Quarterly Report
Period ended
January 31, 2005

Air Consultants Europe
Air Transat
Auratours Vacances
Brok'Air
Cameleon
Club Voyages
exitnow.ca
Handlex
Jonview Canada
Kilomètre Voyages
Look Voyages
Nolitour Vacances
Rêvatours
Tourgreece
Trafic Tours
Transat Holidays
Transat Holidays USA
TravelPlus
Vacances Transat (France)
Voyages en Liberté
World of Vacations

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.

"The quarter, which usually generates a loss, was in line with our expectations. We saw an increase in travellers in North America that was unfortunately offset by pricing pressures due to the overcapacity in the marketplace, especially in Ontario, which led to lower margins. In Europe, I am happy to report that Look Voyages results are in line with our expectations as well, and that we are making good progress on our strategic and financial turnaround."

Jean-Marc Eustache,
President and Chief Executive Officer

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

Travel agencies and distribution
- Club Voyages
- exinow.ca
- TravelPlus
- Voyages en Liberté
- Club Voyages (France)

Air transportation
- Air Transat
- Handlex

Incoming tour operators and services at travel destinations
- Cameleon
- Jonview Canada
- Trafic Tours
- Transat Holidays USA
- Tourgreece

North America
Europe

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CIBC Mellon Trust Company

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

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, 2005, compared with the quarter ended January 31, 2004, and should be read in conjunction with the unaudited Consolidated Interim Financial Statements for the first quarter of 2005 and of 2004, the notes thereto, and the 2004 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 2004 Annual Report. The risks and uncertainties set out in the MD&A of the 2004 Annual Report are herein incorporated by reference and remain substantially unchanged. You will find more information about us including our Annual Information Form for the year ended October 31, 2004, on Transat's website at www.transat.com and on SEDAR at www.sedar.com.

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

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 15, 2005. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law

Financial Highlights of the quarters ended January 31

(in thousands of dollars)

	2005 **$**	2004 $	Variance $	Variance %
Consolidated statements of income				
Revenues	**588,740**	537,200	51,540	9.6
Margin[1]	**13,833**	16,945	(3,112)	(18.4)
Net income (net loss)	**(1,800)**	2,786	(4,586)	(164.6)
EPS (LPS) – Basic and diluted	**(0.08)**	0.06	(0.14)	(233.3)
Consolidated statements of cash flows				
Operating activities	**53,399**	92,958	(39,559)	(42.6)
	As at January 31, 2005	As at October 31, 2004		
Consolidated balance sheets				
Cash and cash equivalents	**320,148**	310,875	9,273	3.0
Cash in trust or otherwise reserved	**178,942**	157,678	21,264	13.5
	499,090	468,553	30,537	6.5
Total assets	**1,048,681**	838,389	210,292	25.1
Debt (short term and long term)	**113,132**	33,214	79,918	240.6
Total debt[1]	**510,851**	536,746	(25,895)	(4.8)
Net debt[1]	**190,703**	225,871	(35,168)	(15.6)

[1] NON-GAAP FINANCIAL MEASURES

The terms *margin*, *total debt* and *net debt* do not have any standard definition prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These terms are presented on a consistent basis from period to period. These terms are included because management uses them as measures of the Corporation's financial performance.

Margin is used by management as an indicator to assess the ongoing and recurring operational performance of the Corporation. This term is represented by revenues less operating expenses in the unaudited Consolidated Interim Statements of Income.

Total debt is used by management to assess the Corporation's future liquidity requirements. It is represented by the combination of balance sheet debt (long-term debt, obligations under capital leases and debentures) and off-balance sheet arrangements presented on p. 8.

Net debt is used by management to assess its liquidity position. It is represented by total debt (as discussed above) less cash and cash equivalents that are not in trust or otherwise reserved as shown in note 3 of the unaudited Consolidated Interim Financial Statements.

OVERVIEW

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

Transat's core business is based on holiday travel packages and a combination of scheduled and charter flights. We operate as both an outgoing and incoming tour operator by bundling products and services bought in Canada and abroad for resale in Canada, France and elsewhere principally through travel agencies, some of which we own. We operate the leading airline company in Canada specializing in charter services.

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

Our strategy is focused on three pillars: vertical integration, a core travel package product and geographical expansion. We have based our development strategy on the vertical integration of the major components of holiday travel. We are targeting the international tourism market and our long-term growth strategy involves focusing on our core business: holiday travel and its related products. We plan to expand into new and existing markets with high profitability potential and to continue to leverage our vertical integration in such markets.

We set ourselves the following objectives for fiscal 2005:

- Pursue the execution of the development plan in the context of the overall strategy of Transat.
- Nurture a corporate culture that will support the business model in the long term.
- Pursue Internet technology integration into our business model.
- Continue to leverage Canadian tour operators.
- Return Look Voyages to profitability in 2006.

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

- Market share
- Revenue growth
- 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. Our non-financial resources include our brand, 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 2004 Annual Report.

ACQUISITIONS

On November 1, 2004, Transat acquired 70% of the operations of Air Consultants Europe ("ACE") at a cost of 1.1 million euros. This Dutch company, based in The Hague, is Air Transat's sole commercial representative in Germany and the Netherlands since 1991 and in Belgium and Luxembourg. The transaction was accounted for using the purchase method. The results of ACE's operations are included in the Corporation's results since November 1, 2004.

Quarter ended January 31, 2005 compared with the quarter ended January 31, 2004

Revenues

For the quarters ended January 31	Three months (in thousands of dollars)			
	2005	2004	Variance	Variance
	$	$	$	%
Revenues	**588,740**	537,200	51,540	9.6

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

Overall, revenues increased by $51.5 million this quarter compared with the comparative quarter in 2004, due mainly to a 14.6% increase in the number of travellers (tour operators record round-trips in terms of travellers). This increase is the result of a 17.9% increase in the number of travellers in North America, offset by a 12.1% decrease in the number of travellers in Europe. European operations also witnessed a 76.4% drop in air-only passengers (airlines record flight segments in terms of passengers), in line with our stated intention of focusing on travel packages.

Operating expenses

For the quarters ended January 31	Three months (in thousands of dollars)			
	2005	2004	Variance	Variance
	$	$	$	%
Direct costs	**319,408**	283,844	35,564	12.5
Salaries and employee benefits	**58,595**	55,521	3,074	5.5
Commissions	**56,620**	51,991	4,629	8.9
Aircraft fuel	**36,939**	25,173	11,766	46.7
Aircraft maintenance	**21,310**	20,983	327	1.6
Airport and navigation fees	**13,605**	13,724	(119)	(0.9)
Aircraft rental	**12,999**	13,914	(915)	(6.6)
Other	**55,431**	55,105	326	0.6
Total	**574,907**	520,255	54,652	10.5

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

Overall, our operating expenses increased by $54.7 million in the current quarter compared with the corresponding quarter in 2004.

Direct costs increased by 12.5% as a result of increased business activity and our partnership agreement with WestJet Airlines Ltd.

Salaries and employee benefits increased by 5.5% as a result of our acquisitions in 2004 and increased business activity.

The 8.9% increase in commissions is due to increased business activity.

The 46.7% increase in fuel is the result of increased business activity and the recent surge in fuel prices.

The decrease in aircraft rental is the result of the adoption of the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15 (“AcG-15”) “Consolidation of Variable Interest Entities” which became effective on November 1, 2004, offset by the additional aircraft leased in fiscal 2004. AcG-15 requires us to consolidate certain aircraft financing transactions that were treated as operating leases in fiscal 2004. (See *Accounting.)*

Geographic Business Areas

North America

For the quarters ended January 31	Three months (in thousands of dollars)			
	2005	2004	Variance	Variance
	$	$	$	%
Revenues	**506,030**	438,894	67,136	15.3
Operating expenses	**485,420**	413,288	72,132	17.5
Margins	**20,610**	25,606	(4,996)	(19.5)

In North America, revenues increased due mostly to the 17.9% increase in the number of travellers discussed previously, which was offset, in part, by pricing pressures due to overcapacity. There was a strong increase in the number of travellers to Caribbean and European destinations, while trips to Florida decreased slightly. Pricing pressures along with the increase in fuel prices resulted in margins of 4.1% compared with 5.8% in the corresponding period of the previous year.

Europe

For the quarters ended January 31	Three months (in thousands of dollars)			
	2005	2004	Variance	Variance
	$	$	$	%
Revenues	**82,710**	98,306	(15,596)	(15.9)
Operating expenses	**89,487**	106,967	(17,480)	(16.3)
Margins	**(6,777)**	(8,661)	1,884	21.7

In Europe, both revenues and expenses decreased this quarter compared with the comparative quarter in 2004. Although the European operations still generated negative margins in the first quarter, there was a 21.7% improvement at the margin level due to improvements at Look Voyages. The drop in revenues was mainly due to the decrease in the number of air-only passengers by 76.4% and the number of travellers by 12.1%.

Long-haul travel from Europe to Caribbean destinations (travel packages) saw volumes decrease compared with last year both at Vacances Transat (France) and Look Voyages due to competitive pressures. Prices were slightly higher this quarter compared with the corresponding quarter of 2004.

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 $1.5 million (14.4%), from $10.2 million to $8.7 million. This decrease is mainly the result of the removal from the fleet of the Lockheed L-1011-500 aircraft – which were depreciated on an accelerated basis in the corresponding period of 2004 – offset by the adoption of AcG-15 as of November 1, 2004. As a result of this Guideline, we are now required to consolidate certain aircraft financing transactions that were treated as operating leases in 2004. This has resulted in an increase in our capital assets balances and amortization expense.

Interest

Interest on long-term debt, obligations under capital leases, and debentures increased by $3.3 million (164.2%), from $2.0 million for the quarter ended January 31, 2004 to $5.3 million for the quarter ended January 31, 2005. This increase is due to the early redemption of debentures in the amount of $21.9 million on January 10, 2005, which resulted in a non-cash charge in the amount of $1.7 million related to the difference between the nominal value and book value of the debentures as at January 10, 2005, an interest penalty related to this same debenture in the amount of $0.8 million, and the adoption of AcG-15. The adoption of this Guideline increased our balance sheet debt balances by $100.0 million as at January 31, 2005, and thus our interest expense as well.

Interest income increased by $0.7 million (28.2%) for the quarter ended January 31, 2005, due to increases in our cash balances.

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

The $1.6-million foreign exchange loss on long-term items is mainly due to the adverse impact of foreign exchange on the additional balance sheet debt resulting from the adoption of AcG-15 on November 1, 2004.

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

The $2.1 million improvement compared with the corresponding quarter is mainly due to the accounting treatment of Star Airlines ("Star"). On February 1, 2004, we discontinued using the equity method in accounting for our investment in Star. As a result, there is no equity pickup related to Star in the current quarter. However, in the corresponding quarter we were still using equity accounting in relation to Star and recorded a net loss in the amount of $2.0 million.

Income taxes

Our total income tax provision amounted to $3.1 million for the quarter ended January 31, 2005, compared with a provision of $2.9 million for the corresponding quarter of the preceding fiscal year. Excluding the share of net income (loss) of companies subject to significant influence, the effective tax rate for the current quarter was very high compared with 38.8% for the quarter ended January 31, 2004. The variance in our effective tax rate is primarily due to our decision to not record tax recoveries on losses generated from our French operations beginning on August 1, 2004 and the $1.7 million non-cash change discussed in "*Interest*". If these items were excluded from the current quarter's calculation, our effective tax rate for the current quarter would have been 32.1%. The remaining variance in our effective tax rate is primarily due to the general reduction of statutory tax rates in Canada for the current fiscal year.

Net income (loss)

As a result of the items discussed in "*Consolidated operations*," our net loss was $1.8 million or $0.08 per share (basic and diluted) for the quarter ended January 31, 2005, compared with a net income of $2.8 million or $0.06 per share (basic and diluted) for the corresponding quarter of the preceding year. The weighted average number of common shares outstanding used to establish the per share amounts were 34,363,000 for the current quarter and 32,938,000 for the corresponding quarter of the previous year. (See note 5 to the unaudited Consolidated Interim Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the quarters ended January 31	Three months (in thousands of dollars)		
	2005	2004	Variance
	$	$	
Cash flows relating to operating activities	**53,399**	92,958	(39,559)
Cash flows relating to investing activities	**(5,645)**	(8,576)	2,931
Cash flows relating to financing activities	**(17,217)**	(13,353)	(3,864)
Net change in cash and cash equivalents	**30,537**	71,029	(40,492)

As at January 31, 2005, we had $499.1 million in cash and cash equivalents (including $178.9 million held in trust or otherwise reserved) compared with $468.5 million as at October 31, 2004 (including $157.7 million held in trust or otherwise reserved). Our balance sheet reflects a current ratio of 1.4 and working capital of $202.0 million compared with a current ratio of 1.5 and working capital of $204.3 million as at October 31, 2004. We also have access to unused lines of credit totalling 8.3 million euros.

Total assets increased by $210.3 million (25.1%) to $1,048.7 million from $838.4 million as at October 31, 2004, due mainly to a $110.8 million increase in our capital assets balance as a result of the adoption of AcG-15, a $50.1 million increase in prepaid expenses due to increased business activity and a $30.5 million increase in cash and cash equivalents. Shareholders' equity increased by $15.9 million to $327.0 million from $311.1 million as at October 31, 2004, due mainly the change in accounting policy related to the adoption of AcG-15 in the amount of $12.2 million presented in our unaudited Consolidated Statements of Retained Earnings.

Operating activities

During the current quarter, cash flows of $53.4 million were generated from operating activities, a decrease of $39.6 million compared with the corresponding quarter of 2004. This decrease is due mostly to the net change in working capital balances

The net change in the working capital balances is due mainly to accounts payable and accrued liabilities, customer deposits and deferred income and accounts receivable. The variance in these items is less pronounced in the quarter as a result of larger balances as at October 31, 2004.

Investing activities

Cash flows used in investing activities were $5.6 million for the quarter compared with $8.6 million in the corresponding quarter of 2004. The decrease is the result of the sale of capital assets related to our move to the Montréal-Trudeau airport and a decrease in deposits.

Financing activities

Cash flows used in financing activities were $3.9 million more for the quarter compared with the corresponding quarter in 2004 due the repayment of the debentures in the amount of $21.9 million offset by reduced repayments of our balance sheet debt.

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, 2005.

Balance sheet debt amounted to $113.1 million as at January 31, 2005 ($33.2 million as at October 31, 2004). 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 $397.7 million as at January 31, 2005 ($503.5 million as at October 31, 2004), and can be reconciled as follows:

	As at January 31, 2005	As at October 31, 2004
Guarantees		
Irrevocable letters of credit	**18,235**	17,663
Security contracts	**1,405**	1,045
Operating leases		
Commitments under operating leases	**378,079**	415,832
Guaranteed residual value	**—**	68,992
	397,719	503,532

The significant decrease in amounts related to operating leases relates to the adoption of AcG-15 whereby a portion of our off-balance sheet debt became balance sheet debt.

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, 2005, have decreased compared with October 31, 2004.

Our balance sheet debt increased by $79.9 million, from $33.2 million to $113.1 million, and our off-balance sheet debt decreased by $105.8 million, from $503.5 million to $397.7 million, resulting in a total debt reduction of $25.9 million compared with October 31, 2004. As discussed, this shift from off-balance sheet debt to balance sheet debt is the result of AcG-15.

When deduction is made of cash and cash equivalents that are not in trust or otherwise reserved from total debt, the net debt drops to $190.7 million from $225.9 million, a 15.6 % decrease.

Outstanding shares

There are two authorized classes of shares as at January 31, 2005. That is, an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares are non voting and issuable in series. Each series would bear the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at January 31, 2005 there were 34,643,781 common shares outstanding (33,954,825 as at October 31, 2004).

(See also *New share capital structure* for information related to the amendment of our share structure subsequent to January 31, 2005.)

ACCOUNTING

Financial instruments

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

Credit risk related to financial instruments

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

Management of fuel price, foreign exchange and interest rate risks

We entered into fuel purchasing contracts to manage fuel price fluctuation risks. We also entered into foreign exchange forward contracts for the purchase and sale of foreign currencies, expiring in less than one year, to manage foreign exchange risks. In addition, as part of certain commitments under operating leases, we entered into interest rate and foreign currency swap agreements maturing on various dates through 2008. These swaps effectively modify the features of these operating leases in order to set the commitments in U.S. dollars payable based on a floating interest rate.

Credit risk

We believe we are not exposed to a significant concentration of credit risk. Cash and cash equivalents are invested on a diversified basis in corporations benefiting from an excellent credit rating. Accounts receivable generally arise from the sale of vacation packages to individuals through retail travel agencies and the sale of seats to tour operators, which are dispersed over a wide geographic area.

Fair value of financial instruments presented on the balance sheets

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

The fair value of long-term debt and obligations under capital leases, including the current portion, is based on the rates in effect for financial instruments with similar terms and maturities.

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

Note 23 to our audited Consolidated Financial Statements for the year ended October 31, 2004 included in our 2004 Annual Report contains additional information related to financial instruments.

Related parties

In the normal course of operations, we enter into transactions with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties.

The transactions are entered into with companies subject to significant influence. The most significant of these entities in terms of dollars was Star. As we discussed previously, on February 1, 2004 we discontinued using equity accounting related to Star. As a result, Star is no longer considered related for accounting purposes as of that date. Therefore, there were no material transactions entered into with related parties for the three-month period ended January 31, 2005. For the comparative period however, there were $20.4 million of operating expenses incurred with related parties of which $19.7 was with Star and consisted primarily in the purchase of aircraft seats and $1.3 million of accounts payable with related parties of which $0.8 million was payable to Star.

Although Star is no longer considered related, it is important to note that the volume of transactions decreased dramatically this quarter compared with the corresponding quarter of 2004.

Critical accounting estimates

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

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

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

Aircraft maintenance/Provision for engine and airframe overhaul

We provide for engine and airframe overhaul expenses for aircraft based on an estimate of these future expenses until the expiry of the leases of these aircraft, or for their remaining useful lives while held, amortized over the total number of engine cycles and the total number of flying hours anticipated for the airframe over the same periods. These expenses are charged to income according to the number of cycles used or the number of flying hours recorded during the year by the amortization of the capitalized overhaul costs or by a provision for future costs, as the case may be. Any change in demand for air travel, the economy as a whole or additional actions by management may alter the factors used in estimating this provision. Overall, if we were to adversely change the key assumptions used in estimating this provision by approximately 15%, there would be additional charges that could materially affect our results, financial position and cash flows.

Goodwill

We include material amounts on our balance sheet related to goodwill based on historical costs. We are required to evaluate goodwill on an annual basis, or more often if events or changes in circumstances warrant it, to determine if it is impaired. The evaluation is based on the asset's ability to generate future cash flows. We perform an analysis by estimating the discounted future cash flows attributable to these assets and this analysis requires us to make a variety of judgements about our future operations. These forecasted cash flows used to support the asset values may change in the future due to market conditions, competition or other factors. In determining whether or not an impairment exists, we compare the fair value with the carrying value at the reporting unit level. As a result, not all reporting units have the same level of sensitivity if changes were to occur in our analysis. Overall, therefore, if we were to adversely change the key assumptions used in our analysis by between 30% and 70%, there would be an impairment at the reporting unit level that could materially affect our results and financial position. Any impairment, however, would result in non-cash charges and not affect our cash flows.

Property, plant and equipment

Property, plant and equipment on our balance sheet include material amounts based on historical costs. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This review is based on the asset's ability to generate future cash flows. We perform an analysis by estimating the net undiscounted future cash flows attributable to these assets and this review requires us to make a variety of judgements about our future operations. These forecasted cash flows used to support the asset values may change in the future due to market conditions or other factors. Overall, if we were to adversely change the key assumptions used in our analysis by approximately 60% there would be an impairment that could materially affect our results and financial position. Any impairment, however, would result in non-cash charges and not affect our cash flows.

Accounting changes

During the first quarter of fiscal 2005, we adopted the CICA AcG-15 "Consolidation of Variable Interest Entities" and the changes contained in CICA Handbook Section 3860, "Financial Instruments - Disclosure and Presentation."

On November 1, 2004, we retroactively adopted, without restatement of prior periods, AcG-15. 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. AcG-15 provides guidance for determining when an enterprise includes the assets, liabilities and results of activities of a variable interest entity in its consolidated financial statements. As a general rule set out in AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest, or combination of variable interests, 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").

We have conducted certain aircraft financing transactions whereby we guaranteed a portion of the residual value at the end of the lease term involving special purpose entities. These entities are considered variable interest entities and we are considered to be the primary beneficiary. The adoption of AcG-15 resulted in a $12.2 million increase in retained earnings as at November 1, 2004, a $116.0 million increase in property, plant and equipment, and a $103.9 million increase in liabilities, including $101.8 million (US$83.4 million) for obligations under capital leases. The adoption of this Guideline had no impact on our cash flows. However, it increased our net loss by $2.1 million and the basic and diluted loss per share by $0.06 for the three-month period ended January 31, 2005.

On November 1, 2004, we retroactively adopted, with restatement of prior periods, the changes contained in CICA Handbook Section 3860. These changes require that certain obligations that must or could be settled with the issuer's own equity instruments be presented as liabilities. Previously, the liability and equity components related to these obligations had to be accounted for separately. The adoption of these changes resulted in the reclassification on the balance sheet as at October 31, 2004, of $2.4 million of the equity component of a debenture, previously presented in shareholders' equity and now presented under debentures in long-term liabilities. The adoption of these changes had no impact on retained earnings as at November 1, 2003. These changes had no impact on basic earnings per share for the same period or on cash flows. The adoption of these changes had no material effect on the results for the three-month period ended January 31, 2005.

NEW SHARE CAPITAL STRUCTURE

Effective March 4, 2005, Transat has created two new classes of shares replacing its common shares, as described in the draft Articles of Amendment approved by the Company's shareholders at a special meeting held on February 24, 2005 (92.6% of the votes cast were in favour of the amendment). The amended capital structure allows Transat to maintain compliance with the *Canada Transportation Act* requirement that all air carriers or the owners thereof be Canadian, namely that no more than 25% of the voting rights attaching to its shares be owned or controlled by non-Canadians.

The main effects of the amendments to Transat's Articles include:

- Authorizing Transat to issue an unlimited number of Class A Variable Voting Shares and Class B Voting Shares;
- Converting each issued and outstanding common share which is owned or controlled by a non-Canadian within the meaning of the *Canada Transportation Act* into one Class A Variable Voting Share;
- Converting each issued and outstanding common share which is owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Class B Voting Share.

After the initial conversion, shares purchased by non-Canadians will automatically be converted into Class A Variable Voting Shares, and shares purchased by Canadians will automatically be converted into Class B Voting Shares, as necessary.

Class A Variable Voting Shares, held by non-Canadians, carry one vote per share, unless the total number of Class A Variable Voting Shares exceeds 25% of all outstanding voting shares, or 25% of the votes cast, in which case the votes attached to each share will be decreased so that all Class A Variable Voting Shares as a class will never represent more than 25% of the total number of votes. Class B Voting Shares, held by Canadians, carry one vote per share. All other privileges attaching to the shares will remain unchanged.

The shareholders also approved the amendments to By-law Nos. 1999-1 and 2003-1, both necessary in order to put into place the amendments to the capital structure. The first amended by-law empowers the Board of Directors to implement and apply the necessary restrictions on share ownership. The second amended by-law provides the circumstances, which will require a vote by secret ballot at future shareholders' meetings.

No shareholder exercised its right of dissent with respect to the amendments to the capital structure.

Pursuant to the rules of the Toronto Stock Exchange, the Class A Variable Voting Shares and the Class B Voting Shares commenced trading at the opening of business on March 1, 2005, two trading days prior to the March 3 date of record.

In addition, these amendments to Transat's Articles result in changes to the terms and conditions that apply to the conversion of the 9% convertible debentures due in 2007. On March 4, 2005, Transat entered into a supplemental indenture with Computershare Trust Company of Canada as fiduciary. This supplemental indenture will modify the Indenture dated February 19, 2002 so that the debentures owned or controlled by non-Canadians within the meaning of the *Canada Transportation Act* will be convertible into Class A Variable Voting Shares and debentures owned and controlled by Canadians within the meaning of the *Canada Transportation Act* will be convertible into Class B Voting Shares.

OTHER

On March 2, 2005, Transat announced that a $7.7 million settlement had been reached on the previous day with 175 passengers of Flight TS236 – which had made an emergency landing in the Azores on August 24, 2001. Neither Transat nor its airline company will incur any costs as a result of this settlement, which brings an end to the class action lawsuit initiated in 2001, subject to court approval in April. This agreement brings the TS236 file to a close.

Transat also announced that it intends to exercise its option and send, on or about March 24, 2005, a 30 days' prior notice of redemption of all of the 9.00% Convertible Unsecured Subordinated Debentures due in 2007 in accordance with the Indenture between Transat and Computershare Trust Company of Canada dated as of February 19, 2002, as amended, providing for the issue of such Debentures.

OUTLOOK

As it had indicated earlier, the Corporation had been expecting the current excess capacity in the marketplace, especially in Ontario, as well as the ensuing pricing pressures to impact margins unfavourably during the first quarter and, possibly, the entire winter season. The pricing pressures are expected to be more pronounced in the second quarter compared with the first quarter due to increased business activity. As a result, despite a 12% increase in bookings thus far, the second quarter is expected to generate lower margins compared with the second quarter of 2004.

In Europe, Transat is on track to reducing losses at Look Voyages by 50% in fiscal 2005. Results thus far have been very encouraging.

Although still preliminary, early indications for the summer season indicate higher bookings in 2005 compared with 2004.

Notice

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars) (Unaudited)

	As at January 31, 2005 $	As at October 31, 2004 [restated – note 2] $
ASSETS		
Current assets		
Cash and cash equivalents *[note 3]*	**499,090**	468,553
Accounts receivable	**85,989**	72,745
Income taxes receivable	**2,735**	—
Future income tax assets	**467**	586
Inventories	**4,741**	4,053
Prepaid expenses	**89,798**	39,729
Current portion of deposits	**25,818**	28,830
Total current assets	**708,638**	614,496
Deposits	**24,457**	22,111
Future income tax assets	**10,847**	10,656
Property, plant and equipment *[note 2]*	**203,892**	93,128
Goodwill	**89,864**	86,966
Other assets	**10,983**	11,032
	1,048,681	838,389
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**242,431**	202,337
Income taxes payable	**—**	29,455
Customer deposits and deferred income	**261,001**	158,396
Debentures *[note 4]*	**—**	20,058
Current portion of obligations under capital leases	**3,240**	—
Total current liabilities	**506,672**	410,246
Obligations under capital leases *[note 2]*	**96,736**	—
Debentures *[note 2]*	**13,156**	13,156
Provision for engine and airframe overhaul in excess of deposits	**55,211**	62,818
Non-controlling interest and other liabilities	**26,913**	24,036
Future income tax liabilities	**22,992**	17,027
	721,680	527,283
Shareholders' equity		
Share capital *[note 5]*	**126,924**	120,306
Convertible debentures	**50,980**	51,092
Retained earnings *[note 2]*	**144,895**	135,322
Contributed surplus	**172**	118
Warrants	**2,238**	3,994
Deferred translation adjustments	**1,792**	274
	327,001	311,106
	1,048,681	838,389

See accompanying notes to consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF INCOME

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

	Three (3) months ended January 31	
	2005	2004 [restated – note 2]
	$	$
Revenues	**588,740**	537,200
Operating expenses		
Direct costs	**319,408**	283,844
Salaries and employee benefits	**58,595**	55,521
Commissions	**56,620**	51,991
Aircraft fuel	**36,939**	25,173
Aircraft maintenance	**21,310**	20,983
Airport and navigation fees	**13,605**	13,724
Aircraft rent	**12,999**	13,914
Other	**55,431**	55,105
	574,907	520,255
	13,833	16,945
Amortization	**8,743**	10,219
Interest on long-term debt, obligations under capital leases and debentures	**5,248**	1,986
Other interest and financial expenses	**374**	454
Interest income	**(3,130)**	(2,441)
Foreign exchange (gain) loss on long-term monetary items	**1,607**	(629)
Share of net (income) loss of companies subject to significant influence	**(176)**	1,977
	12,666	11,566
Income before the following items	**1,167**	5,379
Income taxes		
Current	**2,668**	381
Future	**444**	2,476
	3,112	2,857
Income (loss) before non-controlling interest in subsidiaries' results	**(1,945)**	2,522
Non-controlling interest in subsidiaries' results	**145**	264
Net income (loss) for the period	**(1,800)**	2,786
Basic earnings (loss) per share	**(0.08)**	0.06
Diluted earnings (loss) per share	**(0.08)**	0.06

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of dollars) (Unaudited)

	Three (3) months ended January 31	
	2005	2004 [restated – note 2]
	$	$
Retained earnings, beginning of period as previously reported	**135,322**	70,336
Change in accounting policy *[note 2]*	**12,151**	—
Restated retained earnings, beginning of period	**147,473**	70,336
Net income (loss) for the period	**(1,800)**	2,786
Interest on equity component of debentures – net of related income taxes of $364 [$380 in 2004]	**(778)**	(776)
Retained earnings, end of period	**144,895**	72,346

See accompanying notes to consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars) (Unaudited)

	Three (3) months ended January 31 **2005** $	2004 [restated – note 2] $
OPERATING ACTIVITIES		
Net income (loss) for the period	**(1,800)**	2,786
Items not involving an outlay (receipt) of cash		
Amortization	**8,743**	10,219
Foreign exchange (gain) loss on long term monetary items	**1,607**	(629)
Share of net (income) loss of companies subject to significant influence	**(176)**	1,977
Non-controlling interest in subsidiaries' results	**(145)**	(264)
Future income taxes	**(444)**	2,476
Interest on debentures *[note 2]*	**1,807**	208
Compensation expense related to stock option plan	**87**	—
Operating cash flow	**9,679**	16,773
Net change in non-cash working capital balances related to operations	**51,327**	82,583
Net change in deposits, expenses and provision for engine and airframe overhaul	**(7,607)**	(6,398)
Cash flows relating to operating activities	**53,399**	92,958
INVESTING ACTIVITIES		
Increase in deposits	**(2,593)**	(4,219)
Additions to property, plant and equipment	**(7,703)**	(1,928)
Disposal of property, plant and equipment	**5,001**	—
Net change in other assets	**(383)**	(2,429)
Repayment of deposits	**132**	—
Cash and cash equivalents from acquired company *[note 6]*	**1,374**	—
Consideration paid for acquired company *[note 6]*	**(1,473)**	—
Cash flows relating to investing activities	**(5,645)**	(8,576)
FINANCING ACTIVITIES		
Repayment of other long-term debt and obligations under capital leases	**(3,533)**	(15,118)
Proceeds from issue of common shares	**4,752**	1,482
Repayment of debentures	**(21,865)**	—
Net change in other liabilities	**3,429**	283
Cash flows relating to financing activities	**(17,217)**	(13,353)
Net change in cash and cash equivalents for the period	**30,537**	71,029
Cash and cash equivalents, beginning of period	**468,553**	349,125
Cash and cash equivalents, end of period	**499,090**	420,154

See accompanying notes to consolidated interim financial statements.

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

Note 1 : Basis of Presentation

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, 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 seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2004 Annual Report.

Note 2 : Changes in Accounting Policies

Consolidation of variable interest entities

On November 1, 2004, the Corporation retroactively adopted, without restatement of prior periods, Accounting Guideline 15 "Consolidation of Variable Interest Entities" ["AcG-15"], issued by the Canadian Institute of Chartered Accountants ["CICA"]. 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. AcG-15 provides guidance for determining when an enterprise includes the assets, liabilities and results of activities of a variable interest entity in its consolidated financial statements. As a general rule set out in AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest, or combination of variable interests, 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 involving special purpose entities. These entities are considered variable interest entities and the Corporation is considered to be the primary beneficiary. The adoption of AcG-15 resulted in a $12,151 increase in the Corporation's retained earnings as at November 1, 2004, a $116,009 increase in property, plant and equipment, and a $103,858 increase in liabilities, including $101,773 [US$83,372] for long-term debt. The adoption of this Guideline had no impact on the Corporation's cash flows. However, it increased net loss by $2,082 and basic loss per share by $0.06 for the three-month period ended January 31, 2005.

Debentures

On November 1, 2004, the Corporation retroactively adopted, with restatement of prior periods, the changes contained in CICA Handbook Section 3860, "Financial Instruments - Disclosure and Presentation." These changes require that certain obligations that must or could be settled with the issuer's own equity instruments be presented as liabilities. Previously, the liability and equity components related to these obligations had to be accounted for separately. The adoption of these changes resulted in the reclassification on the balance sheet as at October 31, 2004, of $2,422 of the equity component of a debenture, previously presented in shareholders' equity and now presented under debentures in long-term liabilities. The adoption of these changes had no impact on retained earnings as at November 1, 2003, but resulted in a $21 decline in net income and interest expense related to the equity component of debentures, presented in the consolidated statement of retained earnings for the three-month period ended January 31, 2004. These changes had no impact on basic earnings per share for the same period or on cash flows. The adoption of these changes had no material effect on the results for the three-month period ended January 31, 2005.

Note 3 : Cash and Cash Equivalents

	As at January 31, 2005	As at October 31, 2004
Cash and cash equivalents	**320,148**	310,875
Cash in trust or otherwise reserved	**178,942**	157,678
	499,090	468,553

As at January 31, 2005, cash in trust or otherwise reserved included $139,138 [$118,146 as at October 31, 2004] in funds received from customers for services not yet rendered and $39,804 [$39,532 as at October 31, 2004] was pledged as collateral security against letters of credit and foreign exchange forward contracts.

Note 4 : Debentures

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

Note 5 : 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, 2005	
	Number of shares	Amount ($)
Common shares		
Balance as at October 31, 2004	33,954,825	120,306
Exercise of options	70,633	663
Exercise of warrants	605,525	5,843
Conversion of debentures	12,798	112
Balance as at January 31, 2005	34,643,781	126,924

b) Options

	Number of options	Weighted average price ($))
Balance as at October 31, 2004	1,125,678	7.69
Exercised	(70,633)	8.92
Balance as at January 31, 2005	1,055,045	7.61
Exercisable options as at January 31, 2005	709,577	7.28

Pro forma disclosure of fair value of stock options

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

	Three (3) months ended January 31, 2005
	$
Net loss	1,800
Adjustment – Stock based compensation	73
Pro forma loss	1,873
Pro forma loss per share	0.08
Pro forma diluted loss per share	0.08

c) Warrants

	Number of warrants	Amount ($)
Balance as at October 31, 2004	1,377,025	3,994
Exercised	605,525	1,756
Balance as at January 31, 2005	771,500	2,238

d) Earnings (loss) per share

Earnings (loss) per share and the diluted earnings (loss) per share for the three-month periods ended January 31, 2005 and 2004 were computed as follows:

[In thousands, except amounts per share]	Three (3) months ended January 31,	
	2005	2004
	$	$
Numerator		
Net income (loss)	**(1,800)**	2,786
Interest on convertible debentures	**(778)**	(776)
Income (loss) available to common shareholders and used to calculate diluted earnings (loss) per share	**(2,578)**	2,010
Denominator		
Weighted average number of outstanding shares	**34,363**	32,938
Stock options	**—**	839
Warrants	**—**	555
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**34,363**	34,332
Basic earnings (loss) per share	**(0.08)**	0.06
Diluted earnings (loss) per share	**(0.08)**	0.06

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, 2005 because of their antidilutive effect. The potential impact of these securities on the denominator is 6,513,600 shares. Given the loss recorded for the three-month period ended January 31, 2005, the 1,055,045 common stock options outstanding were excluded from the computation of diluted earnings per share because of their antidilutive effect.

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.

Note 6 : Acquisition

On November 1, 2004, the Corporation acquired a 70% ownership interest in Air Consultants Europe ["ACE"], an outgoing tour operator, for a cash consideration of €1,050 [$1,634]. The acquisition was recorded using the purchase method and resulted in additional goodwill of $1,639. ACE's results were included in the Corporation's results as of the acquisition date.

Note 7 : Restructuring Charge

2004 Restructuring program

During the year ended October 31, 2004, the Corporation made changes to Look Voyages S.A.'s management structure and carried out a reorganization in order to reposition this subsidiary. The restructuring costs related to this program were charged to this fiscal year.

The following table highlights the activity and balance of the 2004 restructuring provision for the three-month period ended January 31, 2005.

	Employee termination benefits $	Contract termination costs $	Other costs $	Total $
Balance as at October 31, 2004	4,590	2,526	1,115	8,231
Amount incurred during the three-month period ended January 31, 2005	—	—	—	—
Cumulative drawdowns:				
Cash	**1,221**	**982**	—	**2,203**
Non-cash	—	—	—	—
Foreign currency changes	**219**	**127**	**43**	**389**
Balance as at January 31, 2005	**3,588**	**1,671**	**1,158**	**6,417**

2003 Restructuring program

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 following table highlights the activity and balance of the 2003 restructuring provision for the three-month period ended January 31, 2005.

	Employee termination benefits $	Contract termination costs $	Other costs $	Total $
Balance as at October 31, 2004	3,273	50	393	3,716
Amount incurred during the three-month period ended January 31, 2005	—	—	—	—
Cumulative drawdowns:				
Cash	**1,453**	**50**	**393**	**1,896**
Non-cash	—	—	—	—
Balance as at January 31, 2005	**1,820**	—	—	**1,820**

Note 8 : Segmented Information

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

		Three (3) months ended January 31, 2005	
	North America $	Europe $	Total $
Revenues	**506,030**	**82,710**	**588,740**
Operating expenses	**485,420**	**89,487**	**574,907**
	20,610	**(6,777)**	**13,833**
Amortization	**7,883**	**860**	**8,743**
Additions property, plant and equipment	**7,315**	**388**	**7,703**
Property, plant and equipment and goodwill[1]	**238,309**	**55,447**	**293,756**

		Three (3) months ended January 31, 2005	
	North America $	Europe $	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 property, plant and equipment	1,773	155	1,928
Property, plant and equipment and goodwill[2]	127,485	52,609	180,094

[1] As at January 31, 2005

[2] As at October 31, 2004

Note 9 : Guarantees

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

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

Notes 4, 10, 11, 13, and 21 to the 2004 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates until 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance protecting them for the obligations undertaken.

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $18,235 as at January 31, 2005. 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 $1,405 as at January 31, 2005. Historically, the Corporation has not made any significant payments under such agreements.

As at January 31, 2005, no amounts have been accrued with respect to the above-mentioned agreements.