Quarterly Report
Period ended
April 30, 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
tripcentral.ca
Vacances Transat (France)
Voyages en Liberté
World of Vacations

transat

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

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

"As expected, the second quarter generated lower margins than our record second quarter of 2004 as excess supply in the Ontario market exceeded demand. However, our French operations generated positive margins proving that we are on track with the strategic and financial turnaround of Look Voyages."

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

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
- tripcentral.ca
- 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

Head office
Transat A.T. Inc.
Place du Parc
300 Léo-Pariseau Street, Suite 600
Montreal, Quebec H2X 4C2
Telephone: 514.987.1660
Fax: 514.987.8035
www.transat.com
info@transat.com

Transfer Agent and Registrar
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 and TRZ.RV.A.

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 and six month period ended April 30, 2005, compared with the quarter and six month period ended April 30, 2004, and should be read in conjunction with the unaudited Consolidated Interim Financial Statements for the second 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 second quarter update to the information contained in the MD&A section of our 2004 Annual Report and the MD&A section of our first quarter results. 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 June 8, 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 and six-month periods ended April 30

(in thousands of dollars)	Three months				Six months			
	2005 $	2004 $	Variance $	Variance %	**2005 $**	2004 $	Variance $	Variance %
Consolidated statements of income								
Revenues	**728,944**	696,224	32,720	4.7	**1,317,684**	1,233,424	84,260	6.8
Margin[1]	**66,204**	79,341	(13,137)	(16.6)	**80,037**	96,286	(16,249)	(16.9)
Net income	**38,400**	45,424	(7,024)	(15.5)	**36,600**	48,210	(11,610)	(24.1)
EPS – Basic	**1.05**	1.35	(0.30)	(22.2)	**1.00**	1.41	(0.41)	(29.1)
EPS – Diluted	**0.91**	1.10	(0.19)	(17.3)	**0.87**	1.18	(0.31)	(26.3)
Consolidated statements of cash flows								
Operating activities	**(21,637)**	36,709	(58,346)	(158.9)	**31,762**	129,667	(97,905)	(75.5)

	As at April 30, 2005	As at October 31 2004		
Consolidated balance sheets				
Cash and cash equivalents	**328,346**	310,875	17,471	5.6
Cash in trust or otherwise reserved	**130,906**	157,678	(26,772)	(17.0)
	459,252	468,553	(9,301)	(2.0)
Actif total	**966,749**	838,389	128,360	15.3
Debt (short term and long term)	**114,810**	33,214	81,596	245.7
Total debt[1]	**519,371**	536,746	(17,375)	(3.2)
Net debt[1]	**191,025**	225,871	(34,846)	(15.4)

[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. 9.

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.

ACQUISITION

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.

CONSOLIDATED OPERATIONS

Quarter ended April 30, 2005 compared with the quarter ended April 30, 2004 and six-month period ended April 30, 2005 compared with the six-month period ended April 30, 2004

Revenues

For the periods ended April 30	Three months (in thousands of dollars) **2005** $	2004 $	Variance $	Variance %	Six months (in thousands of dollars) **2005** $	2004 $	Variance $	Variance %
Revenues	**728,944**	696,224	32,720	4.7	**1,317,684**	1,233,424	84,260	6.8

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

Overall, our revenues increased by $32.7 million and $84.3 million respectively in the current quarter and six month period compared with the corresponding periods in 2004.

These increases are the result of increased business activity and our 2004 acquisitions offset, in part, by pricing pressures in the Ontario market and a drop in air only sales at Look Voyages. Overall, there was a 9.6% increase in the number of travellers (tour operators record round-trips in terms of travellers) in the current quarter and a 12.1% increase in the current six-month period compared with the corresponding periods in 2004.

Operating expenses

For the periods ended April 30	Three months (in thousands of dollars) **2005** $	2004 $	Variance $	Variance %	Six months (in thousands of dollars) **2005** $	2004 $	Variance $	Variance %
Direct costs	**379,354**	357,484	21,870	6.1	**698,762**	641,328	57,434	9.0
Commissions	**67,366**	62,999	4,367	6.9	**123,986**	114,990	8,996	7.8
Salaries and employee benefits	**58,514**	55,888	2,626	4.7	**117,109**	111,409	5,700	5.1
Aircraft fuel	**42,831**	29,441	13,390	45.5	**79,770**	54,614	25,156	46.1
Aircraft maintenance	**25,832**	26,764	(932)	(3.5)	**47,142**	47,747	(605)	(1.3)
Airport and navigation fees	**14,894**	11,555	3,339	28.9	**28,499**	25,279	3,220	12.7
Aircraft rental	**13,670**	14,605	(935)	(6.4)	**26,669**	28,519	(1,850)	(6.5)
Other	**60,279**	58,147	2,132	3.7	**115,710**	113,252	2,458	2.2
Total	**662,740**	616,883	45,857	7.4	**1,237,647**	1,137,138	100,509	8.8

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

Overall, our operating expenses increased by $45.9 million in the current quarter compared with the corresponding quarter in 2004 and by $100.5 million in the first six months of fiscal 2005 compared with the corresponding period in 2004.

Direct costs increased by 6.1% in the current quarter and by 9.0% in the current six-month period compared with the corresponding periods in 2004 but increased only slightly as a percentage of revenues. The dollar increases were the result of increased business activity and the percentage of revenues increases were due to increases in the cost of hotel rooms.

Commissions increased by 6.9% and 7.8% respectively in the current quarter and six-month period compared with the corresponding periods in 2004 due mainly to increased business activity.

Salaries and fringe benefits increased by 4.7% and 5.1% in the current quarter and first six months of fiscal 2005 respectively compared with the corresponding periods in 2004 due mainly to our 2004 acquisitions and increased business activities.

The large increases in aircraft fuel in both the current quarter and six-month period compared with 2004 is mostly the result of the surge in fuel prices. The price increase alone in fuel resulted in a $16.4 million and $27.7 million increase respectively in the current quarter and six-month period compared with the corresponding periods in 2004.

The increases in airport and navigation fees in both the current quarter and six-month period compared with 2004 is mainly due to increased landing fees adopted by airports to recover lost revenues due to decreased traffic.

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.)*

Margins

As a result of the above, our margins decreased to 9.1% in the current quarter from 11.4% in the corresponding quarter in 2004 and decreased to 6.1% in the first six months of fiscal 2005 from 7.8% in the corresponding period in 2004.

Geographic Business Areas

North America

For the periods ended April 30	Three months (in thousands of dollars) 2005 $	2004 $	Variance $	Variance %	Six months (in thousands of dollars) 2005 $	2004 $	Variance $	Variance %
Revenues	**605,894**	554,479	51,415	9.3	**1,111,924**	993,373	118,551	11.9
Operating expenses	**540,613**	470,897	69,716	14.8	**1,026,033**	884,185	141,848	16.0
Margin	**65,281**	83,582	(18,301)	(21.9)	**85,891**	109,188	(23,297)	(21.3)

In North America, revenues increased in the current quarter and six-month period due to a 12.9% and 14.9% increase respectively in the number of travellers compared with the corresponding periods in 2004 offset, in part, by the pricing pressures due to competition. Demand was strong for destinations to the Caribbean and Europe. Demand for Florida was relatively flat.

The combined effect of the pricing pressures and the increase in fuel prices negatively affected our margins. For the quarter, our margins decreased to 10.8% compared with 15.1% in the corresponding quarter of 2004 and for the first six months our margins decreased to 7.7% compared with 11.0% in the corresponding period in 2004.

Europe

For the periods ended April 30	Three months (in thousands of dollars) 2005 $	2004 $	Variance $	Variance %	Six months (in thousands of dollars) 2005 $	2004 $	Variance $	Variance %
Revenues	**123,050**	141,745	(18,695)	(13,2)	**205,760**	240,051	(34,291)	(14,3)
Operating expenses	**122,127**	145,986	(23,859)	(16,3)	**211,614**	252,953	(41,339)	(16,3)
Margin	**923**	(4,241)	5,164	121.8	**(5,854)**	(12,902)	7,048	54,6

In Europe both revenues and expenses decreased in the current quarter and current six-month period compared with the corresponding periods in 2004. The drop in revenues is the result of a decrease in air only passengers (airlines record flight segments in terms of passengers) in line with our stated strategy of abandoning air only at Look Voyages and a decrease in travellers. The number of passengers decreased by 73.5% in the current quarter and 74.8% in the current six-month period compared with the corresponding periods in 2004. The number of travellers dropped by 10.1% in the current quarter and 7.5% in the current six-month period compared with the corresponding periods in 2004.

Demand for long-haul travel from Europe to Caribbean destinations (travel packages) decreased compared with last year for Vacances Transat (France) and Look Voyages due to competitive pressures both in the current quarter and six month period compared with the corresponding periods in 2004. Prices were higher however, which partially offset the decrease in revenues.

From a margin point of view, however, our French operations recorded a $5.2 million improvement resulting in a positive margin in the current quarter. Despite this turnaround at Look Voyages we still anticipate reducing Look Voyage's losses by half in the current fiscal year. Cumulatively, our French operations are still generating a loss but the margins improved by over $7.0 million or almost 55% compared to 2004.

Amortization

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

Amortization expense increased by $1.1 million (12.0%) to $9.8 million from $8.7 million in the current quarter. Additionally, during the first six months of fiscal 2004, amortization expense decreased slightly by $0.4 million (2.3%) to $18.5 million from $18.9 million during the corresponding period of the preceding fiscal year. The current quarter increase is due to the adoption of AcG-15 as of November 1, 2004 and the capital asset acquisitions of the current year. As a result of the 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 decreased by $0.5 million in the current quarter compared with the corresponding quarter of the preceding fiscal period due to lower interest rates despite having more balance sheet debt. For the current six month period interest expense increased by $2.8 million. 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 $101.8 million on November 1, 2004, and thus our interest expense as well.

Interest and other income decreased slightly in the current quarter due to the inclusion, in the 2004 balance, of the dividend from Star Airlines ("Star") in the amount of $1.4 million. Of the $1.4 million dividend received, $1.1 million was recorded as income.

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

The foreign exchange losses both in the current quarter and current six-month period 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 significant improvement when comparing the six-month periods is mainly due to the accounting treatment of 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 six-month period. However, in the first quarter of 2004 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 $18.6 million for the quarter ended April 30, 2005 compared with a provision of $26.5 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 rates were 32.8% for the quarter ended April 30, 2005 and 37.0% for the quarter ended April 30, 2004.

For the six-month period ended April 30, 2005, our total income tax provision amounted to $21.7 million compared with a provision of $29.4 million for the corresponding period of the preceding fiscal year. Excluding the share of net loss of companies subject to significant influence, the effective tax rate for the six-month period ended April 30, 2005 was 37.6%. However, if the tax recoveries on losses (including restructuring costs) generated from our French operations for the period had been recorded, our effective tax rate for the six-month period ended April 30, 2005 would have been 33.9%, compared with a rate of 37.1% for the corresponding period in 2004.

Under both comparative periods above, the reduction of our effective tax rate was due in part to the reduction of our combined statutory tax rates in Canada, and to a decrease in the value of permanent differences not tax-effected.

Net income

As a result of the items discussed in "*Consolidated operations*," our net income was $38.4 million or $1.05 per share for the quarter ended April 30, 2005 compared with a net income of $45.4 million or $1.35 per share for the corresponding quarter of the preceding year. The weighted average number of common shares outstanding used to establish the per share amounts were 35,902,000 for the current quarter and 33,160,000 for the corresponding quarter of the preceding year.

Our net income was $36.6 million or $1.00 per share for the first six months of fiscal 2005 compared with a net income of $48.2 million or $1.41 per share for the corresponding period of the preceding year. The weighted average number of common shares outstanding used to establish the per share amounts were 35,120,000 for the current six month period and 33,048,000 for the corresponding period of the preceding year.

On a diluted per share basis, the current quarter's earnings per share was $0.91 per share compared with $1.10 per share in the corresponding quarter of 2004 and the earnings per share for the first six months of fiscal 2005 on a diluted per share basis was $0.87 per share compared with $1.18 per share in the corresponding period of 2004. The adjusted weighted average number of outstanding shares used in computing diluted earnings per share were 42,026,000 for the current quarter and 41,331,000 for the corresponding quarter of the preceding year. The adjusted weighted average number of outstanding shares used in computing diluted earnings per share for the first six months of fiscal 2005 were 41,990,000 and 41,084,000 for the corresponding period of the preceding year. (See note 5 to the unaudited consolidated interim financial statements.)

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the periods ended April 30	Three months (in thousands of dollars)			Six months (in thousands of dollars)		
	2005	2004	Variance	**2005**	2004	Variance
	$	$	$	**$**	$	$
Cash flows relating to operating activities	**(21,637)**	36,709	(58,346)	**31,762**	129,667	(97,905)
Cash flows relating to investing activities	**(11,551)**	(10,828)	(723)	**(17,196)**	(19,404)	2,208
Cash flows relating to financing activities	**(6,650)**	(18,185)	11,535	**(23,867)**	(31,538)	7,671
Net change in cash and cash equivalents	**(39,838)**	7,696	(47,534)	**(9,301)**	78,725	(88,026)

As at April 30, 2005 we had $459.3 million in cash and cash equivalents (including $130.9 million held in trust or otherwise reserved) compared with $468.6 million as at October 31, 2004 (including $157.7 million held in trust or otherwise reserved). Our balance sheet reflects a current ratio of 1.6 and working capital of $233.1 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 10.8 million euros.

Total assets increased by $128.4 million (15.3%) to $966.7 million from $838.4 million as at October 31, 2004 due mainly to a $109.6 million increase in our capital asset balance as a result of the adoption of AcG-15 and an increase in income taxes receivable due to a $20.3 million payment made in anticipation of a tax ruling. Shareholders' equity increased by $49.5 million to $360.6 million from $311.1 million as at October 31, 2004 due mainly to the $36.6 million in net income generated in the first six months of fiscal 2005 and to 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 $21.6 million were used in operating activities compared with $36.7 million being generated from operating activities in the corresponding quarter of 2004. Additionally, during the first six months of fiscal 2005, cash flows of $31.8 million were generated from operating activities compared with $129.7 in the corresponding period of 2004. These decreases in cash flows is due to a combination of non-cash working capital items and lower margins.

The non-cash working capital items referred to are lower customer deposits and deferred income in the current quarter and a large increase in income taxes receivable in the current six month period due to the payment made in anticipation of a tax ruling discussed earlier.

Investing activities

Cash flows used in investing activities were relatively stable in the current quarter compared with the corresponding quarter in 2004 and $2.2 million less in the first six months of fiscal 2005 compared with the corresponding period in 2004. The $2.2 million decrease is mainly due to the absence of acquisitions compared with last year's Jonview acquisition.

Financing activities

Cash flows used in financing activities were $11.6 million less in the current quarter compared with the corresponding quarter in 2004 and $7.7 million less in the first six months of fiscal 2005 compared with the corresponding period in 2004 due mainly to overall decreased repayments of other long-term debt and obligations under capital leases offset by the redemption of common shares. For the six-month period, these decreases were also offset by the repayment of debentures in the amount of $21.9 million in January 2005.

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 April 30, 2005. These debt obligations amounted to $114.8 million as at April 30, 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 April 30, 2005	As at October 31, 2004
	$	$
Guarantees		
Irrevocable letters of credit	**21,239**	17,663
Security contracts	**1,045**	1,045
Operating leases		
Commitments under operating leases	**382,277**	415,832
Guaranteed residual value	**—**	68,992
	404,561	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 at April 30, 2005 have decreased compared with October 31, 2004.

Our balance sheet debt increased by $81.6 million to $114.8 million from $33.2 million and our off-balance sheet debt decreased by $98.9 million from $503.5 million to $404.6 million, resulting in a total debt reduction of $17.4 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 we deduct our cash and cash equivalents that are not in trust or otherwise reserved from our total debt, our net debt drops to $191.0 million from $225.9 million, a 15.4% decrease.

New share capital structure and outstanding shares

New capital share 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 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.

Outstanding shares

On April 26, 2005, Transat announced that it completed the redemption of all of its 9% Convertible Unsecured Subordinated Debentures pursuant to the notice of redemption given to the debenture holders on March 24, 2005. Following the notice of redemption, Transat issued 5,755,198 shares as a result of the conversion.

There are three authorized classes of shares as at April 30, 2005. That is, an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting 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 April 30, 2005 there were 9,917,314 Class A Variable Voting Shares outstanding and 30,657,537 Class B Voting Shares outstanding.

Normal course issuer bid

The Board of Directors of Transat has filed notice to renew, for a 12-month period, its normal course issuer bid, which will expire on June 14, 2005. In the notice, the Corporation states its intention to purchase for cancellation up to a maximum of 3,935,000 Class A Variable Voting Shares and Class B Voting Shares, representing less than 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares. As of June 3, 2005, there were 7,970,922 Class A Variable Voting Shares and 32,602,040 Class B Voting Shares issued and outstanding, of which 39.351,600 Class A Variable Voting Shares and Class B Voting Shares represent the public float.

This program is designed to allow the Corporation to purchase its shares in the normal course, when the Corporation estimates that its shares are undervalued by the Market.

These purchases are to be made through the facilities of the Toronto Stock Exchange in accordance with its policy on normal course issuer bids. The price which the Corporation will pay for repurchased shares will be the market price at the time of acquisition plus brokerage fees. Purchases may commence on June 15, 2005 and will terminate no later than June 14, 2006.

ACCOUNTING

Accounting changes

During the first six months 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 decreased our net income by $2.1 million and the basic earnings per share by $0.06 for the three-month period ended April 30, 2005 and decreased net income by $4.2 million and the basic earnings per share by $0.12 for the six month period ending April 30, 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 and six-month periods ended April 30, 2005.

SUBSEQUENT EVENTS

On May 1, 2005, Transat acquired a 50.1% interest in Travel Superstores Inc. for a cash consideration of $4.3 million. Travel Superstores Inc. is based in Hamilton, Ontario and operates 10 travel agencies and a travel website under the tripcentral.ca name.

On June 6, 2005, Transat announced that it entered into an agreement that will result in the sale of its 44.27% participation in Star for 4.5 million euros subject to the approval of French regulatory agencies. The transaction is expected to close before our year-end and will result in a gain on disposal.

APPOINTMENT

On May 9, 2005, Transat announced the appointment of François Laurin as the Corporation's New Vice-President, Finance and Administration and Chief Financial Officer effective May 24, 2005. Nelson Gentiletti was appointed Executive Vice-President of Transat Tours Canada in August 2004 as part of Transat`s succession plan and held both positions until now.

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. This agreement brings the TS236 file to a close.

OUTLOOK

In North America, overall European summer bookings are up by almost 20% while the Corporation's capacity has increased by approximately 15%. The Corporation is seeing pricing pressures for the third quarter due mainly to competition to and from the UK. Fourth quarter revenue increases however are in line with increases in travellers.

In Europe, Transat continues to see progress at Look Voyages as the focus shifts to growing the package business. Although the winter season at Look Voyages was very encouraging, Transat does not feel that enough momentum has been established to alter the internal forecast at Look Voyages. As a result, the Corporation still feels that the losses at Look Voyages will be decreased by 50% this year.

Notice

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 April 30, 2005 $	As at October 31, 2004 [restated – note 2] $
ASSETS		
Current assets		
Cash and cash equivalents *[note 3]*	**459,252**	468,553
Accounts receivable	**78,506**	72,745
Income taxes receivable	**14,030**	—
Future income tax assets	**646**	586
Inventories	**5,308**	4,053
Prepaid expenses	**43,730**	39,729
Current portion of deposits	**24,849**	28,830
Total current assets	**626,321**	614,496
Deposits	**28,287**	22,111
Future income tax assets	**9,177**	10,656
Property, plant and equipment *[note 2]*	**202,709**	93,128
Goodwill	**89,529**	86,966
Other assets	**10,726**	11,032
	966,749	838,389
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**211,986**	202,337
Income taxes payable	**—**	29,455
Customer deposits and deferred income	**168,027**	158,396
Debentures *[note 4]*	**10,000**	20,058
Current portion of obligations under capital leases	**3,188**	—
Total current liabilities	**393,201**	410,246
Obligations under capital leases *[note 2]*	**98,466**	—
Debentures *[note 2]*	**3,156**	13,156
Provision for engine and airframe overhaul in excess of deposits	**62,127**	62,818
Non-controlling interest and other liabilities	**27,211**	24,036
Future income tax liabilities	**22,012**	17,027
	606,173	527,283
Shareholders' equity		
Share capital *[note 5]*	**180,572**	120,306
Convertible debentures *[note 6]*	**—**	51,092
Retained earnings *[note 2]*	**176,768**	135,322
Contributed surplus	**238**	118
Warrants	**1,190**	3,994
Deferred translation adjustments	**1,808**	274
	360,576	311,106
	966,749	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 April 30		Six (6) months ended April 30	
	2005	2004 [restated – note 2]	**2005**	2004 [restated – note 2]
	$	$	**$**	$
Revenues	**728,944**	696,224	**1,317,684**	1,233,424
Operating expenses				
Direct costs	**379,354**	357,484	**698,762**	641,328
Commissions	**67,366**	62,999	**123,986**	114,990
Salaries and employee benefits	**58,514**	55,888	**117,109**	111,409
Aircraft fuel	**42,831**	29,441	**79,770**	54,614
Aircraft maintenance	**25,832**	26,764	**47,142**	47,747
Airport and navigation fees	**14,894**	11,555	**28,499**	25,279
Aircraft rent	**13,670**	14,605	**26,669**	28,519
Other	**60,279**	58,147	**115,710**	113,252
	662,740	616,883	**1,237,647**	1,137,138
	66,204	79,341	**80,037**	96,286
Amortization	**9,760**	8,716	**18,503**	18,935
Interest on long-term debt, obligations under capital leases and debentures	**1,693**	2,178	**6,941**	4,164
Other interest and financial expenses	**407**	664	**781**	1,118
Interest income	**(3,512)**	(3,784)	**(6,642)**	(6,225)
Foreign exchange loss (gain) on long-term monetary items	**1,077**	(132)	**2,684**	(761)
Share of net (income) loss of companies subject to significant influence	**(181)**	(349)	**(357)**	1,628
	9,244	7,293	**21,910**	18,859
Income before the following items	**56,960**	72,048	**58,127**	77,427
Income taxes				
Current	**17,862**	16,280	**20,530**	16,661
Future	**736**	10,221	**1,180**	12,697
	18,598	26,501	**21,710**	29,358
Income before non-controlling interest in subsidiaries' results	**38,362**	45,547	**36,417**	48,069
Non-controlling interest in subsidiaries' results	**38**	(123)	**183**	141
Net Income for the period	**38,400**	45,424	**36,600**	48,210
Basic earnings per share	**1.05**	1.35	**1.00**	1.41
Diluted earnings per share	**0.91**	1.10	**0.87**	1.18

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of dollars) (Unaudited)

	Six (6) months ended April 30	
	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 for the period	**36,600**	48,210
Premium paid on redemption of shares	**(5,865)**	—
Interest on equity component of debentures – net of related income taxes of $364 [$380 in 2004]	**(1,440)**	(1,574)
Retained earnings, end of period	**176,768**	116,972

See accompanying notes to consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)
(Unaudited)

	Three (3) months ended April 30 2005 $	Three (3) months ended April 30 2004 [restated – note 2] $	Six (6) months ended April 30 2005 $	Six (6) months ended April 30 2004 [restated – note 2] $
OPERATING ACTIVITIES				
Net income for the period	**38,400**	45,424	**36,600**	48,210
Items not involving an outlay (receipt) of cash				
Amortization	**9,760**	8,716	**18,503**	18,935
Foreign exchange loss (gain) on long-term monetary items	**1,077**	(132)	**2,684**	(761)
Share of net (income) loss of companies subject to significant influence	**(181)**	(349)	**(357)**	1,628
Non-controlling interest in subsidiaries' results	**(38)**	123	**(183)**	(141)
Future income taxes	**736**	10,221	**1,180**	12,697
Interest on debentures *[note 4]*	**—**	204	**1,807**	412
Compensation expense related to stock option plan	**88**	—	**175**	—
Operating cash flow	**49,842**	64,207	**60,409**	80,980
Net change in non-cash working capital balances related to operations	**(78,395)**	(42,169)	**(27,956)**	40,414
Net change in deposits, expenses for engine and airframe overhaul	**6,916**	14,671	**(691)**	8,273
Cash flows relating to operating activities	**(21,637)**	36,709	**31,762**	129,667
INVESTING ACTIVITIES				
Increase in deposits	**(3,317)**	(509)	**(5,910)**	(4,728)
Additions to property, plant and equipment	**(8,298)**	(7,317)	**(16,001)**	(9,245)
Disposal of property, plant and equipment	**—**	—	**5,001**	—
Net change in other assets	**64**	935	**(319)**	(1,494)
Repayment of deposits	**—**	4,146	**132**	4,146
Cash and cash equivalents from acquired company *[note 7]*	**—**	1,623	**1,374**	1,623
Consideration paid for acquired company *[note 7]*	**—**	(9,706)	**(1,473)**	(9,706)
Cash flows relating to financing activities	**(11,551)**	(10,828)	**(17,196)**	(19,404)
FINANCING ACTIVITIES				
Repayment of other long-term debt and obligations under capital leases	**—**	(20,692)	**(3,533)**	(35,810)
Interest paid on convertible debentures	**(2,868)**	(2,300)	**(2,868)**	(2,300)
Proceeds from issue of shares	**2,999**	1,368	**7,751**	2,850
Redemption of shares	**(7,266)**	—	**(7,266)**	—
Proceeds from issue of a debenture	**—**	3,156	**—**	3,156
Repayment of debentures *[note 4 and 6]*	**(35)**	—	**(21,900)**	—
Net change in other liabilities	**520**	283	**3,949**	566
Cash flows relating to financing activities	**(6,650)**	(18,185)	**(23,867)**	(31,538)
Net change in cash and cash equivalents for the period	**(39,838)**	7,696	**(9,301)**	78,725
Cash and cash equivalents, beginning of period	**499,090**	420,154	**468,553**	349,125
Cash and cash equivalents, end of period	**459,252**	427,850	**459,252**	427,850

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 resulted in a reduction of $2,145 in net income and $0.06 in basic earnings per share for the three-month period ended April 30, 2005 and a reduction of $4,227 in net income and $0.12 in basic earnings per share for the six-month period ended April 30, 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 $29 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 April 30, 2004 and in a $50 decline for the six-month period ended at the same date. These changes had no impact on basic earnings per share for the same periods or on cash flows. The adoption of these changes had no material effect on the results for the three-and six-month period ended January 31, 2005.

Note 3 : Cash and Cash Equivalents

	As at April 30, 2005	As at October 31, 2004
Cash and cash equivalents	**328,346**	310,875
Cash in trust or otherwise reserved	**130,906**	157,678
	459,252	468,553

As at April 30, 2005, cash in trust or otherwise reserved included $87,699 [$118,146 as at October 31, 2004] in funds received from customers for services not yet rendered and $43,207 [$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

Class A variable voting shares

An unlimited number of Class A variable voting shares, participating, which may be owned or controlled by non-Canadians, carrying one vote per Class A variable voting share unless (i) the number of issued and outstanding Class A variable voting shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the Canada Transportation Act ["CTA"]); or (ii) the total number of votes cast by or on behalf of holders of Class A variable voting shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A variable voting share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph (i) above, the Class A variable voting shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph (ii) above, the Class A variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A variable voting share shall be automatically converted into one Class B voting share automatically without any further act on the part of the Corporation or of the holder if: (i) the Class A variable voting share is or becomes owned and controlled by a Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

Class B voting shares

An unlimited number of Class B voting shares, participating, which may be owned and controlled by Canadians only and shall confer the right to one vote per Class B voting share at all meetings of shareholders of the Corporation.

Each issued and outstanding Class B voting share shall be converted into one Class A variable voting share automatically without any further act on the part of the Corporation or the holder if the Class B voting share is or becomes owned or controlled by a non-Canadian.

Preferred shares

An unlimited number of Class B voting shares, participating, which may be owned and controlled by Canadians only and shall confer the right to one vote per Class B voting share at all meetings of shareholders of the Corporation.

Issued and outstanding

On March 4, 2005, the Corporation's common shares were restructured into two classes of shares: Class A variable voting shares and Class B voting shares. Each issued and outstanding share which was not owned or controlled by a Canadian was converted into one Class A variable voting share of the share capital of the Corporation and cancelled. Each issued and outstanding share owned and controlled by a Canadian was converted into one Class B voting share of the share capital of the Corporation and cancelled. Immediately following the conversion, the numbers of Class A variable voting shares and Class B voting shares amounted to 7,818,212 and 27,228,227 respectively. The unissued common shares of the Corporation were cancelled and the Class A variable voting shares and Class B voting shares were substituted for the exercise of all rights to subscribe, purchase or convert the common shares thus cancelled.

The changes affecting the Class A variable voting shares and the Class B voting shares were as follows:

	Six (6) months ended April 30, 2005	
	Number of shares	Amount ($)
Common shares		
Balance as at October 31, 2004	33,954,825	120,306
Issued from treasury	6,988	165
Exercise of options	125,957	1,114
Exercise of warrants	966,900	9,331
Conversion of debentures	5,835,081	51,057
Repurchase of shares	(314,900)	(1,401)
Balance as at April 30, 2005	40,574,851	180,572

As at April 30, 2005, the number of Class A variable voting shares and Class B voting shares amounted to 9,917,314 and 30,657,537 respectively.

Normal course issuer bid

In accordance with its normal course issuer bid, the Corporation redeemed, during the six-month period ended April 30, 2005, a total of 314,900 voting shares, consisting of Class A variable voting shares and Class B voting shares, for a cash consideration of $7,266.

b) Options

	Number of options	Weighted average price ($)
Balance as at October 31, 2004	1,125,678	7.69
Exercised	(125,957)	8.42
Balance as at April 30, 2005	999,721	7.60
Exercisable options as at April 30, 2005	447,203	8.83

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 April 30, 2005 $	Six (6) months ended April 30, 2005 $
Net income	38,400	36,600
Adjustment – Stock based compensation	(73)	(146)
Pro forma net income	38,327	36,454
Pro forma basic earnings per share	1.05	1.00
Pro forma diluted earnings per share	0.91	0.87

c) Warrants

	Number of warrants	Amount ($)
Balance as at October 31, 2004	1,377,025	3,994
Exercised	966,900	1,756
Balance as at April 30, 2005	410,125	2,238

d) Earnings 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 April 30		Six (6) months ended April 30	
	2005	2004	**2005**	2004
	$	$	**$**	$
Numerator				
Net income	**38,400**	45,424	**36,600**	48,210
Interest on convertible debentures	**(662)**	(798)	**(1,440)**	(1,574)
Income attributable to voting shareholders	**37,738**	44,626	**35,160**	46,636
Interest on convertible debentures	**662**	798	**1,440**	1,574
Interest on debentures that may be settled in voting shares	**32**	43	**64**	78
Income used to calculate diluted earnings per share	**38,432**	45,467	**36,664**	48,288
Denominator				
Weighted average number of outstanding shares	**35,902**	33,160	**35,120**	33,048
Convertible debentures	**4,906**	5,841	**5,376**	5,841
Debentures that may be settled in voting shares	**120**	358	**126**	420
Stock options	**730**	1,158	**741**	1,066
Warrants	**368**	814	**627**	709
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**42,026**	41,331	**41,990**	41,084
Basic earnings per share	**1.05**	1.35	**1.00**	1.41
Diluted earnings per share	**0.91**	1.10	**0.87**	1.18

Note 6: Convertible debentures

On March 24, 2005, the Corporation sent a redemption notice to the holders of its non-guaranteed convertible subordinated debentures. Under the notice, the Corporation redeemed at their nominal value, on April 25, 2005, $35 of such debentures, representing all debentures outstanding as at that date. During the six-month period ended April 30, 2005, but prior to the redemption date, a total of $51,057 in convertible debentures was converted into 5,835,081 voting shares, consisting of Class A variable voting shares and Class B voting shares.

Note 7: 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 8 : 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 the 2004 fiscal year.

The following table highlights the activity and balance of the 2004 restructuring provision for the six-month period ended April 30, 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 six-month period ended April 30, 2005	—	—	—	—
Cumulative drawdowns:				
Cash	**3,114**	**1,004**	**189**	**4,307**
Non-cash	—	—	—	—
Foreign currency changes	**193**	**116**	**45**	**354**
Balance as at April 30, 2005	**1,669**	**1,638**	**971**	**4,278**

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 the 2003 fiscal year.

The following table highlights the activity and balance of the 2003 restructuring provision for the six-month period ended April 30, 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 six-month period ended April 30, 2005	—	—	—	—
Cumulative drawdowns:				
Cash	**1,548**	**50**	**393**	**1,991**
Non-cash	—	—	—	—
Balance as at April 30, 2005	**1,725**	—	—	**1,725**

Note 9 : 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 April 30, 2005			Six (6) months ended April 30, 2005		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	**605,894**	**123,050**	**728,944**	**1,111,924**	**205,760**	**1,317,684**
Operating expenses	**540,613**	**122,127**	**662,740**	**1,026,033**	**211,614**	**1,237,647**
	65,281	**923**	**66,204**	**85,891**	**(5,854)**	**80,037**
Amortization	**8,868**	**892**	**9,760**	**16,751**	**1,752**	**18,503**
Additions to property, plant and equipment	**7,754**	**544**	**8,298**	**15,069**	**932**	**16,001**
Property, plant and equipment and goodwill [1]				**237,310**	**54,928**	**292,238**

	Three (3) months ended April 30, 2004			Six (6) months ended April 30, 2004		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	554,479	141,745	696,224	993,373	240,051	1,233,424
Operating expenses	470,897	145,986	616,883	884,185	252,953	1,137,138
	83,582	(4,241)	79,341	109,188	(12,902)	96,286
Amortization	7,552	1,164	8,716	16,612	2,323	18,935
Additions to property, plant and equipment	6,389	928	7,317	8,162	1,083	9,245
Property, plant and equipment and goodwill [2]				128,912	47,325	176,237

[1] As at January 31, 2005

[2] As at October 31, 2004

Note 10 : 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 $21,239 as at April 30, 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 $1,045 as at April 30, 2005. Historically, the Corporation has not made any significant payments under such agreements.

As at April 30, 2005, no amounts have been accrued with respect to the above-mentioned agreements.

Note 11 : Subsequent events

On May 1, 2005, the Corporation acquired a 50.1% ownership interest in Travel Superstore Inc., a Canadian company operating a travel agency network, for a cash consideration of $4,300.

On June 6, 2005, Transat announced that it entered into an agreement that will result in the sale of its 44.27% participation in Star Airlines for €4,500, subject to the approval of the French regulatory agencies. The sale is expected to be approved prior to the year-end at which time the resulting gain will be recorded.