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Period ended April 30, 2003

Quarterly report

Transat A.T. inc.

www.transat.com

Distribution and travel agencies

- CONSULTOUR
- EXIT TRAVEL
- ANYWAY
- CLUB VOYAGES (FRANCE)

Outgoing tour operators

- AIR TRANSAT HOLIDAYS
- KILOMÈTRE VOYAGES (A division of DMC Transat)
- RÊVATOURS
- WORLD OF VACATIONS/NOLITOUR
- BROK'AIR
- VACANCES AIR TRANSAT (FRANCE)
- LOOK VOYAGES (99.2% interest)

Incoming tour operators and services at travel destinations

- AIR TRANSAT HOLIDAYS USA
- DMC TRANSAT (71.5% interest)
- JONVIEW CANADA (35.8% interest)
- TRAFIC TOURS (40% interest)
- TOURGREECE (40% interest by Look Voyages)

Air transportation

- AIR TRANSAT
- HANDLEX
- STAR AIRLINES (44.3% interest by Look Voyages)

North America

Europe

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.

Transat offers quality vacation travel at affordable prices to a very extensive clientele. The Corporation wants to maintain its leadership in Canada and to become a major player in the holiday travel industry in North America and Europe.

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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 of Financial Condition and Results of Operations
For the Quarter ended April 30, 2003

This Management's discussion and analysis ("MD&A") provides a review of the performance of our Corporation and should be read in conjunction with the unaudited consolidated financial statements for the second quarter of 2003 and of 2002, the notes to the unaudited consolidated financial statements for the second quarter of 2003, and the 2002 Annual Report including the MD&A and the section on risks and uncertainties. The risks and uncertainties set out in the MD&A of the 2002 Annual Report and in our 2002 Annual Information Form filed with the Canadian securities commissions are herein incorporated by reference and remain substantially unchanged.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar figures are in Canadian dollars unless otherwise indicated. Where we say "we," "us," "our," or the "Corporation," we mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

FINANCIAL HIGHLIGHTS

Consolidated Statements of Income

Quarter ended April 30, 2003 compared with the quarter ended April 30, 2002

- Revenues increased by $95.6 million or 15.3%;
- Revenues less operating expenses increased by $0.6 million or 1.4%;
- Restructuring charge of $3.7 million ($2.6 million after-tax);
- Net income increased by $2.5 million (excluding the after-tax restructuring charge).

Six-month period ended April 30, 2003 compared with six-month period ended April 30, 2002

- Revenues increased by $182.4 million or 17.1%;
- Revenues less operating expenses increased by $15.3 million or 51.0%;
- Restructuring charge of $3.7 million ($2.6 million after-tax);
- Net income increased by $12.4 million (excluding the after-tax restructuring charge).

Consolidated Balance Sheets

April 30, 2003 compared with October 31, 2002

- Cash and cash equivalents increased by $38.6 million.

Consolidated Statements of Cash Flows

Quarter ended April 30, 2003 compared with the quarter ended April 30, 2002

- Cash flows relating to operating activities decreased by $13.4 million or 81.8%;
- Cash flows from financing activities decreased by $46.8 million or 145.0%.

Six-month period ended April 30, 2003 compared with six-month period ended April 30, 2002

- Cash flows relating to operating activities decreased by $59.7 million or 47.8%;
- Cash flows from financing activities decreased by $51.2 million or 161.1%.

RESULTS

Quarter ended April 30, 2003 compared with the quarter ended April 30, 2002 and six-month period ended April 30, 2003 compared with six-month period ended April 30, 2002

Revenues

For the period ended April 30 (in thousands of dollars)

	Three months				Six months			
	2003	2002	Variance		2003	2002	Variance	
	$	$	$	%	$	$	$	%
Canada	558,987	464,406	94,581	20.4	976,336	819,108	157,228	19.2
France and other	159,835	158,859	976	0.6	271,562	246,365	25,197	10.2
Total	718,822	623,265	95,557	15.3	1,247,898	1,065,473	182,425	17.1

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

The overall increase in revenues occurred almost exclusively in Canada when we compare the current quarter with the corresponding period in 2002. This increase was due mostly to an overall increase in the number of travellers (an increase of 7.3%) as well as to price increases. In the corresponding quarter of the preceding year we witnessed a sharp drop in volumes as well as decreased selling prices (mainly in Canada) as a result of the events of September 11, 2001.

When we compare the six-month periods, 86.2% of the increase in revenues came from Canada. This was also due to an overall increase in travellers (10.0%) and to price increases.

Operating expenses

For the period ended April 30 (in thousands of dollars)

	Three months				Six months			
	2003	2002	Variance		2003	2002	Variance	
	$	$	$	%	$	$	$	%
Canada	**517,743**	423,262	94,481	22.3	**921,857**	781,191	140,666	18.0
France and other	**160,633**	160,110	523	0.3	**280,796**	254,326	26,470	10.4
Total	**678,376**	583,372	95,004	16.3	**1,202,653**	1,035,517	167,136	16.1

Our operating expenses consist mainly of direct costs, payroll, commissions, maintenance, fuel, handling costs, and aircraft rental.

As was the case with our revenues, operating expenses increased almost exclusively in Canada when we compare the current quarter with the corresponding period in 2002. When we compare the six-month periods, 84.2% of the increase in operating expenses came from Canada as well. These increases were primarily due to increases in direct costs due to business activity.

Geographic segmentation

Canada

In Canada, revenues increased due mostly to a 10.0% and 11.6% increase in the number of travellers as well as to price increases when comparing the current quarter and current six-month period respectively, with the corresponding periods in 2002.

Operating expenses increased mostly due to increases in direct costs as a result of business activity. For the current quarter our margins (defined as revenues less operating expenses) dropped to 7.4% compared with 8.9% in the corresponding quarter in 2002. Additionally, for the six-month period ended April 30, 2003, our margins stood at 5.6%, up from 4.6% in the corresponding period in 2002.

The current quarter’s margins were lower when compared with last year due to more last-minute bookings as a result of the uncertainty created by the war in Iraq and to the overcapacity in the market place. The year-to-date margins were higher when compared with last year due to our first quarter’s increase in both travellers and prices.

As we mentioned in our Q1 MD&A, we have begun to review our tour operator and distribution activities in order to identify operational efficiencies and other cost-saving opportunities. This review led to our announcement, on April 7, 2003, concerning the reorganization of the operations of one of our Canadian tour operators with the purpose of placing the product lines of this tour operator in a business setting that provides it with an opportunity for developing in an economically profitable way. This resulted in the termination of some 150 employees.

Additionally, on May 5, 2003, we announced further staff reductions of approximately 500 employees in our airline subsidiary and other Canadian tour operators. The slowdown in demand in the tourism industry as a whole due to war in Iraq, continued terrorist threats, and the negative impact of Severe acute respiratory syndrome (“SARS”) as well as the overcapacity in the market place led us to continue to reorganize our operations and reduce our costs.

Thus far, we have reduced our capacity significantly. Two of our aircraft fleet were not renewed in April 2003, resulting in a 10% reduction in capacity. Additionally, due mainly to the SARS crisis, we reduced another 15% of our capacity.

The result of these events is the development of a restructuring program, which will be discussed elsewhere in the MD&A.

The review of our aircraft fleet is completed. We are in the process of formulating our recommendations and expect to have these finalized by the end of this fiscal year.

France and other

In Europe, foreign exchange had a significant impact on our operations.

In Canadian dollars, we see increases in revenues and expenses for both the current quarter and current six-month period ended April 30, 2003 compared with the corresponding periods in 2002.

However, in the euro currency, revenues and expenses remained relatively flat or decreased slightly when comparing the periods resulting in negative margins in Europe. Europe witnessed a 5.4% drop in travellers in the current quarter compared with last year and was flat on a year-to-date basis compared with 2002.

The overall loss in Europe is due to Look Voyages and was partially offset by improvements in our other French operations such as Anyway, our online travel agency. The overall variance therefore, in Canadian dollars, is due to the impact of exchange rates.

On February 10, 2003, we announced the reorganization of the management of certain French operations that we feel will enable us to better meet new challenges and seize new opportunities in France as well as improve profitability in our French operations. This reorganization led to the announcement, on May 5, 2003, of the redundancy plan affecting some 90 employees in France. We have entered into negotiations with regulatory authorities in France and expected to have finalized the plan by the end of the second quarter. The negotiations have not been finalized. As a result we are not in a position to disclose the amounts associated with this plan. No charge has yet been accrued relating to our French operations as part of our restructuring charge. We expect to begin realizing savings as a result of the reorganization in the latter part of the fourth quarter of the current fiscal year.

Restructuring charge

In line with the objectives we set out in our 2002 Annual Report, we continue to focus our efforts on reducing our costs, working on operational efficiencies and ensuring that all of our products and services not generating desired returns are remedied. As a result, we developed a restructuring program during the current quarter. This program includes a change in the management structure and a reorganization that affects both the nature and focus of our operations in France and Canada. The war in Iraq and SARS, which contributed to a slowdown in demand, accelerated the need for a restructuring program.

We are not in a position to disclose the total amount to be incurred due to the fact that our fleet review has not been finalized and due to the ongoing negotiations in France. For the quarter, $3.7 million was recorded. Not all costs related to our May 5 announcements have been accrued. We expect to record additional restructuring charges related to our restructuring program in the next quarter.

The amount recorded for the period ended April 30, 2003 includes cash charges totalling $3.0 million and asset write-downs in the amount of $0.7 million. The cash charges include mostly employee termination benefits and contract termination costs. The restructuring program is expected to be substantially completed in 2003.

The following table highlights the activity and balance of the restructuring provision for the three-month and six-month periods ended April 30, 2003.

For the period ended April 30 (in thousands of dollars)

	Amount incurred in the period and cumulative amount	Cumulative draw downs		Balance April 30, 2003
		Cash	Non cash	
	$	$	$	$
Employee termination benefits	2,408	947	—	1,461
Contract termination costs	519	—	—	519
Asset write-downs	720	—	720	—
Other	101	—	—	101
Total	3,748	947	720	2,081

Amortization

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

Amortization expense remained relatively stable with a 3.1% decrease for the current quarter compared with the corresponding quarter of 2002. On a year-to-date basis, amortization expense increased by $1.7 million (8.7%) due mainly to the additions of capital assets in fiscal 2002.

Interest

Interest on long-term debt, capital leases, and debentures decreased by $0.7 million (23.6%) to $2.2 million for the quarter ended April 30, 2003 from $2.9 million for the corresponding quarter of the preceding fiscal year. Additionally, during the first six months of fiscal 2003, interest expense decreased by $1.3 million (20.5%) to $4.9 million from $6.1 million during the corresponding period of the preceding fiscal year. These decreases are due to lower total debt obligations and the favourable impact of exchange rates.

Other interest and financial expenses decreased by $1.0 million (58.0%) to $0.7 million for the quarter ended April 30, 2003 from $1.7 million for the corresponding quarter of the preceding fiscal year due to a variety of insignificant amounts. During the first six months of fiscal 2003, this expense decreased slightly by $0.3 million (11.0%) to $2.1 million from $2.4 million during the corresponding period of the preceding fiscal year.

Interest income increased by $.7 million (60.0%) to $1.8 million for the quarter ended April 30, 2003, from $1.1 million for the corresponding quarter of the preceding year. Additionally, during the first six months of fiscal 2003, interest income increased by $2.0 million (92.3%) to $4.1 million. These increases are due to higher average cash and cash equivalents balances during both the current quarter and the current six-month period compared with the corresponding periods in 2002.

Foreign exchange on long-term monetary items

As a result of the adoption of the amendments to Handbook Section 1650, “Foreign Currency Translation,” all translation gains and losses on long-term monetary items, which were previously deferred and amortized, are now included in earnings for the year. The effect of this on the current quarter is a $1.7 million improvement to our results compared with a $1.3 million improvement in the corresponding quarter of the preceding year. The year-to-date effect is a $3.0 million improvement to our results compared with a $1.8 million improvement in the corresponding period of the preceding year.

See *Accounting Changes* for more details.

Income taxes

Our income taxes expense amounted to $10.2 million for the quarter ended April 30, 2003 compared with an expense of $10.4 million for the corresponding quarter of the preceding fiscal year. Excluding the *share of net income of companies subject to significant influence*, the effective tax rates were 38.1% for the quarter ended April 30, 2003, and 40.5% for the quarter ended April 30, 2002.

For the six-month period ended April 30, 2003, our income taxes expense amounted to $8.0 million compared with an expense of $3.6 million in the corresponding period of 2002. This reduction is due to a net loss in the corresponding period of 2002 compared with a net income in 2003. Excluding the *share of net income of companies subject to significant influence*, the effective tax rates were 40.0% for the six-month period ended April 30, 2003, and 93.8% for the corresponding period in 2002. The high rate for the 2002 period is principally due to not having recorded recoveries related to the losses in our French operations until the second half of the fiscal year.

Net income

As a result of the items discussed in our *"Results,"* our net income was $15.4 million or $0.45 per share for the quarter ended April 30, 2003 compared with a net income of $15.5 million or $0.46 per share for the corresponding quarter of the preceding year. Excluding the after-tax effect of our restructuring charge, our net income would have been $18.0 million or $0.52 per share. The weighted average number of common shares outstanding used to establish the per share amounts were 32,757,659 for the current quarter and 32,424,628 for the corresponding quarter of the preceding year.

Our net income was $8.4 million or $0.21 per share for the six-month period ended April 30, 2003, compared with a net loss of $1.5 million or $0.06 per share for the corresponding period of the preceding year. Excluding the after-tax effect of our restructuring charge, our net income would have been $11.0 million or $0.29 per share. The weighted average number of common shares outstanding used to establish the per share amounts were 32,726,373 for the current period and 32,389,143 for the corresponding period of the preceding year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the period ended April 30 (in thousands of dollars)

	Three months			Six months		
	2003 $	2002 $	Variance $	2003 $	2002 $	Variance $
Cash flows relating to operating activities	**2,992**	16,399	(13,407)	**65,315**	125,056	(59,741)
Cash flows relating to investing activities	**(5,221)**	(11,663)	6,442	**(7,253)**	(19,077)	11,824
Cash flows relating to financing activities	**(14,430)**	32,358	(46,788)	**(19,422)**	31,770	(51,192)
Net change in cash and cash equivalents	**(16,659)**	37,094	(53,753)	**38,640**	137,749	(99,109)

As at April 30, 2003 we had $298.8 million in cash and cash equivalents (including $62.0 million held in trust or otherwise reserved) compared with $260.1 million as at October 31, 2002 (including $101.3 million held in trust or otherwise reserved). Our balance sheet reflects a current ratio of 1.2 and working capital of $66.8 million compared with a current ratio of 1.1 and working capital of $41.8 million as at October 31, 2002. We also have access to unused lines of credit totalling $64.9 million.

Total assets increased slightly by $2.7 million (0.4 %) to $776.2 million from $773.5 million as at October 31, 2002. Shareholders' equity increased by $7.8 million to $201.5 million from $193.7 million as at October 31, 2002 due mostly to the current six-month period's net income of $8.4 million.

Operating activities

The $13.4 million reduction in cash flows from operations when comparing the three-month periods ended April 30 is due mostly to the net change in deposits, expenses and provision for engine and airframe overhaul and the net change in non-cash working capital balances related to operations. Basically, there has been a reduction in the amounts received as deposits from our clients due to our summer bookings being lower than the previous year offset by a reduction in our prepaid expenses, an increase in our provision for engine and airframe overhaul expenses and a reduction in deposits given to our suppliers.

The $59.7 million reduction in cash flows from operations when comparing the six-month periods ended April 30 is due mostly to a lower net change in non-cash working capital balances related to operations. The increase in our operating cash flow is due mainly to an increase in our income from operations and the reduction in our net change in our working capital balances is due to the items discussed above in the three-month period analysis.

Investing activities

Cash flows used in investing activities were $6.4 million less in the current quarter compared with the corresponding quarter in 2002 due mostly to less capital asset acquisitions.

Cash flows used in investing activities were $11.8 million less in the current six-month period compared with the corresponding period in 2002 due to less additions to capital assets, and lower investments in other assets and deposits.

Financing activities

There was a use of cash from financing activities for both the current quarter and six-month period compared with a generation of cash in the corresponding periods in 2002 due mainly to the $51.1 million issue of the convertible debentures in February 2002 and the $21.9 million issue of debentures in January 2002. In the current fiscal year there were only repayments of our long-term debt and obligations under capital leases.

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

On February 28, we announced the renewal of our revolving credit facility, which matured February 2003. The renewed revolving credit facility is for $90.0 million to come due August 2004.

ACCOUNTING CHANGES

During the first six months of fiscal 2003, we adopted the Canadian Institute of Chartered Accountants (CICA) amendments to Handbook Section 1650, “Foreign Currency Translation”, the new Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments” and the new CICA Accounting Guideline 14 (AcG-14), “Disclosure of Guarantees.”

Effective November 1, 2002, the standards in Section 1650 require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies be included in earnings for the year, including gains and losses on long-term monetary assets and liabilities, such as long-term debt and obligations under capital leases, which were previously deferred and amortized on a straight-line basis over the remaining lives of the related items. These amendments were applied retroactively with restatements of prior periods. As a result we recorded a cumulative charge to opening retained earnings in the amount of $1.6 million to write off the unamortized foreign exchange loss on long-term monetary items. This charge is non-cash in nature and does not affect our cash or liquidity position.

The new Handbook Section 3870 is also effective for the fiscal year beginning November 1, 2002. Under this new standard, the CICA recommends, however does not require, the fair value-based method of accounting for stock options granted to employees but permits to disclose in a note to the financial statements the pro forma values of net income and earnings per share obtained by calculating the cost of the stock-based compensation in accordance with the fair value-based accounting method. The recommendations of the Section apply to awards granted on or after the date of adoption. We have chosen to present by note to the financial statements the impact of the application of the fair value based method to disclose the pro forma net income and the pro forma earnings per share as if we applied the fair value method. Consequently, the adoption of this standard will not have any effect on our results, financial position or cash flows.

AcG-14 is effective for the second quarter beginning February 1, 2003. The guideline requires a guarantor to disclose significant information about guarantees it has provided without regard to whether it will have to make any payments under the guarantees. The purpose of the AcG is to improve the transparency of a guarantor's disclosures about the obligations and risks arising from issuing guarantees. The adoption of this guideline will not have any effect on our results, financial position or cash flows.

OUTLOOK

The current quarter and year-to-date results are both positive and encouraging. However, these results have not altered our prediction that 2003 would be a very challenging year.

In the previous quarter, the threat of war and terrorism dominated the headlines. The war in Iraq has come and gone and the threat of terrorism continues with the recent acts in Morocco and Saudi Arabia. Today, however, SARS is at the forefront of travellers' minds. SARS has had a significantly negative impact at a very crucial time. The Canada-Europe market is a critical part of our summer season and the bookings for our summer season have been negatively impacted for the third quarter. We do however see some improving trends for the fourth quarter but remain cautious.

In France, the economic situation has not improved and we do not expect to see any improvements in that market for the remainder of the year. We expect Look Voyages to experience a particularly difficult time.

On a positive note, however, we delivered on our undertaking to look at our operations in an effort to reduce costs, increase operational efficiencies and ensure that our products and services be profitable. The result was a restructuring program that unfortunately reduced our headcount and led to a reorganization of some of our activities. We will continue to look at our activities in the next quarter and expect our restructuring plan to be substantially completed in 2003.

FORWARD-LOOKING STATEMENTS

This MD&A also contains certain forward-looking statements with respect to our 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 at June 10, 2003.

Consolidated balance sheets

(in thousands of dollars) (Unaudited)

	As at April 30, 2003 **$**	As at October 31, 2002 [Restated – note 2] $
ASSETS		
Current assets		
Cash and cash equivalents *[note 3]*	298,763	260,123
Accounts receivable	92,515	101,613
Income taxes recoverable	15,786	15,139
Future income tax assets	2,297	1,352
Inventories	8,138	10,124
Prepaid expenses	43,472	48,389
Current portion of deposits and engine and airframe overhaul expenses	19,571	33,850
Total current assets	480,542	470,590
Deposits and engine and airframe overhaul expenses	17,043	17,707
Future income tax assets	26,354	18,028
Capital assets	160,307	169,316
Goodwill	70,331	69,935
Other assets	21,611	27,892
	776,188	773,468
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	11,330	18,618
Accounts payable and accrued liabilities	273,526	249,852
Customer deposits and deferred income	101,052	136,078
Current portion of long-term debt and obligations under capital leases	27,853	24,257
Total current liabilities	413,761	428,805
Long-term debt	17,749	21,455
Obligations under capital leases	20,950	36,990
Debentures	29,600	29,226
Provision for engine and airframe overhaul in excess of deposits	48,250	35,614
Non-controlling interest and other liabilities	17,427	15,925
Future income tax liabilities	26,919	11,710
	574,656	579,725
Shareholders' equity		
Share capital *[note 5]*	111,248	110,200
Convertible debentures and equity component of a debenture	52,821	52,786
Retained earnings	35,481	28,636
Warrants	4,122	4,122
Deferred translation adjustments	(2,140)	(2,001)
	201,532	193,743
	776,188	773,468

See accompanying notes to consolidated interim financial statements.

Consolidated statements of income

(in thousands of dollars, except per share amounts) (Unaudited)

	Three (3) months ended April 30		Six (6) months ended April 30	
	2003	2002 [Restated – note 2]	**2003**	2002 [Restated – note 2]
	$	$	**$**	$
Revenues	718,822	623,265	1,247,898	1,065,473
Operating expenses	678,376	583,372	1,202,653	1,035,517
	40,446	39,893	45,245	29,956
Amortization	10,432	10,771	21,488	19,768
Restructuring charge *[note 4]*	3,748	—	3,748	—
Interest on long-term debt, obligations under capital leases and debentures	2,219	2,904	4,871	6,127
Other interest and financial expenses	697	1,658	2,104	2,364
Interest income	(1,768)	(1,105)	(4,112)	(2,138)
Foreign exchange on long-term monetary items	(1,755)	87	(2,795)	23
Share of net loss (income) of companies subject to significant influence	1,289	(63)	3,551	2,112
	14,862	14,252	28,855	28,256
Income before the following items	25,584	25,641	16,390	1,700
Income taxes				
Current	543	1,525	(182)	711
Future	9,697	8,833	8,163	2,865
	10,240	10,358	7,981	3,576
Income (loss) before non-controlling interest in subsidiaries' results	15,344	15,283	8,409	(1,876)
Non-controlling interest in subsidiaries' results	32	210	(7)	419
Net income (loss) for the period	15,376	15,493	8,402	(1,457)
Earnings (loss) per share				
Earnings (loss) per share	0.45	0.46	0.21	(0.06)
Diluted earnings (loss) per share	0.39	0.41	0.21	(0.06)

Consolidated statements of retained earnings

(in thousands of dollars) (Unaudited)

	Six (6) months ended April 30	
	2003	2002 [Restated – note 2]
	$	$
Retained earnings, beginning of period as previously shown	30,243	25,879
Change in an accounting policy *[note 2]*	(1,607)	(3,644)
Restated retained earnings, beginning of period	28,636	22,235
Net income (loss) for the period	8,402	(1,457)
Convertible debentures issue expenses, net of related future income taxes of $703	—	(1,280)
Interest on equity component of debentures – net of related income taxes of $766 ($388 in 2002)	(1,557)	(618)
Retained earnings, end of period	35,481	18,880

See accompanying notes to consolidated interim financial statements.

Consolidated statements of cash flows

(in thousands of dollars) (Unaudited)

	Three (3) months ended April 30		Six (6) months ended April 30	
	2003	2002 [Restated – note 2]	**2003**	2002 [Restated – note 2]
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income (loss) for the period	15,376	15,493	8,402	(1,457)
Items not involving an outlay (receipt) of cash				
Amortization	10,432	10,771	21,488	19,768
Foreign exchange on long term monetary items	(1,755)	87	(2,795)	23
Restructuring charge *[note 4]*	720	—	720	—
Share of net loss (income) of companies subject to significant influence	1,289	(63)	3,551	2,112
Future income taxes	9,697	8,833	8,163	2,865
Non-controlling interest in subsidiaries' results	(32)	(210)	7	(419)
Interest on debentures	190	248	408	248
Operating cash flow	35,917	35,159	39,944	23,140
Net change in non-cash working capital balances related to operations	(42,612)	(37,938)	10,273	86,301
Net change in deposits, expenses and provision for engine and airframe overhaul	9,687	19,178	15,098	15,615
Cash flows relating to operating activities	2,992	16,399	65,315	125,056
INVESTING ACTIVITIES				
Additions to capital assets	(6,110)	(11,849)	(9,660)	(15,868)
Other assets	370	(1,997)	319	(3,625)
Repayment of deposits	585	3,499	2,965	3,499
Increase in deposits	(66)	(1,616)	(877)	(3,383)
Dividends from companies subject to significant influence	—	300	—	300
Cash flows relating to investing activities	(5,221)	(11,663)	(7,253)	(19,077)
FINANCING ACTIVITIES				
Bank loans	(7,990)	(170)	(7,960)	7,781
Repayment of other long-term debt and obligations under capital leases	(4,808)	(5,020)	(11,913)	(12,322)
Other liabilities	(76)	(552)	2,007	(288)
Proceeds from issue of common shares	744	710	744	785
Interest on convertible debentures	(2,300)	—	(2,300)	—
Long-term debt – revolving term loan	—	(13,759)	—	(37,200)
Proceeds from issue of debentures, net of issue expenses	—	49,122	—	70,987
Increase in other long-term debt	—	2,027	—	2,027
Cash flows relating to financing activities	(14,430)	32,358	(19,422)	31,770
Net change in cash and cash equivalents for the period	(16,659)	37,094	38,640	137,749
Cash and cash equivalents, beginning of period	315,422	185,274	260,123	84,619
Cash and cash equivalents, end of period	298,763	222,368	298,763	222,368

See accompanying notes to consolidated interim financial statements.

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 change in accounting policies described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the 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 2002.

Note 2 Changes in Accounting Policies

Foreign Currency Translation

On November 1, 2002, the Corporation adopted retroactively the amended Canadian Institute of Chartered Accountants Handbook ("CICA"), Section 1650, "Foreign Currency Translation." The standards require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies, including gains and losses on long-term monetary assets and liabilities, such as long-term debt and obligations under capital leases, previously deferred and amortized on a straight-line basis over the remaining lives of the related items, be included in earnings for the year. As a result of the adoption of these amendments on November 1, 2001, deferred foreign exchange losses in the amount of $3,644,000 [$1,607,000 as at October 31, 2002] included in other assets, were written off and charged to retained earnings. The effect of the adoption of the amendments was an increase in net income and earnings per share of $1,259,000 and $0.04 respectively for the three-month period ended April 30, 2002, a reduction in net loss and loss per share of $1,844,000 and $0.06 respectively for the six-month period ended as at the same date, and an increase in net income and earnings per share of $2,037,000 and $0.06 respectively for the year ended October 31, 2002. The adoption of these amendments resulted in an increase in net income and earnings per share of $1,649,000 and $0.05 respectively for the three-month period ended April 30, 2003, and an increase in net income and in earnings per share of $3,042,000 and $0.09 for the six-month period ended the same date.

Stock-Based Compensation and Other Stock-Based Payments

On November 1, 2002, the Corporation adopted prospectively the new accounting standard, Section 3870 "Stock-Based Compensation and Other Stock-Based Payments." Under this new standard, the CICA recommends, however does not require, the fair value-based method of accounting for stock options granted to employees, but permits the disclosure in a note to the financial statements of the pro forma values of net income and earnings per share obtained by calculating the cost of the stock-based compensation in accordance with the fair value-based method. The recommendations of the section apply to awards granted on or after the date of adoption. The Corporation has chosen to present, by a note to the consolidated financial statements, the impact of the application of the fair value-based method to disclose the pro forma net earnings and the pro forma earnings per share as if the Corporation applied the fair value method for awards granted on or after the date of adoption. Consequently, the adoption by the Corporation of this standard will not have any effect on its results, financial position, or cash flows.

Note 2 Changes in Accounting Policies (Cont'd)

During the quarter ended January 31, 2003, the Corporation granted 10,000 stock options to one of its employees. If the Corporation had accounted for the stock options using the fair value-based method, the pro forma net income for the six-month period ended April 30, 2003 would have been $8.398,000, a $4,000 decrease, and the pro forma earnings per share would have been unchanged.

Disclosure of guarantees

Effective February 1, 2003 the Corporation adopted the CICA Accounting Guideline 14 (AcG-14) "Disclosure of guarantees." The guideline requires a guarantor to disclose significant information about guarantees it has provided without regard to whether it will have to make any payments under the guarantees. The purpose this guideline is to improve the transparency of a guarantor's disclosures about the obligations and risks arising from issuing guarantees.

Please see note 7 for more information regarding the disclosure pursuant to the new accounting guideline.

Future accounting policies

Consolidation of variable interest entities

In June 2003, the CICA published Accounting Guideline 15 (AcG-15) "Consolidation of variable interest entities." This new guideline presents clarification on the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Therefore, AcG-15 provides guidance for determining when an enterprise includes the assets, the liabilities and results of activities of a variable interest entity in its consolidated financial statements. As a general principal set out in AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest or combination of variable interest, that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both (the "primary beneficiary"). The Corporation has conducted certain aircraft financing transactions whereby it guaranteed a portion of the residual value at the end of the lease term under structures involving special purpose entities. It is currently assessing whether or not these structures are variable interest entities and, further, whether or not the Corporation would be identified as the primary beneficiary. For the Corporation, this guideline will come into effect on February 1, 2004.

Note 3 Cash and cash equivalents

	As at April 30, 2003 $	As at October 31, 2002 $
Cash and cash equivalents	236,800	158,823
Cash in trust or otherwise reserved	61,963	101,300
	298,763	260,123

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

Note 4 Restructuring charge

As part of the Corporation's ongoing efforts to focus on reducing costs, working on operational efficiencies and ensuring that all of its products and services not generating desired returns are remedied, the Corporation developed a restructuring program during the current quarter. This program includes a change in the management structure and a reorganization that affects both the nature and focus of its operations in France and Canada. The war in Iraq and SARS, which contributed to a slowdown in demand, accelerated the need for a restructuring program.

The Corporation is not in a position to disclose the total amount to be incurred due to the fact that its fleet review has not been finalized and due to the ongoing negotiations in France. For the quarter, $3,700,000 was recorded. The Corporation expects to record additional restructuring charges related to its restructuring program in the next quarter.

The amount recorded for the period ended April 30, 2003 includes cash charges totalling $3,000,000 and asset write-downs in the amount of $700,000. The cash charges includes mostly employee termination benefits and contract termination costs. The restructuring program is expected to be substantially completed in 2003.

The following table highlights the activity and balance of the restructuring provision for the thre-month and six-month periods ended April 30, 2003.

	Amount incurred in the period and cumulative amount	Cumulative draw-downs		Balance April 30, 2003
		Cash	Non-cash	
	$	$	$	$
Employee termination benefits	2,408	947	—	1,461
Contract termination costs	519	—	—	519
Asset write-downs	720	—	720	—
Other	101	—	—	101
	3,748	947	720	2,081

Note 5 Share Capital

a) Share capital

During the six-month period ended April 30, 2003, the 51,671 preferred shares, series 3, held by Transat Tours Canada Inc. ("Transat Tours") were converted into 155,013 common shares of the Corporation. Subsequent to the conversion, the number of common shares held by Transat Tours and excluded from the share capital of the Corporation totalled 258,207. During the same period, all of the common shares held by Transat Tours were sold on the market and immediately reintegrated into the share capital of the Corporation at their original issue price, namely $301,000. The transaction had no impact on the results of the Corporation.

b) Options

Options issued and outstanding

	Number of options	Weighted average price ($)
Balance as at October 31, 2002	2,120,690	7.91
Granted	10,000	5.80
Expired	45,000	12.55
Cancelled	107,867	7.76
Balance as at April 30, 2003	1,977,823	7.80

Options exercisable

A total of 1,441,016 options are exercisable.

Note 5 Share Capital (Cont'd)

c) Earnings per share

Earnings per share and the fully diluted earnings per share for the three-month and six-month period ended April 30, 2003 and 2002 were computed as follows:

	Three months ended April 30		Six months ended April 30	
	2003 $	2002 $	2003 $	2002 $
Numerator				
Net income (loss)	15,376	15,493	8,402	(1,457)
Interest on convertible debentures	(768)	(577)	(1,557)	(618)
Income (loss) available to common shareholders	14,608	14,916	6,845	(2,075)
Interest on convertible debentures	768	577	—	—
Interest on debentures that may be settled in common shares	38	23	114	—
Adjusted income (loss) used in computing diluted earnings (loss) per share	15,414	15,516	6,959	(2,075)
Denominator				
Weighted average number of outstanding shares	32,758	32,425	32,726	32,389
Convertible debentures	5,841	4,594	—	—
Debentures that may be settled in common shares	495	368	462	—
Stock options	—	15	—	—
Warrants	—	10	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	39,094	37,412	33,188	32,389
Earnings (loss) per share	0.45	0.46	0.21	(0.06)
Diluted earnings (loss) per share	0.39	0.41	0.21	(0.06)

Warrants were excluded from the computation of diluted earnings per share for the three-month period ended April 30, 2003 as a result of their antidilutive effect. The potential impact on the denominator of these securities for the quarter ended April 30, 2003, is 1,421,225 shares. Convertible debentures and warrants were excluded from the computation of diluted earnings per share for the six-month period ended April 30, 2003. The potential impact on the denominator of these securities for the six-month period ended April 30, 2003 is 7,261,796 shares. In addition, in computing diluted earnings per share for the second quarter and for the six-month period ended April 30, 2003, a total of 1,977,823 common stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the respective periods.

Convertible debentures, debentures that may be settled in common shares, and warrants were excluded from the computation of diluted loss per share for the six-month period ended April 30, 2002 as a result of their antidilutive effect. The potential impact on the denominator of these securities is 2,615,325 shares. Given the loss recorded for the six-month period ended April 30, 2002, the 2,153,284 common stock options outstanding, were excluded from the computation as a result of their antidilutive effect.

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 April 30, 2003			Six (6) months ended April 30, 2003		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	558,987	159,835	718,822	976,336	271,562	1,247 898
Operating expenses	517,743	160,633	678,376	921,857	280,796	1,202 653
	41,244	(798)	40,446	54,479	(9,234)	45,245
Amortization	8,692	1,740	10,432	17,997	3,491	21,488
Additions to capital assets	3,529	2,581	6,110	6,740	2,920	9,660
Capital assets and goodwill [1]				179,865	50,773	230,638

	Three (3) months ended April 30, 2002			Six (6) months ended April 30, 2002		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	464,406	158,859	623,265	819,108	246,365	1,065,473
Operating expenses	423,262	160,110	583,372	781,191	254,326	1,035,517
	41,144	(1,251)	39,893	37,917	(7,961)	29,956
Amortization	9,331	1,440	10,771	17,301	2,467	19,768
Additions to capital assets	10,208	1,641	11,849	13,838	2,030	15,868
Capital assets and goodwill [2]				189,930	49,321	239,251

[1] As at April 30, 2003.
[2] As at October 31, 2002.

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 under AcG-14. 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 8, 9, 10, 11, 13, 15 and 20 to the 2002 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 prevent 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 $24,674,000 as at April 30, 2003. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one year period and are renewed annually. The amount guaranteed totals $2,000,000 as at April 30, 2003. Historically, the Corporation has not made any significant payments under such agreements.

As at April 30, 2003, no amounts have been accrued with respect to the above-mentioned agreements.