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transat

Quarterly Report
Period ended
January 31, 2004

Travel agencies and distribution

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

Outgoing tour operators

- Auratour
- Kilomètre Voyages
- Rêvatours
- Vacances Air Transat Holidays
- World of Vacations/Nolitour
- Brok'Air
- Look Voyages
- Vacances Air Transat (France)

Air transportation

- Air Transat
- Handlex
- Star Airlines

Incoming tour operators and services at travel destinations

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

North America

Europe

transat

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

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

www.transat.com

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Transfer Agent and Registrar

Computershare Trust Company of Canada

Stock Exchange

The common shares and listed debentures of the Corporation are listed on the Toronto Stock Exchange under the ticker symbols TRZ and TRZ.DB.

Management's Discussion and Analysis For the Quarter ended January 31, 2004

Financial Highlights of the quarters ended January 31

(in thousands of Canadian dollars)	2004 $	2003 $	Variance $	Variance %
Consolidated statements of income				
Revenues	537,200	529,076	8,124	1.5
Margin[1]	16,945	4,799	12,146	253.1
Net income (loss)	2,807	(6,974)	9,781	140.2
EPS (LPS) – Basic	0.06	(0.24)	0.30	125.0
EPS (LPS) – Diluted	0.06	(0.24)	0.30	125.0
Consolidated statements of cash flows				
Operating activities	92,958	62,323	30,635	49.2
	As at January 31, 2004	As at October 31, 2003		
Consolidated balance sheets				
Cash and cash equivalents	420,154	349,125	71,029	20.3
Debt (short term and long term)	51,078	65,331	(14,253)	(21.8)
Total debt[2]	584,049	595,249	(11,200)	(1.9)
Net debt[3]	322,592	352,297	(29,705)	(8.4)

1 Revenues less operating expenses (non-GAAP financial measure used by management as an indicator to evaluate ongoing and recurring operational performance).

2 Debt plus off-balance sheet arrangements presented on p. 8 (non-GAAP financial measure used by management to assess the Corporation's future liquidity requirements).

3 Total debt less cash and cash equivalents not in trust or otherwise reserved (see note 3 to unaudited consolidated interim financial statements for the first quarter of 2004) (non-GAAP financial measure used by management to assess its liquidity position).

This Management's Discussion and Analysis ("MD&A) provides a review of Transat A.T. Inc's operations, performance and financial condition for the quarter ended January 31, 2004 compared with the quarter ended January 31, 2003 and should be read in conjunction with the unaudited consolidated interim financial statements for the first quarter of 2004 and of 2003, the notes thereto, and the 2003 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first quarter update to the information contained in the MD&A section of our 2003 Annual Report. The risks and uncertainties set out in the MD&A of the 2003 Annual Report and in our 2003 Annual Information Form filed with the Canadian securities commissions are herein incorporated by reference and remain substantially unchanged.

This MD&A also contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. The information contained herein is dated as of March 16, 2004.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). We will occasionally refer to non-GAAP financial measures in the MD&A. These non-GAAP financial measures do not have any meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. They are furnished to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with GAAP. All dollar figures are in Canadian dollars unless otherwise indicated. Where we say "Transat," "we," "us," "our" or the "Corporation," we mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

OVERVIEW

Transat is one of the largest fully integrated holiday package and travel service providers of international scope in North America. We conduct our activities in a single industry segment, namely holiday travel, and we operate in two geographic areas, specifically Canada and France.

Transat's core business is based on holiday travel packages and charter flights.

Transat's objectives are to maintain its leadership in Canada and to maintain its position as a major player in the holiday travel industry in North America and Europe.

The Corporation's long-term growth strategy involves focusing on its core business: holiday travel and its related products. Our strategy is focused on maximizing shareholder value.

We set ourselves the following objectives for fiscal 2004:

- Return Look Voyages to profitability in 2005
- Pursue Internet technology integration into our business model
- Leverage flexibility gains and continue to lower costs at the airline company
- Reposition our brand in the market place to support our vertical integration strategy
- Identify growth opportunities in North America and France

In order to successfully implement our strategy and achieve our objectives, we identified the following key performance drivers:

- Market share
- Cost reduction
- Margin

Our capability to deliver results is dependent on our financial and non-financial resources. Our financial resources include cash not held in trust or otherwise reserved and our lines of credit. Our non-financial resources include our corporate identity, our structure, our relationship with suppliers and our employees.

A more comprehensive discussion of our business, as well as our strategies and objectives along with the performance drivers and resources required to successfully implement these strategies and achieve our objectives can be found in our 2003 Annual Report.

CONSOLIDATED OPERATIONS

Quarter ended January 31, 2004 compared with the quarter ended January 31, 2003

The comparative results of Anyway, which was sold in fiscal 2003, are not presented as discontinued operations in the comparative quarter since the amounts were not considered material.

Revenues (in thousands of dollars)

	Three months 2004 $	2003 $	Variance $	Variance %
	537,200	529,076	8,124	1.5

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

Overall, our revenues increased by $8.1 million in the current quarter compared with the corresponding quarter in 2003 due mainly to an increase in the number of travellers (tour operators record round-trips in terms of travellers) by 3.7% despite the reorganization of our Canadian tour operator Americanada resulting in almost $10.0 million less revenue for the first quarter compared with 2003. This 3.7% increase is the result of a 2.7% increase in the number of travellers in Canada and a 12.6% increase in the number of travellers for travel packages in France offset by a 23% decrease in air-only passengers (airlines record flight segments in terms of passengers) in France.

Operating expenses (in thousands of dollars)

	Three months 2004 $	2003 $	Variance $	Variance %
Direct costs	283,844	250,103	33,741	13.5
Salaries and fringe benefits	55,521	61,187	(5,666)	(9.3)
Commissions	51,991	51,213	778	1.5
Aircraft fuel	25,173	34,916	(9,743)	(27.9)
Maintenance	20,983	32,199	(11,216)	(34.8)
Aircraft rental	13,914	20,164	(6,250)	(31.0)
Airport and navigation fees	13,724	14,961	(1,237)	(8.3)
Other	55,105	59,534	(4,429)	(7.4)
	520,255	524,277	(4,022)	(0.8)

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

Overall, our operating expenses decreased by $4.0 million in the current quarter compared with the corresponding quarter in 2003.

Direct costs increased by 13.5% as a result of increased business activity and our partnership agreement with WestJet Airlines Ltd.

Salaries and fringe benefits decreased by 9.3% as a direct result of our restructuring efforts undertaken in fiscal 2003, which resulted in the termination of over 700 positions.

The decreases in aircraft fuel, maintenance, aircraft rental and airport and navigation fees are also the direct result of our restructuring efforts, which resulted in the phase out of our Lockheed L01011-500s in Canada.

Geographic Business Areas

Revenues (in thousands of dollars)

	Three months 2004 $	2003 $	Variance $	Variance %
Canada	438,894	417,349	21,545	5.2
France and other	98,306	111,727	(13,421)	(12.0)
Total	537,200	529,076	8,124	1.5

Operating expenses (in thousands of dollars)

	Three months 2004 $	2003 $	Variance $	Variance %
Canada	413,288	404,114	9,174	2.3
France and other	106,967	120,163	(13,196)	(11.0)
Total	520,255	524,277	(4,022)	(0.8)

Canada

In Canada, revenues increased due mostly to a 2.7% increase in the number of travellers when comparing the current quarter with the corresponding period in 2003 as well as higher prices. Increases were strong in all areas including destinations to the Caribbean, Europe and Florida.

The restructuring efforts undertaken in 2003 were felt in the current quarter. The consolidation of the Canadian tour operators and distribution activities resulting in a better management of airline seats and hotel rooms combined with a better utilization of our aircraft along with reduced expenses and increased demand have led to increased margins. For the quarter, our margins increased to 5.8% compared with 3.2% in the corresponding quarter in 2003.

France and other

In Europe both revenues and expenses decreased in the current quarter compared with the corresponding period in 2003 resulting in similar negative margins.

Despite a 12.6% increase in the number of travellers, our French operations recorded lower revenues and negative margins during the current quarter due to a 23% drop in passengers for air-only travel.

Long-haul travel from Europe to Caribbean destinations (travel packages) saw volumes increase compared with last year both at Vacances Air Transat (France) and Look Voyages. Air-only travel, however, saw significant decreases in volume and prices for Look Voyages.

Amortization

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

Amortization expense decreased by $0.8 million (7.6%) to $10.2 million from $11.1 million. This decrease is the result of lower overall property, plant and equipment balances, offset by the accelerated depreciation on the remaining Lockheed L-1011-500 aircraft being used until April 30, 2004.

Interest

Interest on long-term debt, obligations under capital leases, and debentures decreased by $0.7 million (25.9%) to $2.0 million for the quarter ended January 31, 2004 from $2.7 million for the corresponding quarter of the preceding fiscal year. This decrease is due to lower debt obligations and the favourable impact of exchange rates.

Other interest and financial expenses decreased by $0.9 million (67.7%) to $0.5 million for the quarter ended January 31, 2004 from $1.4 million for the corresponding quarter of the preceding fiscal year due to lower average bank loans for our French operations.

Interest income increased by only $0.1 million (4.1%) for the quarter ended January 31, 2004, despite significant increases in our cash balances. This slight increase is attributable to lower interest rates.

Foreign exchange gain on long-term monetary items

Foreign exchange gain on long-term monetary items decreased by $0.4 million (39.5%) to $0.6 million from $1.0 million due to a combination of lower debt levels and the favourable impact of exchange rates.

Share of net loss of companies subject to significant influence

The reduction in net loss of companies subject to significant influence in the current quarter compared with the corresponding quarter in 2002 is mainly due to our share in the results of our French airline company.

Income taxes

Our income tax expense amounted to $2.9 million for the quarter ended January 31, 2004 compared with a recovery of $2.3 million for the corresponding quarter of the preceding fiscal year. This is due mainly to the current quarter generating higher margins compared with the quarter ended January 31, 2003. Excluding the share of net loss of companies subject to significant influence, the effective tax rates were 38.7% for the current quarter and 32.6% for the quarter ended January 31, 2003.

Net income (loss)

As a result of the items discussed in "*Consolidated operations*," our net income was $2.8 million or $0.06 per share for the quarter ended January 31, 2004 compared with a net loss of $7.0 million or $0.24 per share for the corresponding quarter of the preceding year. The weighted average number of common shares outstanding used to establish the per share amounts were 32 938 000 for the current quarter and 32 696 000 for the corresponding quarter of the preceding year.

On a diluted per share basis, the current quarter's earnings per share and the corresponding quarter's loss per share remain unchanged due to the dilutive potential common shares outstanding during the period having an antidilutive effect. The adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share were 34 332 000 for the current quarter and 32 696 000 for the corresponding quarter of the preceding year. *See note 4 to the unaudited consolidated interim financial statements*.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows (in thousands of dollars)

	Three months		
	2004 $	2003 $	Variance $
Cash flows relating to operating activities	92,958	62,323	30,635
Cash flows relating to investing activities	(8,576)	(2,032)	(6,544)
Cash flows relating to financing activities	(13,353)	(4,992)	(8,361)
Net change in cash and cash equivalents	71,029	55,299	15,730

As at January 31, 2004 we had $420.2 million in cash and cash equivalents (including $158.7 million held in trust or otherwise reserved) compared with $349.1 million as at October 31, 2003 (including $106.2 million held in trust or otherwise reserved). Our balance sheet reflects a current ratio of 1.3 and working capital of $139.7 million compared with a current ratio of 1.4 and working capital of $144.5 million as at October 31, 2003. We also have access to unused lines of credit totalling 52.6 million.

Total assets increased by $114.9 million (16.1%) to $829.7 million from $714.8 million as at October 31, 2003 due mainly to a $71.0 million increase in cash and cash equivalents. Shareholders' equity increased slightly by $3.7 million to $245.0 million from $241.3 million as at October 31, 2003 due mainly to $2.8 million in net income for the current quarter.

Operating activities

During the current quarter, cash flows of $93.0 million were generated from operating activities, an increase of $30.6 million compared with the corresponding quarter of 2003. This increase is due mostly to the net change in working capital balances related to operations despite the loss of Americanada's customer deposits.

The net change in the working capital balances is due mainly to accounts payable and accrued liabilities. The variance in this item is more pronounced in the current quarter as a result of lower balances as at October 31, 2003.

Investing activities

Cash flows used in investing activities were $6.5 million more in the current quarter compared with the corresponding quarter in 2003 due mostly to net increases in our deposits.

Financing activities

Cash flows used in financing activities were $8.4 million more in the current quarter compared with the corresponding quarter in 2002 due mostly to increased repayments of long-term debt and obligations under capital leases.

A revolving credit facility in the amount of $90.0 million is due August 2004.

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited consolidated interim financial statements as at January 31, 2004. Total debt obligations amounted to $51.1 million as at January 31, 2004 ($65.3 million as at October 31, 2003). Obligations that are not reflected as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with entities that are not consolidated with the Corporation and are made up of:

- Guarantees
- Operating leases (including any guaranteed residual values).

The total amount of off-balance sheet debt that can be estimated was approximately $533.0 million as at January 31, 2004 ($529.9 million as at October 31, 2003) and can be reconciled as follows:

	As at January 31, 2004 $	As at October 31, 2003 $
Guarantees		
Irrevocable letters of credit	42 201	42 724
Security contracts	1 420	1 420
Operating leases		
Commitments under operating leases	414 385	411 188
Guaranteed residual value	74 965	74 586
	532 971	529 918

Guarantees are required in the normal course of operations in the travel industry to provide indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and security contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them.

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

Debt levels

Debt levels as of January 31, 2004 have decreased compared with October 31, 2003.

Our balance sheet debt dropped by $14.3 million to $51.1 million from $65.3 million and our off-balance sheet debt increased by $3.1 million from $529.9 million to $533.0 million resulting in a total debt reduction of $11.2 million compared with October 31, 2003.

When we deduct our cash and cash equivalents that are not in trust or otherwise reserved from our total debt, our net debt drops to $322.6 million from $352.3 million, an 8.4% decrease.

ACCOUNTING CHANGES

During the first quarter of fiscal 2004, we adopted the Canadian Institute of Chartered Accountants (CICA) amendments to Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments," and the CICA Accounting Guideline 13 (AcG-13), "Hedging Relationships."

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

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

OUTLOOK

In our 2003 Annual Report we indicated that we expected a strong winter season in Canada and an improvement to our summer season following the devastating effects of the SARS outbreak on the 2003 summer season.

Overall, we expect a strong second quarter that combined with our first quarter results, could very well result in our best winter season ever for the Corporation due to the combination of demand and sustained cost reduction efforts.

In Canada, demand continues to be strong. The Ontario market continues to be competitive. However, the decision by the Corporation to cautiously manage capacity in this market combined with the consolidation initiatives undertaken in 2003 are delivering results.

In France, we continue to see encouraging results with travel packages. Air-only travel bookings at Look Voyages, which are no longer core to its activities, are decreasing at a faster rate than originally expected. As a result, we do not expect to see any significant improvements for the next quarter in France.

With regards to our summer 2004 season, although it is still early, booking trends both in Canada and France are ahead of last year but we are seeing pricing pressures in the UK market to Canada due to increased capacity and in certain other European destinations.

Consolidated Balance Sheets

(in thousands of dollars)

	As at January 31, 2004 (Unaudited) $	As at October 31, 2003 (Audited) $
Assets		
Current assets		
Cash and cash equivalents *[note 3]*	420,154	349,125
Accounts receivable	71,164	72,929
Future income tax assets	469	959
Inventories	7,055	7,829
Prepaid expenses	89,216	40,379
Current portion of deposits	20,253	24,053
Total current assets	608,311	495,274
Deposits	18,230	14,172
Future income tax assets	17,083	13,371
Property, plant and equipment	95,156	101,741
Goodwill	70,418	69,682
Other assets	20,511	20,517
	829,709	714,757
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	233,450	181,971
Income taxes payable	2,365	2,699
Customer deposits and deferred income	221,817	146,025
Current portion of long-term debt and obligations under capital leases	10,972	20,102
Total current liabilities	468,604	350,797
Long-term debt	—	4,811
Obligations under capital leases	9,938	10,437
Debentures	30,168	29,981
Provision for engine and airframe overhaul in excess of deposits	36,330	43,495
Non-controlling interest and other liabilities	22,479	22,474
Future income tax liabilities	17,142	11,416
	584,661	473,411
Shareholders' equity		
Share capital *[note 4]*	112,775	111,247
Convertible debentures and equity component of a debenture	52,866	52,855
Retained earnings	72,346	70,336
Warrants	4,086	4,122
Deferred translation adjustments	2,975	2,786
	245,048	241,346
	829,709	714,757

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Income

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

	2004 **$**	2003 $
Revenues	537,200	529,076
Operating expenses		
Direct costs	283,844	250,103
Salaries and fringe benefits	55,521	61,187
Commissions	51,991	51,213
Aircraft fuel	25,173	34,916
Maintenance	20,983	32,199
Aircraft rent	13,914	20,164
Airport and navigation fees	13,724	14,961
Other	55,105	59,534
	520,255	524,277
	16,945	4,799
Amortization	10,219	11,056
Interest on long-term debt, obligations under capital leases and debentures	1,965	2,652
Other interest and financial expenses	454	1,407
Interest income	(2,441)	(2,344)
Foreign exchange gain on long-term monetary items	(629)	(1,040)
Share of net loss of companies subject to significant influence	1,977	2,262
	11,545	13,993
Income (loss) before the following items	5,400	(9,194)
Income taxes (recovery of)		
Current	381	(725)
Future	2,476	(1,534)
	2,857	(2,259)
Income (loss) before non-controlling interest in subsidiaries' results	2,543	(6,935)
Non-controlling interest in subsidiaries' results	264	(39)
Net Income (loss) for the period	2,807	(6,974)
Basic earnings (loss) per share	0.06	(0.24)
Diluted earnings (loss) per share	0.06	(0.24)

Consolidated Statements of Retained Earnings

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

	2004 **$**	2003 $
Retained earnings, beginning of period as previously shown	70,336	30,243
Change in an accounting policy *[note 2]*	—	(1,607)
Restated retained earnings, beginning of period	70,336	28,636
Net income (loss) for the period	2,807	(6,974)
Interest on equity component of debentures – net of related income taxes of $380 [$388 in 2003]	(797)	(789)
Retained earnings, end of period	72,346	20,873

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Cash Flows

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

	2004 **$**	2003 $
OPERATING ACTIVITIES		
Net income (loss) for the period	2,807	(6,974)
Items not involving an outlay (receipt) of cash		
Amortization	10,219	11,056
Foreign exchange gain on long term monetary items	(629)	(1,040)
Share of net loss of companies subject to significant influence	1,977	2,262
Non-controlling interest in subsidiaries' results	(264)	39
Future income taxes	2,476	(1,534)
Interest on debentures	208	218
Operating cash flow	16,794	4,027
Net change in non-cash working capital balances related to operations	82,562	52,885
Net change in deposits, expenses and provision for engine and airframe overhaul	(6,398)	5,411
Cash flows relating to operating activities	92,958	62,323
INVESTING ACTIVITIES		
Increase in deposits	(4,219)	(811)
Additions to property, plant and equipment	(1,928)	(3,550)
Other assets	(2,429)	(51)
Repayment of deposits	—	2,380
Cash flows relating to investing activities	(8,576)	(2,032)
FINANCING ACTIVITIES		
Repayment of long-term debt and obligations under capital leases	(15,118)	(7,105)
Proceeds from issue of common shares	1,482	—
Other liabilities	283	2,113
Cash flows relating to financing activities	(13,353)	(4,992)
Net change in cash and cash equivalents for the period	71,029	55,299
Cash and cash equivalents, beginning of period	349,125	260,123
Cash and cash equivalents, end of period	420,154	315,422

See accompanying notes to consolidated interim financial statements.

Notes to Consolidated Interim Financial Statements

[The amounts in the tables are expressed in thousands, except for common shares, options and amounts per option or per share] [Unaudited]

Note 1

Basis of Presentation

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the changes in accounting policies described in *note 2*. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are cyclical in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's Annual Report for fiscal 2003.

Note 2

Changes in Accounting Policies

Hedging Relationships

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

Stock-Based Compensation and Other Stock-Based Payments

On November 1, 2003, the Corporation adopted prospectively the amended CICA, Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". The amendments require that the fair value-based method be applied to awards granted to employees, and that a compensation charge be accounted for. Enterprises are required to account for the effect of such awards in their financial statements for fiscal years beginning on or after January 1, 2004. Retroactive, with or without restating prior periods, or prospective application is allowed. However, prospective application is only available to enterprises that elect to apply the fair value-based method of accounting for fiscal years beginning before January 1, 2004. The adoption of these amendments had no impact on the Corporation's results, financial position, or cash flows as no awards were granted to employees during the current three-month period ended January 31, 2004.

Note 3 Cash and Cash Equivalents

	As at January 31, 2004 $	As at October 31, 2003 $
Cash and cash equivalents	261,457	242,952
Cash in trust or otherwise reserved	158,697	106,173
	420,154	349,125

Cash in trust or otherwise reserved represents funds received from customers for services not yet rendered.

Note 4 Share Capital

a) Share capital

Authorized

An unlimited number of common shares.

An unlimited number of preferred shares, non-voting, issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

Issued and outstanding

	Three (3) months ended January 31, 2004	
	Number of shares	Amount ($)
Common shares		
Balance as at October 31, 2003	32,863,553	111,247
Exercise of options	202,342	1,397
Exercise of warrants	12,550	121
Conversion of debentures	1,142	10
Balance as at January 31, 2004	33,079,587	112,775

b) Options

Options issued and outstanding

	Three (3) months ended January 31, 2004	
	Number of options	Weighted average price ($)
Balance as at October 31, 2003	2,281,666	6.75
Exercised	(202,342)	6.65
Cancelled	(55,715)	7.98
Balance as at January 31, 2004	2,023,609	6.70
Exercisable options as at January 31, 2004	1,203,175	7.31

c) Earnings (loss) per share

Earnings (loss) per share and the fully diluted earnings (loss) per share for the three-month periods ended January 31, 2004 and 2003 were computed as follows:

	Three (3) months ended January 31	
	2004	2003
	$	$
Numerator		
Net income (loss)	2,807	(6,974)
Interest on convertible debentures	(809)	(789)
Income (loss) available to common shareholders and used to calculate diluted earnings (loss) per share	1,998	(7,763)
Denominator		
Weighted average number of outstanding shares	32,938	32,696
Stock options	839	—
Warrants	555	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	34,332	32,696
Basic net earnings (loss) per share	0.06	(0.24)
Diluted earnings (loss) per share	0.06	(0.24)

Convertible debentures and debentures that may be settled in common shares were excluded from the computation of diluted earnings per share for the three-month period ended January 31, 2004 because of their antidilutive effect. The potential impact of these securities on the denominator is 6,066,203 shares.

Convertible debentures, debentures that may be settled in common shares and warrants were excluded from the computation of diluted loss per share for the three-month period ended January 31, 2003 because of their antidilutive effect. The potential impact of these securities on the denominator is 6,274,121 shares. Given the loss recorded for the three-month period ended January 31, 2003, the 2,083,101 common stock options outstanding were excluded from the computation of diluted earnings per share because of their antidilutive effect.

Note 5 Restructuring Charge

During the year ended October 31, 2003, the Corporation made changes to its management structure and carried out a reorganization that affected both the nature and focus of its operations in France and Canada resulting in the development of a restructuring program. The restructuring costs related to this program were charged to this fiscal year.

The balance of the restructuring provision as at October 31, 2003 amounted to $6,104,000. The Corporation disbursed a total of $3,546,000 during the three-month period ended January 31, 2004. The restructuring provision balance amounted to $2,558,000 as at this date.

Note 6

Segmented Information

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the consolidated statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in Canada and in Europe.

	Three (3) months ended January 31, 2004		
	Canada $	France and other $	Total $
Revenues	438,894	98,306	537,200
Operating expenses	413,288	106,967	520,255
	25,606	(8,661)	16,945
Amortization	9,060	1,159	10,219
Additions to property, plant and equipment	1,773	155	1,928
Property, plant and equipment and goodwill[1]	122,019	43,555	165,574

	Three (3) months ended January 31, 2003		
	Canada $	France and other $	Total $
Revenues	417,349	111,727	529,076
Operating expenses	404,114	120,163	524,277
	13,235	(8,436)	4,799
Amortization	9,305	1,751	11,056
Additions to property, plant and equipment	3,211	339	3,550
Property, plant and equipment and goodwill[2]	128,816	42,607	171,423

[1] As at January 31, 2004.
[2] As at October 31, 2003.

Note 7

Guarantees

In the normal course of business, the Corporation has entered into agreements that contain features which meet the definition of a guarantee. These agreements provide for indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit, and security contracts.

These agreements may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 9, 10, 11, 13, and 20 to the 2003 audited financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates until 2028. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance protecting them for the obligations undertaken.

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $22,353,000 as at January 31, 2004. Historically, the Corporation has not made any significant payments under such letters of credit.

Note 7

Guarantees (Cont'd)

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $1,420,000 as at January 31, 2004. Historically, the Corporation has not made any significant payments under such agreements.

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