiming damages in the amount of $70.0 million. As is the case with any out of court settlement arising in a class action proceeding, the Court had to approve the parties' settlement, which it did on June 20, 2005, effectively bringing an end to all proceedings initiated in connection with the emergency landing of flight TS236.

The above settlement had no material adverse effect on either Air Transat's or Transat's operating results or financial condition seeing that Air Transat's insurers assume all amounts payable pursuant to the settlement in accordance with the terms and conditions of Air Transat's insurance coverage.

10. TRANSFER AGENT AND REGISTRAR

As at the date of this AIF, the transfer agent and registrar for the shares of Transat is CIBC Mellon Trust Company, 2001 University Street, Suite 1600, Montreal, Quebec H3A 2A6. Registrar offices are located in Toronto, London (Ontario), Calgary, Winnipeg, Vancouver and Halifax.

11. AUDIT COMMITTEE DISCLOSURE

11.1. AUDIT COMMITTEE'S CHARTER

Transat's Audit Committee revised its Charter at its meeting held on September 8, 2004. Transat's Corporate Governance and Nominating Committee subsequently approved the Audit Committee's Charter at its meeting held on November 16, 2004. The Board of Directors adopted and ratified the Audit Committee's Charter on the same date.

Audit Committee

Constitution

The Board of Directors established an audit committee (the "**Audit Committee**") composed solely of independent directors, that is, who have no direct or indirect material relationship with the Corporation[1] and whose members and Chair are appointed by the Board of Directors. The Audit Committee is composed of no less than three (3) members.

The Audit Committee helps the Board of Directors discharge the oversight responsibilities it owes to shareholders, employees, and all interested parties. Such oversight responsibilities pertain to the financial statements

1 A material relationship means a relationship that could, in the opinion of the Board of Directors, reasonably interfere with the exercise of independent judgment of a member of the committee. The following individuals are considered to have a material relationship with the Corporation: (a) an individual who is, or has been, or whose immediate family member is, or has been, an employee or executive officer of the Corporation, in the past three (3) years; (b) an individual who is, or has been, a member of an affiliated entity or a partner of, or employed by, a current or former internal or external auditor of the Corporation, unless a period of three (3) years has elapsed since the end of such individual's relationship with the internal or external auditor, or of the auditing relationship; (c) an individual who is, or has been, or whose immediate family member is or has been, an executive officer of an entity if any of the current executive officers of the Corporation serve on the compensation committee of such entity, unless a period of three (3) years has elapsed since the end of the service or employment; (d) an individual who has a relationship with the Corporation pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensation fee from the Corporation or any subsidiary of the Corporation, other than remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors; (e) an individual who receives, or whose immediate family member receives, more than seventy-five thousand dollars ($75,000.00) per year in direct compensation from the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors, unless a period of three (3) years has elapsed since he or she ceased to receive more than seventy-five thousand dollars ($75,000.00) a year in such compensation; (f) an individual who is a member of an affiliated entity of the Corporation or of any of its subsidiaries. The foregoing is a summary of the rule. For more details, see subsection 1.4 of Regulation 52-110 respecting Audit Committees.

of the Corporation, internal control systems, identification of risks (in collaboration with the Corporate Governance and Nominating Committee), the statutory audit of the annual financial statements and compliance with the laws, regulations and codes as established by management and the Board.

Role of the external auditors

Management is responsible for ensuring the integrity of the financial information and the efficiency of the Corporation's internal controls. The external auditors are responsible for auditing and certifying the fair presentation of the Corporation's financial statements and, in carrying out this mission, for evaluating the internal control procedures to determine the nature, scope and chronology of the audit procedures used. The Audit Committee is responsible for supervising the participants in the preparation procedure of the financial information and reporting thereon to the Board of Directors of the Corporation.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation are invited to and heard at the meetings of the Audit Committee. From time to time, the President and Chief Executive Officer or the Vice-President, Finance and Administration and Chief Financial Officer shall appear before the Audit Committee when required to do so. Moreover, the Audit Committee meets on a quarterly and annual basis with the Corporation's external auditors, at the committee's option (but no less than once a year), without the presence of management. Each meeting of the Audit Committee provides for an in camera session to be held, as needed, without the presence of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer or of any other officer.

The Audit Committee shall ensure, with the assistance of management and the external auditors, that the financial statements fairly present the Corporation's financial position in accordance with Canadian generally accepted accounting principles ("GAAP"), including their evaluation of the quality of the accounting principles and policies adopted, the consistency of the accounting estimates and the clarity of the financial information disclosed. Furthermore, the Audit Committee shall enquire of the external auditors about the results of the annual audit and any other matters, which must be disclosed to it pursuant to Canadian generally accepted auditing standards ("GAAS").

The auditors are appointed each year by the shareholders at the annual meeting based on the recommendation of the Board of Directors, following the Audit Committee's opinion. Only shareholders may remove the auditors from office.

When the auditors resign or are about to be removed or replaced, they have the right to deliver to the Corporation, with a copy to the Audit Committee, a written declaration indicating the grounds for their resignation or their objection to the removal or replacement[2].

The directors shall promptly fill any vacancy in the position of external auditor.

Powers

The Audit Committee has all the powers and duties conferred on it by the laws governing the Corporation. Within the performance of its duties, the Audit Committee has the right to examine the books, registers, and accounts of the Corporation and its subsidiaries and to discuss them, as well as any other matter regarding the financial situation of the Corporation and its subsidiaries, with the officers and auditors of the Corporation and its subsidiaries.

[2] Under the rules stated in National Instrument *51-102 Respecting Continuous Disclosure Obligations* of the Ontario Securities Commission.

The Audit Committee has the power to communicate directly with the internal auditors, as the case may be, and the external auditors.

Financial Literacy

All members of the Audit Committee are financially literate[3].

Mandate

The duties of the Audit Committee's are as follows:

I. Recommend to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or certification services;

II. Recommend to the Board of Directors the compensation of the external auditors;

III. Review, with the Corporation's external auditors, the approach and the scope of their audit plan and report to the Board of Directors on any material reservations the Audit Committee may have, or which the external auditors may have expressed regarding their work;

IV. Resolve disagreements between management and the external auditors regarding financial information;

V. Review and recommend acceptance to the Board of Directors of the audited annual financial statements, as well as all other financial statements and reports that may require review by the Audit Committee under the applicable laws or in respect of which the Board of Directors requests a review and any financial information pertaining thereto; including the press release, message to shareholders and management's discussion and analysis for annual report purposes, prior to publication;

VI. Obtain the annual certificate signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer;

VII. Review and recommend acceptance to the Board of Directors of the unaudited quarterly financial statements and any related financial information; including the press release, message to shareholders and management's discussion and analysis for quarterly report purposes;

VIII. Obtain the certification of the interim (quarterly) documents signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer;

IX. Receive and examine the reports of the external auditors following their year-end audit and their interim review, as the case may be, and ensure follow-up on the letter they subsequently address to management containing the latter's comments. Also ensure, with the assistance of management and the external auditors, that these financial statements fairly present the financial position of the Corporation according to GAAP. Furthermore, the Audit Committee evaluates the work of the external auditors as to quality, and not just acceptability, of the accounting principles and policies adopted by the Corporation, the consistency of the accounting estimates and the clarity of the financial information disclosed in the financial statements. The Audit Committee ensures that the procedures performed by the external auditors for the audit and the

[3] Financially literacy is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements.

interim review, as the case may be, as well as the nature of the items communicated to the Audit Committee, are in accordance with GAAS;

X. Examine the appropriateness of setting up an internal audit system and, when in place, see to the scope of its work. The internal auditors will have the responsibility, among others, to assess the internal controls put in place by management to:

- determine whether they are effective and efficient; and

- identify and disclose any weaknesses noted to the Audit Committee and the parties concerned;

XI. Oversee follow-up of the policy respecting the external communication of financial information and ensure that the quality, scope and communication process are in keeping with the said policy;

XII. Draft and ensure follow-up of a policy on complaint procedures for accounting and auditing matters for the Corporation and its subsidiaries and ensure compliance therewith[4].

XIII. Evaluate, from time to time, the competence and independence of the external auditors in the performance of their duties and recommend to the Board of Directors, if it is deemed appropriate, to call a shareholders' meeting in order to consider the removal of the external auditors;

XIV. Obtain annual confirmation of the independence of the Corporation's external auditors, including the filing of any written confirmation required by the standards and by-laws;

XV. Receive and review the quarterly report of the Vice-President, Finance and Chief Financial Officer and study, if applicable, the provisions and adjustments made, the acquisition and disposition of assets, the risk factors that could influence the financial results or financial structure of the Corporation, the redemption of shares and derivatives;

XVI. Identify and evaluate, in collaboration with the Corporate Governance and Nominating Committee, the principal risk factors pertaining to the Corporation's business and approve the strategies and systems proposed to manage such risks, including, in particular, those related to the aviation industry, derivatives relating to fuel, foreign currency and interest and any other factor considered relevant. Furthermore, the Audit Committee shall be kept informed by management, either on request or periodically, regarding the management of the Corporation's key risk factors, including those already mentioned and those arising from risks related to the infrastructure of information systems, operating strategies and measures implemented to protect the Corporation's human capital and intangible assets;

XVII. Review the status of capital expenditures;

XVIII. Review the status of current and potential litigation and insurance coverage;

XIX. Retain independent counsel and external advisors or consultants, whose compensation it sets, to assist it in its duties, when necessary;

[4] The policy on Complaint Procedures for Accounting and Auditing Matters is referred to in Section 12.3 of this AIF and is attached to this AIF as SCHEDULE A.

XX. Ensure that management of the Corporation maintains effective internal control and risk management systems, see to the efficient operation of the internal control system and periodically receive from management and, as the case may be, from the internal auditors, confirmation as to:

- the efficiency of operations;
- the reliability of the financial information disclosed;
- compliance with laws and regulations;

XXI. Review the loans, financings, granting of security, guarantees and other material financial commitments and ensure that the Corporation and its subsidiaries are in compliance with their obligations;

XXII. Maintain structures and procedures in place to meet separately with the President and Chief Executive Officer, the Vice-President, Finance and Administration and Chief Financial Officer, and the external auditors;

XXIII. Review and approve the hiring policies regarding partners, employees and former partners and employees of the external auditors who worked on the external audit tasks of the Corporation and its subsidiaries;

XXIV. Approve the audit services, which may be provided by the external auditors within the framework of their independence and the restrictions imposed on non-audit services. “Audit services” means the professional services rendered by the external auditors for the audit and review of the issuer’s financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements.

The external auditors may perform all other non-audit services, including taxation services, provided that the services offered are pre-approved by the Audit Committee[5].

Moreover, the Audit Committee shall oversee the audit engagement, as needed, and approve, where applicable, any change in the conditions and fees resulting from a change in the scope of the audit, the corporate structure, or any other element.

The non-audit services that are prohibited include, on the date hereof:

- bookkeeping or other services related to the accounting records or the financial statements;
- valuation services, opinions on the fairness of the price offered or reports on contributions in kind;
- internal audit outsourcing services;
- management functions;
- human resources services;
- expert services prohibited by regulatory authorities;

[5] For this purpose, the Audit Committee has adopted a Policy Respecting the Pre-approval of Audit Services and Non-Audit Services, which is referred to in Section 12.4 of this AIF and the text of which is attached to this AIF as SCHEDULE B.

- design and implementation of a financial information system;

- legal services;

- actuarial services; and

- brokerage, investment counsel and investment agreement services;

XXV. Review, with the Corporation's external auditors, the findings resulting from their audit, if any, and report to the Board of Directors on the following points:

- the effectiveness of the registers and the accounting, internal control and information systems of the Corporation and the extent to which such registers are appropriately kept and such systems are uniformly applied;

- in collaboration with the Human Resources and Compensation Committee, the competence and efficiency of personnel assigned to finance, accounting and internal control of the activities of the Corporation; and

- examine any other issue or perform any other work that the Board of Directors may deem appropriate to entrust to the Audit Committee from time to time.

Annual Work Program

The Audit Committee has elaborated and adopted its annual work program, which appears in the Corporation's Corporate Governance Manual.

Additional Comments

The Audit Committee approves the disclosure policy and reviews it periodically. When a follow-up is required of the Audit Committee, the latter coordinates the appropriate solution and supervises disclosure to ensure the consistency of any information that is disseminated regarding the Corporation.

The charters of our Corporate Governance and Nominating Committee and our Human Resources and Compensation Committee, as well as our Code of Ethics (which was implemented in Canada in 2005 and is currently being adapted to comply with French law), are published in our Management Proxy Circular in respect of the 2005 Annual and Special Meeting of Shareholders held on April 27, 2005.

11.2. COMPOSITION OF OUR AUDIT COMMITTEE

Our Audit Committee is currently composed of four unrelated, independent and financially literate directors, namely Messrs. André Bisson, O.C. (Chairman), Benoît Deschamps, Jean Guertin and John D. Thompson.

Financial Literacy

André Bisson, O.C. Mr. Bisson has a Master's degree from Université Laval in Commercial Sciences with a major in Accounting. He also holds a MBA from Harvard University, two honorary doctorates and a Fellow *honoris causa*. After teaching courses entitled "Control and Finance" at Université Laval from 1955 to 1971, Mr. Bisson was appointed in 1971 Senior Vice-President and General Manager, Québec for Scotia Bank, where he was in charge of commercial credit approvals or recommendations until 1987. From 1990 to 2003, Mr. Bisson was Chancellor and Chairman of the Board of Université de Montréal. Between 1986 and 2000, Mr. Bisson sat on the board of directors and was a member of the audit committee of two publicly traded companies, namely Power Financial Corporation and Donohue. He also chaired the audit committee of Université de Montréal from 1987 to 1991 and that of AXA Assurances from 1994 to 2000. Mr. Bisson is currently Chairman of the Board of CIRANO (Centre of Interuniversity Research and Analysis on Organizations) and sits on the Canadian advisory board of the Carlyle Group. As a result of his extensive experience acquired both as a scholar and in the private sector, Mr. Bisson has the ability to assess the scope of generally accepted accounting principles and their application in particular instances. Furthermore, his research work, publications and practical experience have led him to acquire expertise in appraising the quality of responses given to accounting questions and the relevance of the evaluations utilized, as well as the internal control and procedures for financial reporting.

Benoît Deschamps. Mr. Benoît Deschamps holds a MBA degree and a Ph.D. in Business Administration (Finance). He devoted the first eleven years of his career to teaching and research in finance at HEC Montreal and Georgia State University. From 1988 to 1992, held various managerial positions with SNC-Lavalin, where he was responsible for project financing and the financial operations of different business units. From 1992 to 1997, he held several managerial positions with the private investment group of Caisse de dépôt et placement du Québec, including Vice President for the corporate bond and loan portfolio group. In doing so, Mr. Deschamps was responsible for hedging those portfolios through derivative products with respect to exchange risks and interest rate fluctuations. From 1997 to 2000, Mr. Deschamps was Vice President, Financial Planning and Treasurer of Groupe Vidéotron where he was overseeing the group's financing operations, mergers, acquisitions, insurance and investors relations. Since 2000, he regularly acts, whether directly or through Champré Capital, as a consultant with non-financial corporations in relation with their operations and financing and with the Autorité des marchés financiers and its predecessor, the Commission des valeurs mobilières du Québec, with respect to mutual fund regulations, disclosure information pertaining to the issuance of securities and continuous disclosure information published by issuers. Mr. Deschamps also advises financial institutions on capital adequacy and risk management in relation to loan and private equity portfolios. Mr. Deschamps is a director of Metcalfe & Mansfield Alternate Investments, a trustee managing four publicly traded income trusts and seven private-investment trusts. An important component of Mr. Deschamps' various management functions was to ensure that financial statements were reliable in presenting a complete and accurate financial position of the relevant corporation. In acting as a lender, investor, officer of issuers and a consultant during his career, Mr. Deschamps developed financial structures taking into consideration their fiscal, accounting and legal effects, and he scrutinized financial statements that presented a breadth and level of complexity of accounting issues similar to those raised by Transat's financial statements. He also regularly had to evaluate whether these financial statements fairly presented unusual business situations.

Jean Guertin. Mr. Guertin holds a MBA degree from HEC Montréal and a Ph.D. in Business Administration, with a major in Corporate Finance, from Harvard University. From 1970 to 1987, he taught corporate finance at HEC Montréal. He then became Director of HEC Montréal from 1987 to 1994. From 1995 to 1999, Mr. Guertin was Chairman of the Board and Chief Executive Officer of Société Gasbeau and, from 1999 to 2001, he was Chairman and senior corporate advisor with Société Télémédia, two private corporations. He is currently Corporate Advisor and Honorary Professor at HEC Montréal. During the course of his career, Mr. Guertin acted as a director of several publicly traded corporations, including Alimentation Couche-Tard Inc. and The Algo Group. Mr. Guertin currently sits on several boards of directors, including that of Canadian Helicopters Investment Fund, an income trust fund listed on the Toronto Stock Exchange for which he acts as Chairman of the Board and sits on its Audit Committee. He also chairs the Canadian Investor Protection Fund. He chairs the Investment Committee of Desjardins Venture Capital and Desjardins Innovatech and also sits on several advisory boards, including that of Voyages Aller Retour Limitée, Capital Benoît and Starlink Aviation, and also of several non-profit organizations. During the years he spent at the head of HEC Montréal, Mr. Guertin was instrumental in launching fund raising activities and repatriating the institution's retirement fund. He was also involved in the planning, financing and construction of the building now housing HEC Montréal, a project estimated at $110.0 million. As part of his academic activities, Mr. Guertin presided over the general review of the institution's curriculum and he currently chairs the Retirement Committee which manages the HEC Retirement Fund (with assets of approximately $200 M). Mr. Guertin's primarily role as Chairman of the Board and Chief Executive Officer of Société Gasbeau and Société Télémédia included business mandates, specifically the privatization of a public company, the global refinancing of the business and the redeployment of venture capital activities. Mr. Guertin's strong background in corporate finance, supported by his experience both in the public and private sectors, gives him an understanding of the accounting principles used by Transat in the preparation of its financial statements.

John D. Thompson. Mr. Thompson has a bachelor's degree in engineering from McGill University. He also holds a MBA degree from the University of Western Ontario. From 1962 to 1994, Mr. Thompson held several managerial positions in the field of commercial financing and corporate financing for large firms with Roynat Capital, Canada's leading private merchant bank, where he was employed as General Manager from 1968, President and Chief Executive Officer from 1973 and of which he became Chairman of the Board of Directors in 1989. During the same year, Mr. Thompson joined the parent company Montreal Trust Company of Canada as President and Chief Executive Officer. In 1994, he became Deputy Chairman of Montreal Trust, which position he holds to this day. During the course of his career, Mr. Thompson also acted as a director of various Canadian companies. He currently sits on the board of directors of the National Trust Company, the Bank of Nova Scotia Trust Company, the Scotia Life Insurance Company, the Scotia General Insurance Company, the Scotia Mortgage Corporation, the Mortgage Insurance Company of Canada, Shermag Inc. and Triton Électronique Inc. He is also a director of the MacDonald Stewart and Windsor foundations. As part of the numerous managerial positions he has held in the field of commercial financing, corporate financing and merchant banking, Mr. Thompson was actively involved in analyzing, evaluating, structuring and negotiating financings for private and publicly traded corporations of all sizes. In doing so, he closely examined and evaluated financial statements, business and strategic plans, acquisitions and questioned management thereon. Mr. Thompson's aforementioned experience has provided him with the skills to evaluate Transat's accounting and internal control processes in the preparation of its financial statements. Furthermore, Mr. Thompson acted as a member of the audit committee for various Canadian companies.

11.3. COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

In response to Canadian Securities Multilateral Instrument 52-110 and as part of our efforts to maintain a high standard of good corporate governance, we developed a whistleblower policy and reporting procedure that allow employees of Transat to report, in a confidential manner, any concerns they may have regarding questionable accounting, internal accounting controls or auditing matters. Hence, at its meeting held on September 8, 2004, Transat's Audit Committee approved a Complaint Procedures for Accounting and Auditing Matters applicable to the Corporation and its subsidiaries. Transat's Corporate Governance and Nominating Committee also approved these procedures on November 16, 2004 and its Board of Directors adopted and ratified them on the same date. You will find the text of these procedures attached to this AIF as SCHEDULE A.

11.4. POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

At its meeting held on September 8, 2004, Transat's Audit Committee approved a Policy Respecting the Pre-Approval of Audit and Non-Audit Services. Transat's Corporate Governance and Nominating Committee also approved this policy on November 16, 2004 and its Board of Directors adopted and ratified the said policy on the same date. This policy prohibits the Corporation from engaging the external auditors to provide certain non-audit services to the Corporation and its subsidiaries, including bookkeeping, or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing services, investment banking services, management or human resources functions, legal services and expert services unrelated to the audit. The policy allows the Corporation to engage the external auditors to provide non-audit services, other than the prohibited services, only if the services have specifically been pre-approved by the Audit Committee. You will find the text of this policy attached to this AIF as SCHEDULE B.

11.5. EXTERNAL AUDITOR SERVICE FEES

Ernst and Young LLP have been Transat's auditors since its incorporation. They have confirmed their independence with Transat's Audit Committee.

For the fiscal years ended October 31, 2005 and October 31, 2004, Ernst & Young LLP billed the following fees for audit, audit-related, tax and all other services provided to the Corporation:

	2005	2004
Audit Fees[1]	$909,000	$891,000
Audit-Related Fees[2]	$55,000	$26,000
Tax Fees[3]	449,000	$502,000
All Other Fees[4]	$0	$0
TOTAL	$1,413,000	$1,419,000

[1] Audit fees include fees for services rendered for the audit of the Corporation's financial statements or other services that are normally provided by the Corporation's external auditors in connection with statutory or regulatory filings or engagements. These fees also include fees for services rendered in connection with the interpretation of accounting and financial reporting standards.

[2] Audit-related fees include fees for assurance and related services that are performed by the Corporation's external auditors. These services include accounting consultations in connection with acquisitions, special audits and due diligence.

[3] Tax related fees include fees for assistance with tax planning (restructuring and discontinued operations), tax opinions as well as the preparation and review of income and other tax returns.

[4] This category of fees would normally include professional services rendered by the Corporation's external auditors, which are not reported under the captions "audit fees", "audit-related fees" and "tax fees". No such services were rendered to the Corporation for the fiscal years ended October 31, 2005 and October 31, 2004.

12. ADDITIONAL INFORMATION

(1) Additional financial data may be found in our comparative financial statements and Management's Discussion and Analysis for the year ended October 31, 2005.

(2) Additional information including directors' and officers' remuneration and indebtedness, principal holders of Transat securities and securities authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular in respect of the 2005 annual meeting of shareholders.

(3) Additional information including the latest amendments to Transat's Articles, By-law No. 1999-1 and By-law No. 2003-1 (Transat's General By-laws), interest of directors and executive officers, directors' and officers' remuneration and indebtedness and securities authorized for issuance under equity compensation plans may be found in our Management Proxy Circular in respect of the Special Meeting of Shareholders held on February 24, 2005;

(4) Transat shall provide to any person or company, upon request to the Corporate Secretary at the head office of the Corporation, Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Quebec, H2X 4C2:

   (a) when the securities of Transat are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

      (i) this Annual Information Form together with any document, or the pertinent pages thereof, incorporated herein by reference;

(ii) the comparative financial statements of Transat for its most recently completed fiscal year together with the auditors' report thereon included in the 2005 Annual Report and any quarterly financial statements of Transat subsequent to the financial statements for its most recently completed fiscal year;

(iii) the Management Proxy Circular of Transat and the Notice of Annual Meeting of Shareholders for 2005; and

(iv) any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and that are not required to be provided under (i) to (iii) above;

(b) at any other time, a copy of any other documents referred to in (2)(a) (i), (ii), (iii), and (iv) above, provided Transat may require the payment of a reasonable charge if the request is made by a person who is not a shareholder of Transat.

All such additional information relating to Transat may be obtained on SEDAR at www.sedar.com.

SCHEDULE A -
COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

A. OBJECTIVES AND SCOPE

The Transat A.T. Inc. ("**Transat**") Audit Committee has established these procedures with respect to complaints on accounting and auditing matters (the "**Policy**") for Transat and its subsidiaries with the objective to:

- ✓ Establish procedures for the receipt, retention and handling of complaints or concerns received by Transat regarding accounting, internal accounting controls or auditing matters; and
- ✓ Establish procedures so that employees of Transat may submit, in a confidential manner, any concerns regarding questionable accounting or auditing matters.

In this Policy, Transat and its subsidiaries are collectively referred to as the "**Corporations**" or individually referred to as a "**Business Unit**".

This Policy demonstrates the Corporations' commitment to maintain a high standard of ethical business practices.

B. WHO IT APPLIES TO

- ✓ Transat and its subsidiaries shall be subject to this Policy.

C. POLICY OVERVIEW

- ✓ The Transat Audit Committee has the ultimate responsibility for the stewardship of this Policy.

D. COMMUNICATION AND ENFORCEMENT

All directors, officers and employees of the Corporations will be advised of this Policy and its importance. A copy of this Policy shall also be provided to the directors, officers and employees of the Corporations who are, or may be, involved in the management of this Policy. Such directors, officers and employees are required to understand this Policy and its operation to ensure compliance with its terms.

E. RAISING A CONCERN OR COMPLAINT

The Corporations are committed to providing a work environment based on trust and respect and ensuring that all employees can work without fear of harassment, discrimination or violence. As part of this commitment, the Corporations encourage an open and frank atmosphere in which problems, concerns or complaints with respect to corporate fraud, accounting, internal accounting controls or auditing matters of the Corporations can be raised without fear of being retaliated against.

Activities that can be reported

The following activities (each one constituting a "**Reportable Activity**") must be reported promptly by using the appropriate channels of communication (see below):

- ✓ Any concerns or complaints with respect to a Business Unit's accounting, internal accounting controls or auditing matters;
- ✓ Any fact, gesture or action tending to reveal evidence of an activity by an employee of any Business Unit or by any department of the Business Units that could constitute:
  - corporate fraud;
  - violation of federal or provincial laws; or
  - misappropriation of a Business Unit's property.

Channels of communication

A Reportable Activity may generally be reported to the employee's immediate manager. However, if such reporting is either inappropriate, does not provide the necessary level of confidentiality or if the employee otherwise prefers, the Reportable Activity must be reported to Transat's Vice-President, General Counsel and Corporate Secretary.

Other channels of communication

The Transat Audit Committee may, in the future, establish additional channels of communications to further meet the objective of these procedures, such as outsourced help line and web-based tool. In such cases, this Policy will be amended accordingly and all employees, officers and directors of the Corporations will be notified accordingly.

Confidentiality

The Corporations are fully committed to maintaining adequate procedures for the confidential reporting by employees of the Corporations of a Reportable Activity.

Any concern or complaint brought forth by an employee of the Corporations regarding a Reportable Activity shall be treated on a confidential basis. The employee's identity shall be confidential, unless specifically permitted to be disclosed by the employee or required by law. Confidential concerns or complaints shall only be disclosed to those persons who have a need to know in order to properly carry out an investigation of the Reportable Activity, in accordance with the procedures on handling the reporting of such a Reportable Activity under Section F of this Policy.

Retaliation

Any employee who, in good faith, reports a Reportable Activity will be protected from any threats of retaliation, discharge, or other types of reprimand including lower compensation or inferior terms and conditions of employment that are directly related to the disclosure of such Reportable Activities.

- ✓ Any employee who retaliates against another employee who reports a Reportable Activity, may face disciplinary actions, including termination of his or her employment, without notice.

F. PROCEDURES FOR HANDLING THE REPORTING OF A REPORTABLE ACTIVITY

Any director, officer or employee of any Business Unit who receives a concern or complaint from any person regarding a Reportable Activity shall immediately report such concern or complaint to Transat's Vice-President, General Counsel and Corporate Secretary.

Transat's Vice-President, General Counsel and Corporate Secretary shall, upon receipt of any concern or complaint regarding a Reportable Activity, consider the pertinence:

- ✓ Of reviewing and assessing the seriousness of the Reportable Activity with Transat's Audit Committee as appropriate and investigate if required;
- ✓ Of reporting it to Transat's Audit Committee in the Quarterly Report (see below);
- ✓ If the Reportable Activity concerns a Business Unit other than Transat, of advising the President (or any other appropriate officer) of such Business Unit, of the existence of such concern or complaint;
- ✓ Whenever possible, of reporting back to the employee or third party who reported the Reportable Activity on the progress of the investigation through the Vice-President, General Counsel and Corporate Secretary.

On a quarterly basis or upon request, Transat's Vice-President, General Counsel and Corporate Secretary shall prepare a report to Transat's Audit Committee containing all concerns or complaints regarding Reportable Activities received during the previous quarter through all channels of communication; how concerns or complaint related to a Reportable Activity were handled; results of any investigation; and any corrective action taken.

G. RETENTION OF COMPLAINTS AND INVESTIGATION REPORTS

All concerns/complaints and investigation reports with respect to a Reportable Activity shall be kept in Transat's Legal Department.

H. CONTACT PERSONS

Any questions with respect to the general application of this Policy or any report of a Reportable Activity should be made to:

- ✓ Vice-President, General Counsel and Corporate Secretary of Transat A.T. Inc.

  Me Bernard Bussières
  Vice-President, General Counsel and
  Corporate Secretary of
  Transat A.T. Inc.
  Place du Parc
  300 Léo-Pariseau Street
  Suite 600
  Montreal, Quebec H2X 4C2
  Tel: (514) 987-1660, ext.: 4520
  Fax: (514) 987-6239
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SCHEDULE B -
POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

I. Statement of Principles

The Audit Committee of the Board of Directors of Transat A.T. Inc. (the "*Corporation*") is responsible for overseeing the work of the external auditor. As part of this responsibility, the Audit Committee must pre-approve the audit and non-audit services provided by the external auditor in order to ensure that these services do not impair the independence of the external auditor with respect to the *Corporation*. Accordingly, the Audit Committee has adopted this Policy Respecting the Pre-Approval of Audit and Non-Audit Services (the "Policy"), which sets forth the procedures and conditions pursuant to which the services proposed by the external auditor must be pre-approved.

Unless a type of service has already been pre-approved by the Audit Committee, as attested by its inclusion in Appendix A to this Policy, it must be specifically pre-approved by the Audit Committee if it is to be provided by the external auditor. Any proposed services exceeding the pre-approved fee levels or budgeted amounts stated in Appendix A to this Policy must also be specifically pre-approved by the Audit Committee.

The Audit Committee will determine whether these services raise problems with respect to the independence of the external auditor. To this end, the Audit Committee will also determine whether the external auditor is in the best position to provide the most effective and efficient service due, for example, to his knowledge of the operations, people, culture, accounting, systems and risk profile of the *Corporation* or of any other factor. The Audit Committee will also decide whether the service can improve the *Corporation*'s ability to manage or control risk or improve the quality of the audit.

In addition, the Audit Committee considers the connection between the fees for audit services and those for non-audit services when it decides whether to pre-approve these services. It may determine, for each fiscal year, the appropriate ratio between the aggregate fees for audit and audit-related services and the aggregate fees for tax and other permissible non-audit services, classified as "All Other Services."

The appendices to this Policy list the audit services, audit-related services, tax services and other services that have been pre-approved by the Audit Committee. This pre-approval is valid for 12 months as of the pre-approval date, unless the Audit Committee determines otherwise and specifies an alternate duration. Each year, the Audit Committee will examine and pre-approve the services that may be provided by the external auditor without being specifically pre-approved by the Audit Committee. From time to time, the Audit Committee will make additions to or deletions from the list of said services, based on subsequent decisions.

The purpose of this Policy is to establish procedures pursuant to which the committee will discharge its responsibilities. Thus, it does not delegate to senior management the responsibility for pre-approving the services provided by the external auditor; this responsibility remains that of the Audit Committee.

The external auditor has examined this Policy and believes that the implementation of this Policy does not impair the independence of the external auditor.

II. Delegation of Authority

The Audit Committee may delegate its authority for specific pre-approval of services to one or more of its members. The member to whom such authority is delegated must report, solely for information purposes, any pre-approval decisions to the Audit Committee at its next meeting.

III. Audit Services

The Audit Committee examines the *Corporation*'s annual auditing plan. Therefore, annual audit services and, if applicable, quarterly financial statement review services, are considered approved by the Audit Committee. The audit services include the audit of the consolidated annual financial statements of the *Corporation* and its subsidiaries, and the other procedures that must be performed by the external auditor so that he may issue an opinion on the *Corporation*'s consolidated financial statements. These other procedures include, on the one hand, the review and surveys of the information systems and procedures in order to understand and rely on the internal control systems, and, on the other hand, consulting related to the audit of the annual financial statements or to the review of the quarterly financial statements. The audit services will include the attestation engagement for the external auditors' report on management's report on internal controls for financial reporting when this requirement of the regulatory authorities is in force. The Audit Committee will oversee the provision of audit services as needed, at least once per quarter, and will approve, if applicable, any changes to the terms or fees resulting from changes in the scope of the audit, the structure of the *Corporation* or any other items.

Quarterly financial statement review services include the consolidated quarterly financial statements of the *Corporation* and primarily involve applying analytical procedures to financial data, collecting information from the persons responsible for financial and accounting matters and discussions with these persons.

In addition to the annual audit services engagement approved by the Audit Committee, the Audit Committee has pre-approved legal or financial audits and reviews of the *Corporation*'s subsidiaries or affiliated companies as well as services related to filing registration statements, interim reports or other documents with securities commissions or other regulatory bodies or any other document issued with respect to a placement of securities.

The Audit Committee has pre-approved the audit services listed in Appendix A to this Policy. Any further audit services not listed in Appendix A must be specifically pre-approved by the Audit Committee.

IV. Audit-Related Services

Audit-related services are assurance services and related services that are reasonably related to the performance of the audit or review of the *Corporation*'s financial statements or that are traditionally performed by the external auditor. Because the Audit Committee believes that the provision of audit-related services does not impair the independence of the external auditor and is consistent with the rules on independence of the external auditor, the Audit Committee may pre-approve audit-related services. Audit-related services include, among others, due diligence services related to potential acquisitions or divestments; accounting consulting on matters related to accounting, financial reporting or disclosure that are not classified as "Audit Services"; assistance in understanding and implementing new accounting or financial reporting guidelines issued by regulatory bodies; financial audit of employee benefit plans; usual or agreed upon audit procedures pertaining to the accounting records that are required in order to address financial, accounting or regulatory reporting matters or to ensure compliance therewith; and assistance with the reporting requirements related to internal controls.

The Audit Committee has pre-approved the audit-related services listed in Appendix A to this Policy. Any additional audit-related services not listed in Appendix A must be specifically pre-approved by the Audit Committee.

V. Tax Services

The Audit Committee believes that the external auditor may provide tax services to the *Corporation*, such as tax compliance, planning and consulting services, without impairing his independence. Therefore, the Audit Committee believes that it may pre-approve tax services that have traditionally been provided by the external auditor.

The Audit Committee has reviewed these services and believes that they do not impair the independence of the external auditor and that they are consistent with the rules on independence of the auditors.

The Audit Committee has pre-approved the tax services listed in Appendix A to this Policy. All tax services that pertain to major or complex transactions and that are not listed in Appendix A must be specifically pre-approved by the Audit Committee.

VI. All Other Services

The Audit Committee believes, based on the rules prohibiting the external auditor from providing specific non-audit services, that other types of non-audit services are permitted. Therefore, the committee believes that it may pre-approve permissible non-audit services classified as "All Other Services" that it considers routine and recurring services, that do not impair the independence of the external auditor and that are consistent with the rules on independence of the external auditor.

The Audit Committee has pre-approved the other services listed in Appendix A to this Policy. All other services not listed in Appendix A must be specifically pre-approved by the Audit Committee

VII. Prohibited Non-Audit Services

A list of prohibited non-audit services is attached as Appendix B to this Policy.

VIII. Pre-Approval of Fee Levels and Budgeted Amounts

The fee levels and budgeted amounts for all services to be provided by the external auditor have been pre-approved by the Audit Committee and are listed in Appendix A to this Policy. Any proposed services that exceed the fee levels or budgeted amounts listed in Appendix A to this Policy must be specifically pre-approved by the Audit Committee. The Audit Committee considers the overall connection between the fees for audit services and those for non-audit services when it decides whether to pre-approve these services. It may determine the appropriate ratio between the aggregate fees for audit, audit-related and tax services and the aggregate fees for services classified as "All Other Services."

IX. Procedures

Requests for the provision of services that must be specifically approved by the Audit Committee will be submitted to the Audit Committee or to the member designated under Section II, as the case may be, by the external auditor and the Vice-President, Finance and Administration and Chief Financial Officer. Each request must include a joint declaration stating that, in their opinion, the request or application is consistent with the rules on independence of the auditors. The request must also include the relevant documentation on the specific services to be provided.

The Audit Committee must be informed, on a quarterly basis, of the services provided by the external auditor for each category of pre-approved services.

X. Additional Requirements

The Audit Committee has decided to take additional measures each year to discharge its responsibility for overseeing the work of the external auditor and to ensure the latter's independence with respect to the *Corporation*. Some of these measures include reviewing a formal written statement by the external auditor listing all relationships between the external auditor and the *Corporation,* in accordance with the applicable rules or standards pertaining to the independence of the external auditor, and discussing with the external auditor the methods and procedures used to guarantee his independence.

APPENDIX A

PRE-APPROVED SERVICES FOR A FISCAL YEAR

Transat A.T. Inc.

Pre-approval Form

Services Rendered by Ernst & Young

(Fees in thousands of dollars)	Fiscal Year, Approved
Audit Services	
Total	
Audit-Related Services	
Total	
TOTAL – Audit	
Tax Services	
TOTAL - Tax	
TOTAL	

APPENDIX B

PROHIBITED NON-AUDIT SERVICES	
▪	Bookkeeping or other services related to the accounting records or the financial statements.
▪	Financial information systems design and implementation.
▪	Appraisal or valuation services, price fairness opinions or contribution-in-kind reports.
▪	Actuarial services.
▪	Internal audit outsourcing services.
▪	Management functions.
▪	Human resources.
▪	Brokerage, investment advisor or investment banking services.
▪	Legal services.
▪	Expert services unrelated to the audit.