TRANSAT A.T. INC.

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED OCTOBER 31, 2004

MARCH 16, 2005

ANNUAL INFORMATION FORM
TRANSAT A.T. INC.

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

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

Unless otherwise indicated, the information contained in this AIF is given as of October 31, 2004, being our financial year-end.

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

Forward-Looking Statements

We make "forward-looking statements" throughout this AIF. By their nature, these statements necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward looking statements are based to be reasonable, but caution you that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. You will find elsewhere in this AIF certain risks and uncertainties affecting us (see "**Risk Factors**"). We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

1. CORPORATE STRUCTURE

1.1. NAME AND INCORPORATION

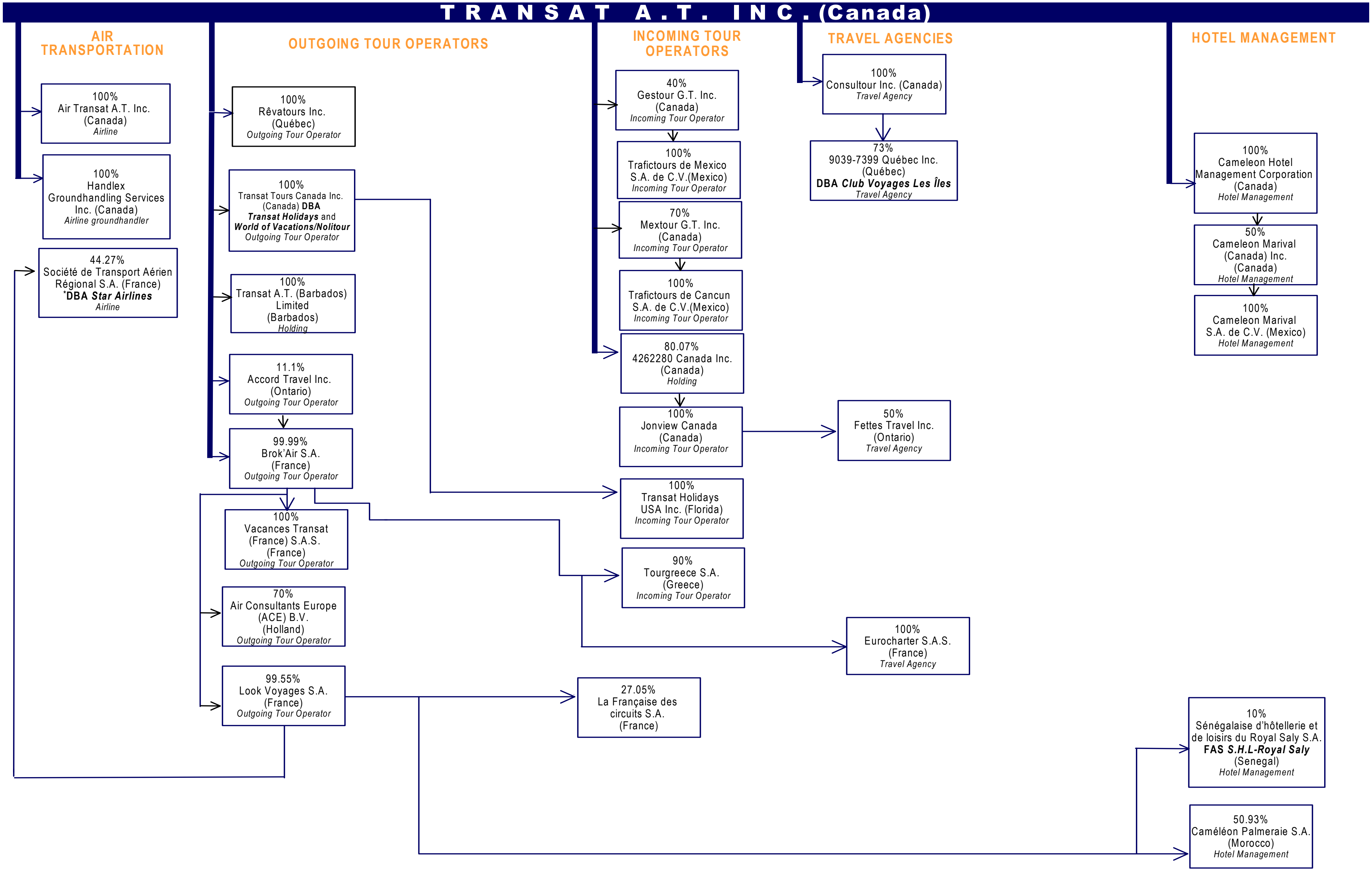
Transat was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "***Canada Business Corporations Act***") by Certificate of Incorporation dated February 13, 1987.

Since its incorporation, Transat has amended its Articles by way of Certificate of Amendment to make the following material changes: (i) to change its name to "Transat A.T. Inc."; (ii) to establish the minimum number of directors at nine and the maximum at fifteen and to enable the Board of Directors to appoint directors during a given year; (iii) to provide for the creation of an unlimited number of Preferred Shares issuable in series, leading to the creation of 2,400,000 Series 1 Preferred Shares, 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares; (iv) to subdivide each common share on the basis of three common shares for each issued and outstanding common share; (v) to introduce constraints on issues and transfers of voting shares of Transat's share capital in order for us to remain a "Canadian" corporation within the meaning of the *Canada Transportation Act*, S.C. 1996, c. 10 (the "***Canada Transportation Act***"); and (vi) to create an unlimited number of Class A Variable Voting Shares and an unlimited number of Class B Voting Shares; to convert each issued and outstanding common share which is not owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Class A Variable Voting Share; to convert each issued and outstanding common share owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Class B Voting Share; to cancel each issued and outstanding common share so converted; to cancel the unissued common shares of Transat and substitute thereto with the required adaptations for the exercise of all rights to subscribe, purchase or conversion, the Class A Variable Voting Shares and the Class B Voting Shares; and to supersede prior restrictions on the issue and transfer of the voting shares of Transat's share capital stated in (v) above.

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

1.2. INTER-CORPORATE RELATIONSHIPS

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



*"**DBA**" means "doing business as"

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1. OVERVIEW OF THE BUSINESS

We are an integrated company specializing in the organization, marketing and distribution of holiday travel. The core of our business consists of tour operators in Canada and France. We are also involved in air transportation and value-added services at travel destinations. Finally, we have secured a presence in distribution through travel agency networks.

2.2. VISION AND STRATEGY

The international tourism market is growing and our primary objective is to maximize shareholder value. To this end, our goals are: to maintain our leadership in Canada and to improve our position as a major player in the holiday travel industry in North America and Europe. We achieve our goals by continuing to deliver quality vacation travel services at affordable prices to a broad clientele.

On the Canadian market, we operate as an outgoing and incoming tour operator and our airline specializes in leisure travel. We are also present in France as a vertically integrated outgoing tour operator. Over time, we want to expand our business in other countries, namely the United States and other European countries.

Our strategy rests on three pillars: vertical integration, a clear focus on our core travel package product and geographical expansion.

We have based our development strategy on the vertical integration of the major components of holiday travel. Our tour operators and travel agencies benefit from the availability of seats on our own air carriers. We believe our strategy encourages synergies, ensures reciprocal loyalty between the levels of operations, and permits better quality control of our products and services. This also allows us more flexibility to adjust prices, products and services offered by the different levels of operations, thereby enhancing our ability to operate profitably. This strategy has led us to acquire, or to invest, in outgoing tour operators and travel agencies in Canada and France while continuing our air carrier services. This strategy has also led us to acquire, invest in or create incoming tour operators and travel services at destination and to create a hotel management subsidiary with the mission to manage hotels based on the needs of our tour operators.

Our long-term growth strategy involves focusing on our core business: holiday travel and its related products. Although we develop and offer a wide range of products to meet the various expectations of tourists, we place an emphasis on travel packages as the one product family that allows us to fully leverage the benefits we derive from our vertically integrated structure. For example, we tend to bundle accommodation with airline tickets and to offer packages that include a stay in hotels or resorts with which we are closely associated. This strategy has led us to de-emphasize the sale of air-only products by third-party airline carriers.

We plan to expand into new and existing markets and to continue to leverage our vertical integration in such markets. This strategy has led us to: increase our presence in certain destinations through the acquisitions of incoming tour operators; penetrate new Canadian domestic markets through the introduction of airline service in such markets; and maintain a focus on increasing the number of travel agencies under our control and develop online marketing solutions.

2.3. THREE-YEAR HISTORY

We launched our initial public offering in 1987 to create Transat and Air Transat A.T. Inc. ("**Air Transat**"). Since then, we have evolved into 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 operate in two geographic areas, specifically Canada and France. You will find below highlights in the development of Transat on both sides of the Atlantic and events in the three most recent financial years.

2.3.1. *Our Canadian Operations*

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

As regards our outgoing tour operators' activities, Transat Tours Canada Inc. ("**Transat Tours Canada**"), which is the backbone of our Canadian operations, operates through two divisions, namely Transat Holidays and World of Vacations/Nolitour, and integrates Air Transat's commercial activities. In fiscal 2002, we began pooling Transat Holidays' and World of Vacations/Nolitour's resources under the umbrella of Transat Tours Canada by merging their management information systems, combining and integrating their finance and human resources and harmonizing their respective customer service operations. By fiscal 2003, we had in place a single management team responsible for positioning our brands and carrying out a large part of the marketing activities of Transat Holidays, World of Vacations/Nolitour as well as those of Air Transat. Today, this single team oversees programming, airline seat and hotel room inventories, product purchasing and pricing. With this new organic approach, we gained in flexibility and reduced our operating costs, while drawing on the reputation of the Transat Holidays and World of Vacations/Nolitour brands, whose commercial identities we have kept distinct. You will find in Section 3.1.1 of this AIF more information on the repositioning of these two brands that was initiated during fiscal 2004.

The reorganization of Transat Tours Canada is not the only step we took to reshuffle our activities. During fiscal 2003, we reorganized the operations of Tours Americanada International Inc. ("**Tours Americanada**"). The latter was our group's consolidator for negotiated fares with various airlines and offered customized Florida and island vacations to Barbados, Bermuda, the Bahamas and Aruba, customized motor coach tours and the rental of motor homes in Canada and the United States, as well as cruises in Europe, Alaska and the Caribbean. The reorganization of Tours Americanada involved transferring some of its assets to its affiliated companies, namely Transat Tours Canada, Rêvatours Inc. ("**Rêvatours**"), Air Transat and D.M.C. Transat Inc. ("**D.M.C.**") (now Jonview Canada Inc.), and liquidating the company into Transat Tours Canada. This reorganization, which resulted in the termination of approximately 150 employees, allowed the placing of Tours Americanada's product lines in a business setting that provides them with an opportunity for profitable development, in some cases under the Americanada banner. We proceeded with the dissolution of Tours Americanada during fiscal 2004.

In terms of air transportation, in fiscal 2004 we finished implementing a plan announced on September 11, 2003 for the phasing out of Air Transat's six Lockheed L-1011-500 aircraft. We also completed the renewal of Air Transat's fleet, adding four Airbus A310. The resulting harmonization and simplification of the fleet, now smaller and All-Airbus, is key to Air Transat reducing its operating expenses. In addition to reduced costs derived from simplified maintenance and training, Air Transat has pursued its efforts at enhancing its operational performance.

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

Fiscal 2004 was the first full year of operation under a two-year agreement between Transat Tours Canada and WestJet announced on August 20, 2003. This agreement allows Transat Tours Canada to charter WestJet's Boeing 737 aircraft from medium size Canadian cities, particularly in Ontario and the West, to Southern vacation destinations. The addition of WestJet's narrow-bodied aircraft complements Air Transat's wide-bodied fleet, allowing us to broaden our service offering in areas which could not otherwise be served by Air Transat, penetrate new markets and more efficiently manage peak periods. Our agreement with WestJet was worth an estimated $28.0 million during the 2004 winter season, compared to an estimated $18.0 million during the 2004 summer season. This Agreement is part of our strategy to increase our market share in Ontario.

Consistent with our long-term growth strategy based upon vertical integration, we continued to develop our incoming tour operator activities in 2004.

On April 8, 2004, we completed the acquisition of the remaining 50% participation in Jonview Corporation, a holding corporation that owns the Canadian tour operator Jonview Canada Inc. ("**Jonview Canada**"), in partnership with the Solidarity Fund QFL (the "**Solidarity Fund**"), a minority shareholder of D.M.C. Transat (now Jonview Canada), our incoming tour operator operating from Québec. We had acquired the first 50% interest in Jonview Corporation in fiscal 2001 for a cash consideration of $10.6 million. The acquisition of the remaining 50% interest in fiscal 2004 was made for a cash consideration of $12.8 million, including $0.1 million in transaction costs. We paid a total of $9.6 million upon the closing of the transaction, with the balance to be paid in cash in three instalments through September 2006. We issued a $3.2 million debenture to the Solidarity Fund in order to finance the Solidarity Fund's portion of the acquisition (see Section 2.3.3 of this AIF). As a result of this transaction, our percentage ownership in Jonview Corporation became 80.07%.

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

As regards our distribution activities, we continued working along two parallel orientations, namely increasing the number of travel agencies that we control and online solutions.

During fiscal 2002, we proceeded with a reorganization within Consultour Inc. ("**Consultour**"). The purpose of this reorganization was to simplify the structure of the Corporation by combining into Consultour, either through liquidation or amalgamation, all travel agencies previously owned by it or affiliated to it and operating as distinct entities. We liquidated into Consultour the following entities: 2868-1468 Québec Inc., Voyages Agena Inc., 9022-8016 Québec Inc., Inter-Voyage Inc., Voyages Solaris Inc., Tourbec (1979) Inc. and D & R Travel Inc. We amalgamated with Consultour the following entities: Corruna Travel Ltd., Jenkins Leaside Travel Ltd., 129133 Ontario Inc., C & R Travel Limited, 3748502 Canada Inc. doing business as TravelPlus, Voyages Mer et Monde M.C. Ltd. and Voyages Claire Champoux Inc. All entities liquidated into Consultour during fiscal 2002 were dissolved during fiscal 2003, except D & R Travel Inc., which should be dissolved during fiscal 2005.

On October 15, 2003, we proceeded with the reorganization of Exit Travel Inc. ("**Exit Travel**"), our subsidiary whose mission since its incorporation in 1999 was to develop our business in retail e-commerce. The reorganization of Exit Travel was twofold: first, Exit Travel transferred the assets pertaining to its Web call centre and related travel agent activities to

Consultour; second, Exit Travel was liquidated into Transat Tours Canada. Since this reorganization, Exit Travel's online travel agency has become a provider of last minute discounted travel services operating as a division of Consultour under the name exitnow.ca, as well as a "fulfiller" of other Transat companies and divisions as regards their e-commerce business to consumer needs. Exit Travel was dissolved during fiscal 2004.

Today, Consultour's retail network comprises 195 travel agencies, out of which 22 are wholly owned and 173 are franchised. Travel agency networks in Québec operate under the Club Voyages and Voyages en Liberté banners, elsewhere in Canada under the TravelPlus banner and online under the exitnow.ca banner. Consultour's human resources, finance and administration, information systems and marketing services, all of which are provided by the Transat Distribution Canada business unit, support the entire retail network. Much like Transat Tours Canada for the Corporation's tour operators, this business unit created during fiscal 2003 is Transat's cornerstone in terms of the integration of retail business operations, which integration draws on both travel agents and the Internet, not in parallel, but in a highly integrated manner**.**

During fiscal 2004, we launched our new corporate brand as announced in December 2003. As all other highlights of our development over the last three years, this initiative is also part of our strategy of vertical integration. Transat, Air Transat, Transat Holidays, TravelPlus and Club Voyages while keeping each their own name, are now bearing the same colours, the same logo - the pale blue star featured on the cover of this AIF - and the same type face against the same dark blue background. World of Vacations/Nolitour also revisited its image with the same logo, featured in red. The creation of a unique, strong and visible corporate identity across our main business units facilitates the recognition of our various companies and divisions for both our customers and employees. It also maximizes customer awareness on both the B2C and B2B markets, while fully leveraging the contribution of all of our business units and creating value.

2.3.2. Our French and Other Operations in Europe

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

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

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

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

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

On October 14, 2004 we also announced the appointment of Mr. Olivier Kervella, formerly the General Manager of the online company Anyway that we formerly owned in France and a travel industry professional, as General Manager of Look Voyages. Mr. Kervella assumed his new duties on October 22, 2004. With his appointment, the main components of Look Voyages' repositioning plan are now in place.

On November 1, 2004, we acquired a 70% ownership interest in Air Consultants Europe (ACE) B.V. ("**Air Consultants Europe**") at a cost of €1.0 million ($1.6 million). This Dutch company, based in The Hague, is Air Transat's sole commercial representative in Germany and Holland since 1991 and in Belgium and Luxembourg. Air Consultants Europe is very knowledgeable about the Canadian market and has developed close relationships with travel agencies and tour operators in Germany and Holland. Our acquisition of this company will help us control and further grow our distribution network in both these countries.

2.3.3. *Other Events*

Debentures

In the course of its history, Transat issued several debentures that are summarized herein below.

On November 1, 1995, Air Transat Holidays A.T. Inc. (now Transat Tours Canada) issued a debenture to the Caisse de dépôt et placement du Québec ("**CDP**") in an aggregate principal amount of $10.0 million. This debenture bears interest at 17.5% per annum and matures on November 1, 2005. It is repayable at the option of Transat Tours Canada at a price such that the holder earns a compound annual return of 20.5% from its issuance on November 1, 1995, taking into consideration annual interest already paid and recorded at a rate of 17.5%. This debenture, if not redeemed, is convertible into 25% of the common shares of Transat Tours Canada. It is collateralized by certain inter-corporate guarantees and by a moveable hypothec on the shares of a number of our subsidiaries and on all of the tangible assets of Air Transat and of Transat Tours Canada. Should Transat be subject to a takeover bid, CDP has the option to acquire all of the outstanding shares of Transat Tours Canada at a price determined under an agreed formula.

In September 2001, a subsidiary of the Corporation issued a debenture in the amount of $2.5 million bearing interest at a rate of 8.25%. The debenture was repayable in one instalment in September 2009 in cash or shares of Transat at the latter's option. The debenture was also repayable in advance at the subsidiary's option as of September 2004 in return for a premium whereby the holder would earn a return of 11.25% from its issuance, taking into consideration annual interest already paid and recorded at the rate of 8.25%. On September 8, 2004, our subsidiary redeemed the debenture in advance in accordance with the terms thereof. As at October 31, 2003, the liability and equity components of the debenture totalled $0.8 million and $1.75 million, respectively.

On January 10, 2005, Transat redeemed debentures in the amount of $21.9 million as announced on December 9, 2004. These non-convertible debentures, bearing interest at a rate of 6%, were to mature in January 2009 and were redeemable in advance as of January 2005 in return for a penalty equal to three months' interest. The Corporation and Air Transat had issued these debentures to CDP, the Solidarity Fund as well as to certain management members of the Corporation and its affiliates on January 10, 2002 to complement emergency measures taken in response to the financial impact of the September 11, 2001 terrorist attacks and as part of our efforts to seek cash injections to increase available cash. At the time, these debentures were key to our operations. As both Transat and the global tourism industry have turned the corner and given Transat's excellent financial situation, this redemption was made in the interest of both Transat and its shareholders.

The cash outlay was approximately $30.0 million, including unpaid interests already reflected in fiscal 2004 in the amount of $7.3 million and an interest penalty in the amount of $0.8 million recorded in the first quarter of fiscal 2005. Additionally, this early redemption also resulted in a non-cash charge in the amount of $1.7 million that was also recorded in the first quarter of fiscal 2005 related to the difference between the nominal value and book value of the debentures as at January 10, 2005.

On February 19, 2002, Transat completed a $51.1 million issue of 9% convertible unsecured subordinated debentures maturing on March 1, 2007 to a syndicate of underwriters led by CIBC World Markets Inc. As with the debentures issued on January 10, 2002 and redeemed on January 10, 2005, this initiative was also part of our efforts to procure additional cash on-hand for working capital purposes to ensure our financial viability following the 9/11 attacks. On March 4, 2005, we entered into a supplemental indenture with Computershare Trust Company of Canada as trustee in order to amend the terms and conditions of these debentures in light of our new capital structure. For more details regarding our new capital structure, please refer to Section 7.2 of this AIF. These debentures are payable semi-annually in cash or in Class A Variable Voting Shares or Class B Voting Shares of the Corporation, as the case may be, at its option. They are convertible into Class A Variable Voting Shares or Class B Voting Shares of the Corporation, as the case may be, at a conversion price of $8.75 per share, at the holder's option at any time. During the year, debentures totalling $13,000 were converted into 1,484 common shares of the Corporation.

Transat may redeem these debentures at par as of March 1, 2005 until March 1, 2006, provided its shares are traded at a price of $10.94 or more for 20 consecutive days before the notice of redemption. After March 1, 2006, the debentures may be redeemed at par. The Corporation will have the option to repay the debentures, in whole or in part, in cash or by delivering a number of Class A Variable Voting Shares or Class B Voting Shares, as the case may be, obtained by dividing the principal amount of the debentures by 95% of the market price of the Corporation's shares at the redemption date or at maturity. On the date of this AIF, Transat 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% 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.

Under its normal course issuer bid starting on June 15, 2004 (see the paragraph on the Normal Course Issuer Bid in this Section 2.3.3 of this AIF), Transat may repurchase and cancel up to a maximum of $2.6 million in convertible debentures of Transat, representing approximately 5% of the floating convertible debentures at the offer date. The convertible debentures would be repurchased at market prices plus brokerage fees.

On April 6, 2004, Jonview Corporation (now Jonview Canada) issued a debenture to the Solidarity Fund in the amount of $3.2 million in order to finance a portion of the acquisition of the remaining 50% ownership interest in that company (see Section 2.3.1 of this AIF). This debenture bears interest at a rate of 6%. It is repayable in one instalment in September 2009 in cash or shares of Transat at the latter's option. The debenture is also redeemable in advance at Jonview Canada's option as of April 2007 in return for a premium whereby the Solidarity Fund will earn a return of 9% from its issuance, taking into consideration annual interest already paid and recorded at the rate of 6%. The initial liability and equity components of the debenture totalled $0.8 million and $2.35 million, respectively. As at October, 2004, they totalled $0.7 million and $2.4 million, respectively.

Normal Course Issuer Bid

On June 10, 2004, our Board of Directors announced that it had obtained approval from the Toronto Stock Exchange to proceed for a twelve-month period with a normal course issuer bid. In the notice, we stated our intention to purchase for cancellation up to a maximum of 1,662,847 shares of the Corporation, representing 5% of the issued and outstanding shares and 5.9% of the public float of shares and a maximum of 25,546 convertible debentures representing 5% of the public float of convertible debentures. As at June 9, 2004, there were 33,256,955 shares issued and outstanding and 510,920 convertible debentures of which the respective public float was 28,174,385 shares and 510,920 convertible debentures.

This program is designed to allow us to purchase shares or convertible debentures in the normal course, when we estimate that the market undervalues the shares or convertible debentures.

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 that we pay for any shares or convertible debentures will be the market price at the time of acquisition plus brokerage fees. Purchases began on June 15, 2004 and will terminate no later than June 14, 2005.

During the year ended October 31, 2004, Transat purchased 230,000 shares for cancellation for a cash consideration of $5.0 million. Transat did not repurchase or cancel any convertible debentures during fiscal 2004 or during the first quarter of fiscal 2005.

2005 Objectives and Future Plans

We began fiscal 2004 with a strategy designed to focus on our core business, reduce our costs and improve our margins. Our performance in fiscal 2004 demonstrates that we have delivered on our strategy by building on the actions that we took in the past three years in this direction.

We had set ourselves various objectives for fiscal 2004: return Look Voyages to profitability in fiscal 2005; pursue Internet technology integration into our business model; leverage flexibility gains and continue to lower costs at Air Transat; reposition our brand in the marketplace to support our vertical integration strategy; and identify growth opportunities in North America and France. Apart from the first objective that we had to revise as mentioned in Section 2.3.2 of this AIF, we delivered on all of our objectives.

Given the improved market conditions and our financial situation, we plan to be back in a growth mode starting in fiscal 2005. In that spirit, we have set ourselves several objectives for fiscal 2005. One such objective is to pursue the execution of our development plan in the context of the overall strategy of Transat. In this regard, we want to implement an acquisition plan for growing our business in France, the United States and our incoming tour operator and destination services businesses.

Another objective is to nurture a corporate structure that will support the business model in the long term. We want to make sure that our corporate culture reaches every corner of our organization and make it enhance our vertically integrated approach in the long term. Our efforts will include promoting our corporate values (customer focus, teamwork and efficiency), pursuing the development and implementation of our succession plan, enhancing management's skills, develop a corporate Intranet and continue to promote the Transat brand.

We will also pursue Internet technology integration in our business model, as we believe that our future competitiveness relies in part on our ability to efficiently bring our products and services to market through technology. In fiscal 2005, we want to focus on implementing B2B and B2C technological platforms.

The consolidation of our Canadian tour operators under the umbrella of Transat Tours Canada has led to better management of our inventory of products such as airline seats and hotel rooms, resulting in increased operating margins, as described in Section 2.3.1 of this AIF. In fiscal 2005, our plan is to focus on increasing our market share in Ontario and tackle the long-term planning of Air Transat's fleet of aircraft. Booking trends for the winter season are ahead of last year by approximately 8%, but the excess capacity in the marketplace (especially Ontario) has led to pricing pressures which resulted in lower margins for the first quarter of 2005 and possibly for the entire 2005 winter season. However, we also believe that as a result of these pricing pressures we may have opportunities to expand our market in Ontario faster.

Finally, although the return to profitability of Look Voyages proved slower than initially anticipated, we took the necessary steps in fiscal 2004 to set the basis for recovery. Reduced losses at Look Voyages are on track for the first quarter of 2005.

Our ability to deliver on our objectives is dependant on our financial and non-financial resources (including our brand, vertically integrated structure, privileged relationships with suppliers and people), both of which have contributed to the success of our strategies and the attainment of our objectives in the past. Our cash balances that are not held in trust or otherwise reserved total $310.9 million as at October 31, 2004, and our continued focus on expense reductions is expected to maintain these cash balances at healthy levels.

3. DESCRIPTION OF OUR BUSINESS

We have estimated some of the data contained in this Section on competitive positioning and market share of the Transat companies based on our knowledge of the relevant industry segments. Being a vertically integrated business, we have determined that Transat conducts its activities in a single industry segment, namely holiday travel, and operates in two geographic areas, specifically Canada and France. We recorded $2,199.8 million in revenues for fiscal 2004, compared to $2,096.6 million for fiscal 2003. Canadian operations accounted for $1,673.5 million of our revenues for fiscal 2004 and $1,525.8 million for fiscal 2003. French and other operations amounted to $526.3 million in revenues for fiscal 2004 and $570.8 million for fiscal 2003. These numbers exclude Société de Transport Aérien Régional S.A. ("**STAR Airlines**"), which is not a subsidiary as per the definition of that term in the *Canada Business Corporations Act*, as is accounted for separately in our consolidated audited financial statements as an investment.

3.1. TOURS OPERATORS

Transat acts as an outgoing tour operator through Transat Holidays and World of Vacations/Nolitour (both divisions of Transat Tours Canada), Rêvatours as well as through its French subsidiaries Vacances Transat (France) S.A.S. ("**Vacances Transat (France)**"), Look Voyages and Brok'Air. Transat Holidays USA Inc. ("**Transat Holidays USA**"), Jonview Canada, Tourgreece, Trafic Tours de Mexico S.A. de C.V. and Trafic Tours de Cancun S.A. de C.V. operate as incoming tour operators in Florida, Canada, Greece and Mexico, respectively. Each of these tour operators operates in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by our vertical integration strategy. You will find below descriptions of the main products we offer.

3.1.1. Products of Transat Tours Canada

We commercialize the products of our subsidiary Transat Tours Canada through the brand names of Transat Holidays and World of Vacations/Nolitour. Transat Holidays has a national presence. So does World of Vacations/Nolitour, but World of Vacations caters to the English speaking Canadian market, while Nolitour operates exclusively in the province of Québec. We have developed two principal types of products to balance Transat Tours Canada's revenues from one season to the next: travel packages for Southern destinations, mainly during the winter season; and a combination of scheduled and charter flights with complimentary products and services for travel to Europe and Florida, mainly during the summer season.

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

During fiscal 2004, we began repositioning Transat Tours Canada's brands by tapping into their respective markets as regards the product offering for Southern destinations. Our plan is to gradually redistribute Transat Holidays' and World of Vacations/Nolitour's product inventory based on the conclusions of an extensive study that we commissioned into the preferences of customers. Although the split between the two brands is not altogether clear-cut, Transat Holidays' customers tend to be 35 years old and over; World of Vacations/Nolitour's customers are generally 25 to 35 years old. This age distribution naturally translates into different budget levels and life-styles. Accordingly, we aim for 80% of Transat Holidays' inventory to be composed of four- and five-star properties. Through World of Vacations/Nolitour, we will increasingly commercialize three-plus star properties, although there are exceptions to this rule. World of Vacations/Nolitour's customers enjoy discovering new destinations and tend to favour hotels that are famous for their animation program. Hence we will use World of Vacations/Nolitour to launch new destinations. Furthermore, World of Vacations/Nolitour is to be more closely associated with more remote destinations in Central and South America. Finally, during the summer season, as Transat Holidays focuses on its European programs, World of Vacations/Nolitour adds Florida to its product line. We expect that it will take two years to complete the repositioning of these two brands.

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

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

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

World of Vacations/Nolitour offers a broad range of products for destinations in the United States (including Florida, Las Vegas and Disney Cruise Line®*), as well as quality packages at competitive prices to its sunshine destinations, such as Mexico, Cuba and the Dominican Republic, Venezuela, Costa Rica, Nicaragua, Honduras, Panama and Columbia. In the summer, World of Vacations/Nolitour adds Greece and Italy to its product line, the latter destination being sold under the Auratours Vacances banner. World of Vacations/Nolitour serves, among others, many of the country's independent travel agencies.

We served approximately 1,017,500 travellers through Transat Holidays and World of Vacations/Nolitour in fiscal 2004, compared to 905,000 in fiscal 2003.

3.1.2. Products of Rêvatours

Our subsidiary Rêvatours is an outgoing tour operator operating out of Montréal. It specializes in premium-quality guided tours in Asia (China, Vietnam, India and Thailand), Eastern Europe, North Africa (Tunisia, Egypt and Morocco), Spain, Portugal, Greece and Turkey, with specialized offerings for smaller market segments. Through Rêvatours, we served some 7,000 travellers in fiscal 2004, compared to 5,000 in fiscal 2003.

3.1.3. Products of Vacances Transat (France)

The primary goal of Vacances Transat (France) is the distribution, through French travel agencies, of holiday packages to Canada and the United States. Although Canada and North America generally remain long-haul destinations for the French, they have less and less impact on the sales of this subsidiary as we launch new products. Vacances Transat (France) also offers to its French clientele various destinations in the Caribbean, such as the Dominican Republic,

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

Cuba, Mexico and the French West Indies, as well as packages and guided tours in many countries in Latin America, namely in Costa Rica, Ecuador, Brazil, Argentina, Chile, Peru and Bolivia. In 2004, Vacances Transat (France) developed product offerings to Asia and the Indian Ocean. With this array of destinations, Vacances Transat (France) has become a long-haul specialist in the French market with a focus on selling packages.

Vacances Transat (France) served approximately 95,000 travellers in fiscal 2004, compared to 77,000 in fiscal 2003.

3.1.4. Products of Look Voyages

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

In 2003, Look Voyages launched a new hotel product called Lookéko. Lookéko is based on individual agreements with various hotels, and calls for a very aggressive pricing strategy, as price remains a key decision factor for tourists.

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

Look Voyages served approximately 145,000 travellers in fiscal 2004, compared to 140,000 in fiscal 2003.

3.1.5. Products of Brok'Air

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

3.1.6. Products of Jonview Canada

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

Jonview Canada offers a full range of Canadian holiday products, including guided bus tours, group travel arrangements, fly and drive holidays, city and activity packages, ski vacations, hotel accommodations, discovery and adventure tourism, and business trips (incentive trips, meeting and conferences). It is also developing new products, such as snow mobile tours as well as pre and post convention tours.

Jonview Canada brought 206,000 travellers to Canada in fiscal 2004, compared to 196,000 in fiscal 2003.

3.1.7. Products of Tourgreece

Tourgreece is an incoming tour operator located in Athens, Greece with 26 years of history. It offers a range of holiday packages, such as stays, excursions and cruises in Greece and the Greek Islands, as well as transportation from the airport to the hotel.

Tourgreece served approximately 46,000 travellers in fiscal 2004, compared to 55,600 travellers in fiscal 2003.

3.2. TRAVEL AGENCIES AND DISTRIBUTION

3.2.1. Travel Agencies

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

In the Canadian market, we distribute our products in part through our own retail network, corporate or franchised. We have 195 sales outlets managed by our subsidiary Consultour under the Club Voyages and Voyages en Liberté banners in Québec and, outside Québec, under the TravelPlus banner. Through our subsidiary Eurocharter, we also own and operate 59 travel agencies throughout France under the Club Voyages banner. However, some of these travel agencies have been re-branded under the Look Voyages colours for marketing purposes, in order to benefit from the reputation of Look Voyages on the French market and build on the latter's marketing initiative.

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

3.2.2. E-commerce

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

3.3. AIR TRANSPORTATION

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

In fiscal 2004, we flew to some 61 destinations in some 26 countries, remaining the leading air carrier in Canada specializing in holiday travel. During the winter season, we served over 44 destinations in 21 countries, flying primarily to Southern or other sunshine destinations.

In the summer, we shift most of our capacity to Europe, while maintaining some flights to Southern destinations. In 2004, Air Transat offered direct flights to some 26 cities in over 9 countries in Europe.

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

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

In France, STAR Airlines, in which we hold a 44.27% interest through Look Voyages, operates six Airbus A320 aircraft with 180 seats each and two Airbus A330-200s aircraft with 364 seats each. Through STAR Airlines, we serve the travel market in continental Europe and the Mediterranean, including countries in North America and the Caribbean and increasingly in the West Indies, for the benefit of Look Voyages as well as other tour operators.

We flew approximately 2,394,500 passengers on Air Transat in fiscal 2004, compared to 2,571,000 passengers in fiscal 2003.

3.3.1. Distribution and Marketing

We market air services for passenger transportation on a seasonal basis. Our tour operators, who organize package tours or sell air-only seats, do this in large part. They utilize about 85% of Air Transat's seat capacity, while the rest is being offered to tour operators outside of our group.

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

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

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

3.3.2. Maintenance and Other Measures

We perform regular maintenance work on all aircraft of our fleet.

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

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

Following the emergency landing of one of our Airbus A300-200s in the Azores on August 24, 2001, Air Transat implemented an array of measures some of which were imposed by Transport Canada while others were voluntary, that added to the extensive effort already undertaken by the air carrier to improve its methods. These measures, based on principles of safety and prevention to which we subscribe without reserve, included among others: a comprehensive review of Air Transat's maintenance and operations program that led to an improvement of the performance of its quality assurance activity; the introduction of human factors training for all technical personnel; the integration of fuel leak scenarios into simulator training programs; the introduction of a new Safety Management System; and the introduction of the new fuel leak detection system on Airbus A330 aircraft.

On October 17, 2004, the Aviation Accidents Prevention and Investigation Department of Portugal, the authority conducting the investigation into the emergency landing in the Azores of Flight TS 236, released its Investigation Final Report. Other participants in the investigation included the Transportation Safety Board and Transport Canada (Canada), the Bureau d'Enquêtes et d'Analyses pour la Sécurité de l'Aviation Civile and Direction générale de l'Aviation Civile (France), the Air Accidents Investigation Branch (United Kingdom), Air Transat, Airbus® and Rolls-Royce®. The report concludes that the occurrence resulted from a fuel leak and a complex combination of events and risk factors, including human errors, all of which are analyzed at great length in the report. Among other things, the report recommends the mandatory installation of a new warning system for detecting fuel leaks, as recommended by Airbus to all operators in 2002. The report acknowledges that it had been difficult for the crew of Flight TS 236 to identify and subsequently isolate the fuel leak and recommends a review of checklists. Other recommendations aim at improving maintenance and training processes. Air Transat supports and has implemented these recommendations, all of which apply to the aviation industry as a whole.

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

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

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

3.3.3. Insurance

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

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

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

3.3.4. Fuel Supply

Fuel costs represent a major component of our airline's operating expenses. We negotiate with national and international oil companies to insure that aircraft are supplied with fuel at all airports where we operate. Fuel prices are agreed to for each season on the basis of fixed margins over fluctuating world prices. When deemed necessary or desirable, we hedge a portion of our fuel requirements. As at October 31, 2004, fuel-purchasing contracts covered approximately 9% of the requirements for fiscal 2005, compared to 45% as at October 31, 2003 for fiscal 2004. The tariff filed by Air Transat with the Canadian Transportation Agency states that charter agreements signed with tour operators may be amended in the event of significant variations in the price paid for fuel. We also implement fuel surcharges when necessary and in accordance with the legislation to which we are subject in order to partially offset any surge in fuel prices.

3.3.5. Groundhandling and Airport Services

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

Handlex is our partner on the ground providing handling services and serving other airlines such as Air France™, KLM™, Egypt Air™, Aeroflot™, Cubana™, Royal Air Maroc™, Air

St-Pierre™, DHL™, Bax™, Emery™, PIA™, UPS™ and Air Labrador™. Handlex also provides ground equipment maintenance to Northwest™, US Airways™, Cara™ and Delta™.

3.4. OUR EMPLOYEES

As at October 31, 2004, Transat and its subsidiaries had a total of 4,514 employees, as follows:

Holding Corporation	Transat	56
Air Carriers and Other Airline Services	Air Transat	1,624
	Handlex	857
Outgoing Tour Operators	Transat Tours Canada (including Transat Holidays and World of Vacations/Nolitour)	876
	Rêvatours	26
	Look Voyages	319
	Vacances Transat (France)	177
	Brok'Air	14
Incoming Tour Operators and Services at Travel Destinations	Jonview Canada	156
	Tourgreece	20
	Transat Holidays (USA)	18
Travel Agencies and Distribution	Consultour (including TravelPlus, Club Voyages, Voyages en Liberté and exitnow.ca)	203
	Eurocharter (Club Voyages-France)	167
Hotel Management	Cameleon	1

We favour employee ownership of our share capital. For this purpose, we have established a share purchase plan for employees and executives and a stock option plan for directors and officers. Our policy is to promote good relations with our employees.

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

Employees	Transat's Subsidiary	Affiliation	Status of Collective Bargaining Agreement

Employees	Transat's Subsidiary	Affiliation	Status of Collective Bargaining Agreement
Flight crew members (pilots)	Air Transat	Airline Pilots Association (ALPA)	In force until October 31, 2005
Flight attendants	Air Transat	Canadian Union of Public Employees (CUPE)	In force until October 31, 2005
Dispatch	Air Transat	Airline Pilots Association (ALPA)	In force until October 31, 2005
Crew scheduling and passenger service	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW)	In force until July 31, 2006
Maintenance, stores and technical support	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW)	In force until April 30, 2006
Call centre	Air Transat	Teamsters	In force until October 31, 2006
Mechanics and station attendants	Handlex	Teamsters	In force until August 14, 2006
Passenger service agents	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada)	In force until September 5, 2006
Cabin service attendants – Montréal	Handlex	Union of Local Transport and Various Industry Workers	Expired since March 8, 2004; pending conciliation
Cabin service attendants – Toronto	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada)	In force until May 23, 2007

3.5. PREMISES

On December 21, 2004, Transat, through its subsidiary Air Transat, signed with ADM a long-term lease for the building housing Air Transat's head office and hangar at Montréal-Trudeau as well as land for the exercise of its activities (the "**Complex**"). This Complex occupies an area of approximately 72,723 square metres. It includes office space, a hangar for aircraft maintenance as well as Air Transat's operations centre, which supervises the airline's flights on a 24/7 basis.

Prior to December 2004, Air Transat and Handlex leased the following premises:

Name and Description	Location	Size (square metres)
AIR TRANSAT – Head Office	11,600 Louis-Bisson Montréal International Airport Mirabel, Québec	15,032
Place of Business	12655 Commerce A-4 Montréal International Airport Mirabel, Québec	1,357
Place of Business and Warehouse	19555 Henri-Griffard D Building Montréal International Airport Mirabel, Québec	955
Warehouse	11855 Service A-3 Montréal International Airport Mirabel, Québec	5,574
Place of Business and Warehouse	2450 Derry Road East Hangar 4 Mississauga, Ontario	4,738
Offices	Vancouver International Airport Domestic Terminal Building Suite 4205 Richmond, British Columbia	313
Offices and Warehouse	B103-4851 Miller Road Vancouver International Airport Richmond, British Columbia	575
HANDLEX – Head Office	12655 Commerce A-4 Montréal International Airport Mirabel, Québec	1,665
Counter	975 Roméo-Vachon Nord Montréal-Pierre Elliott Trudeau International Airport Dorval, Québec	164
Place of Business	6300 Silver Dart Drive Terminal 3 Room G210B Mississauga, Ontario	535

Name and Description	Location	Size (square metres)

Since December 2004, Air Transat and Handlex lease the following premises:

Name and Description	Location	Size (square metres)
AIR TRANSAT – Head office	5959 Côte-Vertu Boulevard Montréal, Québec	16,258
Place of Business	612-648 Albert de Niverville Montréal, Québec	967
Place of Business and Hangar	2450 Derry Road East Hangar 4 Mississauga, Ontario	4,738
Offices	Vancouver International Airport Domestic Terminal Building Suite 4205 Richmond, British Columbia	313
Offices and Warehouse	B103-4851 Miller Road Vancouver International Airport Richmond, British Columbia	575
HANDLEX – Head Office	5959 Côte-Vertu Boulevard Montréal, Québec	1,665
Place of Business	6300 Silver Dart Drive Terminal 3 Room G210B Mississauga, Ontario	535

Furthermore, both Air Transat and Handlex also lease counters in airports where they operate.

Transat's headquarters are located at Place du Parc, 300 Léo-Pariseau, in Montréal, Québec in a building where we lease office space for our head office and for our subsidiaries Transat Tours Canada, Rêvatours, Jonview Canada and Consultour. These premises occupy a total area of 14,797 square metres spread on several floors.

We also lease premises situated at 191 The West Mall, Etobicoke, Ontario for Transat Tours Canada and Consultour, which premises total 3,120 square metres spread on three floors. Our subsidiary Transat Tours Canada also leases premises situated at One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, where we occupy 1,368 square metres. Transat

Holidays and World of Vacations/Nolitour lease several ticket counters in Montréal, Québec City, Toronto and Vancouver as well as warehousing facilities in Montréal and Toronto.

Consultour's corporate-owned travel agencies lease premises in Montréal and Québec City as well as in the Toronto area.

We also lease premises situated at 1300 Yonge Street, Toronto, Ontario for Jonview Canada's head office, which premises total 1,852 square metres.

French and other foreign subsidiaries lease the following premises:

Name and Description	**Location**	**Size (square metres)**
LOOK VOYAGES – Head Office	12 Truillot Street Ivry sur Seine, France	3,900
Place of Business	47 Maurice Flandin Street Lyon, France	190
VACANCES TRANSAT (FRANCE) – Head Office	43 Diderot Blvd. Paris, France	1,350
Place of Business	15 Place de la Nation Paris, France	367
BROK'AIR – Head Office	15 Place de la Nation Paris, France	210
EUROCHARTER – Head Office	Parc d'activités de la Maison Neuve 6 Marcel Dassault Street Ste-Luce sur Loire, France	386
TOURGREECE – Head Office	80-88 Syngrou Ave. Athens, Greece	600
Place of Business	162 Ethnikis andistaseos Crete, Greece	115
AIR CONSULTANTS EUROPE – Head Office	Nieuwe Parklaan 17 La Den Haag, Holland	358
TRANSAT HOLIDAYS USA – Head Office	140 South Federal Highway Dania Beach, Florida	459

Eurocharter also leases premises throughout France and owns several outlets in the Paris area for its travel agencies operating under the Club Voyages banner.

3.6. COMPETITION

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

3.6.1. Tour Operators

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

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

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

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

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

On the Canadian Market

We are the largest tour operator in Québec, where we compete with other tour operators, such as Vacances Tours Mont-Royal Inc., Signature Vacations Inc. and several others.

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

Vacations/Nolitour. In Western Canada, we have strengthened our presence through Transat Holidays and World of Vacations/Nolitour.

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

On the French Market and Elsewhere in Europe

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

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

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

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

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

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

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

3.6.2. *Travel Agencies and Distribution*

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

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

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

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

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

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

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

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

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

3.6.3. Air Carriers

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

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

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

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

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

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

3.7. FACTORS AFFECTING DEMAND

After three years marred by exceptional events, including the 9/11 attacks, the war in Iraq and the negative impact of SARS, we are witnessing a return to steady growth for international tourism. According to the World Tourism Organization ("**WTO**"), the number of arrivals has increased by as much as 10% in 2004, compared to less than 1% for the past three years combined. For Transat, in 2004, the number of travellers increased by 11.1% overall compared with 2003. This increase is the result of an 11% increase in Canada and an 11.2% increase in France. In France however, the increase in travellers was offset by a 37.5% decrease in the number of passengers for air-only. This decrease is mainly due to Transat abandoning its regular air-only operations at Look Voyages in accordance with its announced strategy. We expect the overall number of travellers to continue to climb in 2005.

In Canada, revenues increased slightly in the 2004 winter season compared with the comparable season in 2003. This increase is due to an increase in the number of travellers by 5.3% compared with the coinciding season in 2003, offset by a reduction in sales made to tour operators that are not part of our group. Demand was strong for destinations to the Caribbean, Europe and Florida. Higher prices also contributed to these increases.

If current trends are maintained, the 2005 winter season is expected to be better than 2004 in terms of passenger volumes. Bookings are up and there appears to be a desire to travel. However, increased capacity in the marketplace (especially in Ontario) has led to pricing pressures, which led to lower margins during the first quarter of 2005 and which may result in lower margins for the entire winter season.

During the 2004 summer season in Canada, revenues increased by 23.8% due to an increase in the number of travellers by over 20% compared with the 2003 summer season and by the additional revenues generated by the recent acquisition of the balance of Jonview Canada of approximately $35.0 million. The comparative season also had a reduced number of travellers due to the impact of SARS in 2003. Demand was strong for destinations to Europe, especially the United Kingdom and France. Higher prices also contributed to those increases. Although still preliminary, early indications for the summer season indicate higher bookings in 2005 compared with 2004. However, we expect pricing pressures to be more pronounced in the second quarter of 2005 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, both revenues and expenses decreased in the 2004 winter season compared with the comparable season in 2003, resulting in negative margins.

Despite increases in the number of travellers in the current season of 8.9%, our French operations recorded lower revenues and negative margins due to a drop in passengers for air-only travel at Look Voyages of approximately 22%. The increase in travellers was mostly due to increased demand for long-haul travel from Europe to Caribbean Destinations, both at Vacances Transat (France) and Look Voyages, at lower prices overall. The lower prices are the result of competitive pressure.

In Europe, we expect to generate lower revenues for the 2005 winter season due to the abandonment of air-only activities at Look Voyages. For the first quarter of 2005, European operations witnessed a 76.4% drop in air-only passengers, in line with the Corporation's stated intention of focusing on travel packages.

As for the 2004 summer season, in France, although revenues decreased our margins were almost breakeven, which was a significant improvement compared with the 2003 summer season. The reasons for this improvement were decreased losses at Look Voyages, increased demand for long-haul travel from Europe to Canada and the United States at Vacances Transat (France) and the positive effects of foreign exchange at Vacances Transat (France). The number of travellers increased by almost 13% compared with 2003 but these increases were offset by a 64% decrease in air-only passengers. Both revenues and expenses decreased in the first quarter of 2005 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 passenger by 76.4% as mentioned above and the number of travellers by 12.1%.

It is too early to tell how the 2005 summer season will fare in France but we expect the number of travellers from France to Canada to grow compared with 2004.

The international tourism industry has enjoyed almost uninterrupted growth for the past 50 years or so, and the outlook for the future is very promising. For example, the WTO expects that there will be over one billion tourists travelling the world annually by the year 2010, and these figures exclude domestic tourism. This forecast is largely explained by the following fundamentals: improved general standards of living; an aging population with better health, more leisure time and financial resources; and former totalitarian regimes being more free.

As for the holiday package travel industry specifically, its growth in recent years is the result of several additional factors including: improved aircraft efficiency reducing the costs of airline travel; the addition of new destinations; the increasing popularity of all-inclusive packages; and recognition that travel requirements for vacationers are distinct from those of business travellers.

3.8. TRENDS

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

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

We believe that France will also be affected by globalization and concentration. For more details on trends, please refer to Section 3.6 of this AIF on competition.

3.9. THE REGULATORY ENVIRONMENT IN WHICH WE OPERATE

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

3.9.1. Tour Operators and Travel Agencies

In Québec, Ontario and British Columbia, where our operations are centered, tour operators (in this Section, “**Wholesalers**”) and travel agencies (in this Section, “**Retailers**”) (Wholesalers and Retailers are collectively referred to in this Section as “**Travel Agents**”) are governed by legislation providing protection to the travel customer. Pursuant to such legislation, Travel Agents must hold licenses for the performance of their operations and deposit monies received from customers upon the purchase of travel services in a trust account. Travel Agents may withdraw the monies from the trust account prior to their customer's departure solely to make payments to suppliers of the travel services for which the monies were received. Such legislation also requires Travel Agents to provide a security, in the form of a bond or letter of credit, to the authority supervising the carrying out of its provisions as a condition to being granted a Travel Agent's license. Additionally, such legislation establishes compensation funds for the protection against fraud and bankruptcies of Travel Agents and end suppliers, such as airlines or cruise lines. Control and inspection mechanisms ensure compliance with the applicable legislation.

For the past three years, the provincial legislatures of Québec, Ontario and British Columbia have been working on a sweeping review of their travel legislation. This review became necessary out of consumer-related concerns for improved transparency and to increase consumer protection following the demise of air carriers and Travel Agents in the aftermath of the 9/11 attacks and due to fraud, as well as the depletion of compensation funds that resulted from these events. Also at stake were Travel Agents' as regards being called upon to pay out of their own pocket for events which were not attributable to them, such as in the case of fraud or the demise of suppliers, and to remain competitive in a challenging environment.

On December 17, 2002, the Province of Québec enacted its new *Travel Agents Act*, R.S.Q. c. A-10 (the "***Travel Agents Act***"). This act grants additional powers to the President of the *Office de la protection du consommateur* (the "**Office**"), the authority responsible for the application of the *Travel Agents Act*, to name a provisional administrator to temporarily manage or terminate the current business of a Travel Agent in certain circumstances; provides that the funds collected by a Travel Agent and deposited in a trust account are deemed to be held in trust whether or not they were kept distinctly and separately from the own funds of the Travel Agent, of one of its officers or from the mass of their property; makes every director of a Travel Agent solidarily liable for the amounts which must be kept in trust with the individual in whose name the Travel Agent's license is issued on behalf of the Travel Agent and the legal person acting as a Travel Agent, unless the director proves that he acted in good faith; and increases fines for persons guilty of an offence under the *Travel Agents Act*.

At about the same time, the Québec government introduced specific amendments to the *Regulation Respecting Travel Agents* (as they existed at the time) to: tighten the criteria for granting a Travel Agent's license by requiring individuals applying for such license or a renewal thereof to establish that they never held a license nor held the position of officer of a legal person acting as a Travel Agent who was the cause of payment of a claim by any of the Wholesalers' or Retailers' collective security funds (as existed until November 11, 2004); to prohibit Travel Agents from selling or offering for sale air transportation or travel package including an air component unless the air carrier holds the required licenses or approvals from the appropriate authorities in all relevant jurisdictions; and to allow the President of the Office to advance monies to any of the collective security funds in the event that the latter lacks funds for the settlement of customers' claims as well as to reimburse himself using Travel Agents' contributions to such collective security funds. In this respect, the Québec government advanced $6 million in order to replenish the tour operators' collective security fund, thereby insuring that travelers would be either repatriated when stranded on destination or compensated.

On November 11, 2004, Québec completed the reform begun in December 2002 by adopting a new *Regulation Respecting Travel Agents*, R.S.Q., c. A-10, r. 1 (the "**Québec Regulation**") which came into force on the same date. The regulation introduces a new *Fonds d'indemnisation des clients des agents de voyages* ("**Indemnity Fund**") that replaces the former

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

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

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

Prices advertised in a brochure may not be in increased for 60 days after their publication, unless the increase results from an increase in taxes, royalties or charges authorized by a competent public authority. This means that in some cases, the Travel Agent may be forced to absorb the costs of a fuel surcharge paid to an air carrier, as he will not be able to pass it on to customers. In brochures as in any other advertising, the tour operator must comply with certain requirements, including featuring the validity period of the advertised prices on the front page of the brochure and complying with a minimum typeface.

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

Further legislative changes followed with the enactment in Ontario in December 2002 of a new *Travel Industry Act*, 2002, S.O. 2002, c. 30, Sched. D (the "**New Ontario Travel Act**") part of Ontario's new *Consumer Protection Act*, 2002, S.O. 2002, C. 30, Sched. A. This new legislation is not currently in force. We anticipate that both acts and regulations under both acts will come into force on July 1, 2005.

The New Ontario Travel Act continues the compensation fund and increases fines that may be levied from persons guilty of an offence under the act. It also proposes to amend the liability imposed on Retailers for end supplier failure. It gives the Minister of Consumer and Business Services the power to make regulations establishing a code of ethics for the travel industry. Finally, the new legislation provides that the Lieutenant-Governor and Council may make regulations dealing with a broad range of matters to regulate the industry, including the maintenance of trust accounts and the money that shall be held in trust and the administration and management of the compensation fund. There is no indication for the moment that the legislator in Ontario will follow Québec's lead and opt for a compensation fund financed by customers.

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

Ontarion Regulation 806/93 under the current *Travel Industry Act*, R.S.O. 1990, c. T.19 already includes similar provisions to those introduced in Québec in the aftermath of Travel and end supplier failures following the September 11, 2001 events. For instance, registered Travel Agents are prohibited from selling or offering for sale travel services that consist solely of or include air transportation unless the air carrier has been duly licensed, received or filed to obtain regulatory approvals from the appropriate authorities and has complied with regulatory requirements in Canada and in any other relevant jurisdiction. Additionally, a Travel Agent will not be registered if he caused payments to be made out of the compensation fund with respect to claims, if he has not reimbursed such claims.

Proposed changes for Ontario Regulation 26/05 amending Ontario Regulation 806/93 (which will be in force on July 1, 2005) include a requirement in any representation that refers to the price of travel services, to show in a clear, comprehensible and prominent manner the total amount to be paid for travel services, either including all fees, levies, service charges and surcharges or excluding them and, in the latter case, to provide an itemized list of the cost for each fee, levy, service charge and surcharge, or the total cost the customer will be required to pay for fees, levies, service charges or surcharges. Under the proposed regulation, it is not necessary for the representation that refers to the price of travel services to deal with retail sales tax or federal goods and services tax. Under the current state of the law, Travel Agents have the option to either state that the advertised price includes the federal goods and services tax, transportation taxes and related transportation fees or that the advertised price does not include those items. Naturally, all Travel Agents currently choose the latter option. The proposed change is a compromise between the existing all-inclusive pricing in the Province of Québec and the current state of the law in Ontario.

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

At some point in time, the federal legislator attempted to introduce Bill C-26, the *Transportation Amendment Act* amending among others certain provisions of the *Canada Transportation Act*. Proposed provisions included an obligation for airlines advertising the price of an air service in Canada or originating in Canada to indicate the total amount to be paid by the purchaser for the service. The proposed legislation went on to provide that fees or charges collected on behalf of an airport authority, the Air Travellers Security Charge or any other fees or charges collected by an airline on behalf of a government, need not be included if the fee or charge is individually identified and its amount, or the range of the amount, is indicated in the advertisement. Federal or provincial tax payable by the purchaser did not need to be included so long as the tax was identified - as opposed to quantified - in the advertisement. The proposed bill died with the session of parliament in November 2003.

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

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

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

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

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

It remains to be seen how this cap will work out with the contribution holiday applicable to licensees under the legislation when the book value of the Travel Assurance Fund is at least

$1.0 million and the contributor has paid the required contributions for successive semi-annual periods totalling three years.

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

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

3.9.2. Air Carriers

International Regulations

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

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

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

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

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

Canadian Legislation

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

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

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

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

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

Foreign Legislation

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

3.9.3. Environment

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

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

3.10. RISK FACTORS THAT COULD AFFECT OUR BUSINESS

We are subject to a number of risks, some of which are related or inherent to the travel industry in general, including the ones described below in the order of their seriousness.

Economic and General Factors

Economic factors such as a significant downturn in the economy, a recession or a decline in the employment rate in Canada, France and key international markets may have a negative impact on our business and operating results by affecting demand for our products and services. Our operating results could also be affected by general factors such as extreme weather conditions, war, political instability or terrorism, or any threat thereof, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perception of airline safety, demographic trends, disruptions to the air traffic control system, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

Competition

We face many competitors in the holiday travel industry, some of which are larger in size, have strong brand name recognition and presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to individual travellers at preferential prices. These pressures may adversely impact our revenues and margins since we would likely have to match competitors' prices.

Fluctuation of Currency Exchange Rates and Interest Rates

We are exposed, by reason of our many arrangements with foreign-based suppliers, to fluctuations in exchange rates as regards the U.S. dollar against the Canadian dollar and the Euro. These fluctuations could increase our costs of operations. Changes in interest rates could also impact our interest income from our cash and cash equivalents and interest expense from variable rate debt instruments, in turn affecting our earnings. We currently purchase derivative financial instruments to hedge against exchange-rate fluctuations as well as interest rates on a portion of our long-term debt, obligations under capital leases and off-balance sheet financing for aircraft.

Fuel Costs and Supply

Transat is exposed in particular to fluctuations in the cost of fuel. Due to the competitive pressures in the industry, there can be no assurance that we would be able to pass on any increase in fuel prices to our customers by increasing fares and that any fare increase would offset increased fuel costs, which could in turn adversely impact the business, financial condition or results of our operations. We currently purchase futures contracts to hedge against the risk of fluctuations in the cost of fuel. Furthermore, to the extent that there would be a reduction in the supply of fuel, our operations could be adversely impacted.

Changing Industry Dynamics: New Methods of Distribution

The widespread adoption of the Internet has resulted in travellers being able to access information about travel products and services and to purchase such products and services directly from suppliers, thereby bypassing both vacation providers such as Transat and retail travel agents through whom we receive a substantial portion of our revenues. In order to remain competitive, we have launched and developed an online booking service in Canada several years ago, www.exitnow.ca, allowing consumers to purchase their travel products on line.

Additionally, the recent erosion of commissions paid to travel distributors by travel suppliers, particularly airlines, has weakened the financial condition of many travel agents. Because we currently rely to some extent on retail travel agencies for access to travellers and revenues, a shift in consumer purchasing away from travel agencies and toward direct purchasing from travel suppliers could have an impact on the Corporation.

Reliance on Contracting Travel Suppliers

Despite being well positioned by reason of our vertical integration, we are nonetheless dependent on travel suppliers for the sale of our products and services. Furthermore, we increasingly rely on airlines that are not part of our group to transport our passengers to their vacation destination. Our travel suppliers may generally terminate or modify existing agreements with us upon relatively short notice. The inability to replace these agreements with similar suppliers or to renegotiate agreements at reduced rates could have an adverse effect on our results. Furthermore, any decline in the quality of travel products and services provided by these suppliers, or a perception by travellers of such a decline, could adversely affect our reputation. The loss of contracts, changes in our pricing agreements, more restricted access to travel suppliers' products and services or less favourable public opinion of certain travel suppliers resulting in low demand for their products and services could have a significant effect on our results.

Dependence on Technology

Our business is dependent on our ability to access information, manage reservation systems, including handling a high volume of telephone calls on a daily basis, and distribute our vacation products to retail travel agents and other travel intermediaries. To this end, we rely on different information and telecommunications technologies. Rapid changes in these technologies may require greater-than-anticipated capital expenditures to improve or upgrade the level of customer service, which could impact our operating results. Additionally, any failure or outage of these systems could adversely affect our business, customer relationships and operating results.

Dependence on Customer Deposits and Advance Payments

Transat derives significant interest income from consumer deposits and advance payments. Our investment policy restricts us to investing these deposits and advance payments only in investment-grade securities. A failure of these investment securities to perform at their historical levels could reduce the interest income realized by the Corporation.

Negative Working Capital

Our activities generate customer deposits and advance payments. If the flow of money from these advance payments were to diminish and we were required to find an alternative source of capital, there is no assurance that such source would be available at terms and conditions acceptable to the Corporation and this could have a significant effect on our business.

Fluctuation of Financial Results

The travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuation. We therefore believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as an indication of future performance. Furthermore, due to all of the economic and general factors described above, our operating results in future periods may fall below the expectations of securities analysts and investors, thus affecting the market price of our shares.

Government Regulation and Taxation

Future results of Transat may vary based upon any actions which governmental authorities with jurisdiction over the Corporation's operations may take, including the granting and timing of certain governmental approvals or licenses, the adoption of regulations that impact customer service standards, such as new passenger security standards, the adoption of more restrictive noise restrictions or curfews and the adoption of provincial regulations that impact operations of retail and wholesale travel agencies. Additionally, new or different regulatory schemes or changes with respect to tax policy could have an effect on our operations as regards hotel taxes, car rental taxes, airline excise taxes and airport taxes and fees.

Future Capital Requirements

Transat may need to raise additional funds in the future in order to take advantage of growth opportunities or to respond to competitive pressures. There can be no assurance that additional financing will be available on terms and conditions acceptable to the Corporation, and this could adversely affect our business.

Interruption in Operations

Should operations be interrupted for any reason, including unavailability of aircraft due to mechanical reasons, loss of revenues associated with the utilization of aircraft could have an impact on the business, financial condition and results of our operations.

Insurance Coverage

Following the terrorist attacks of September 11, 2001, the airline insurance market gave notice to cancel all aircraft hull and liability coverage with respect to risks resulting from war and terrorist acts. This notice was subsequently rescinded, but the limit of liability applicable to civil liability to third parties for bodily injury and property damage was reduced to US$50.0 million.

There being no commercial market immediately available to insure airlines worldwide for their civil liability to third parties resulting from war and terrorist acts in excess of US$50.0 million, it was necessary for individual governments to cover their airlines against this risk until commercial insurance became available at commercially reasonable terms. Both France and Canada covered their air carriers accordingly.

Over the last two and a half years, a commercial market has become available to insure this risk, but it is a subject of some discussion as to whether the terms are reasonable. Moreover, some market players are not licensed to transact business in Canada. Nevertheless, the French government has withdrawn its protection, forcing the Corporation's French airline affiliate, STAR Airlines, to revert to the commercial insurance market. The Canadian government continues to afford protection to its air carriers, prompted by the licensing situation and the fact that the United States government continues to provide protection to its own carriers for such risk. However, there can be no assurance that the Canadian government will not withdraw its protection, particularly if the United States government should change its position.

In the meantime, ICAO continues to lobby for support from all governments to achieve an industry solution financially aided by each government that would provide the requisite protection at reasonable cost. Thus far, ICAO has failed to obtain majority support for such a plan from its member governments. There is no assurance that such a solution will be found or if found, how long it will take to be implemented.

Casualty Losses

We believe that our suppliers and the Corporation have adequate liability insurance to cover risks arising in the normal course of business, such as claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying our customers. Although we have never experienced a liability claim for which we did not have adequate insurance coverage, there is no assurance that our insurance coverage would be sufficient to cover larger claims or that the insurer concerned would be solvent at the time of any covered loss. Additionally, there is no assurance that we will be able to obtain insurance coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operations.

Slot and Gate Availability

Access to landing and departure runway slots, airport gates and facilities are critical to our operations and our strategy for future growth. The availability or cost of these facilities in the future could have a negative effect on our operations.

Aircraft Lease Obligations

Transat has significant lease obligations relating to our fleet of aircraft, which obligations may not be cancelled. To the extent that the revenues derived from the operation of aircraft decrease in the future, payments to be made on our lease agreements could have a substantial impact on our operations.

Key Personnel

Our future success will depend on our ability to attract and retain qualified personnel. The loss of key individuals could adversely affect our business and operating results.

Uncertainty of Future Collective Bargaining Agreements

Our operations could be adversely affected by our inability to reach an agreement with any labour union representing employees, such as pilots.

4. SELECTED CONSOLIDATED FINANCIAL INFORMATION

4.1. ANNUAL

Our selected consolidated financial information over the last three fiscal years ended October 31 has been taken from our consolidated audited financial statements.

	2004	**2003**	**2002**
	(in thousands of dollars, except per share data)		
Revenues	2,199,822	2,096,649	2,073,508
Revenues less operating expenses	163,755	74,96	74,14
Income (loss) from continuing operations	72,451	(9,147)	11,678
Income (loss) from discontinued operations	----	54,083	(1,853)
Net income	72,451	44,936	9,82
Cash flow from operating activities (continuing operations)	185,100	71,697	183,234
Property, plant and equipment	93,128	101,741	169,316
Total assets	838,389	714,757	773,468
Long-term debt and obligations under capital leases (including current portion)	----	35,350	82,702
Debentures	30,792	29,981	29,226
Shareholders' equity	313,528	241,346	193,743
Basic earnings (loss) per share			
Continuing operations	2.07	(0.38	0.
Discontinued operations	----	1.	(0.06
	2.07	1.	0.24
Diluted earnings (loss) per share			
Continuing operations	1.76	(0.38	0.
Discontinued operations	----	1.	(0.06
	1.76	1.	0.

4.2. Segmented Information

We operate in two geographic areas, namely in Canada and in Europe, specifically France.

	Canada		France and other (in thousands of dollars)		Total	
	2004 $	**2003 $**	**2004 $**	**2003 $**	**2004 $**	**2003 $**
Revenues from third parties	1,673,530	1,525,846	526,292	570,803	2,199,822	2,096,649
Operating expenses	1,495,971	1,435,190	540,096	586,497	2,036,067	2,021,687
	177,559	90,65	(13,804)	(15,694)	163,755	74,962
Amortization	28,585	36,51	4,442	5,624	33,027	42,138
Restructuring charge	----	42,21	11,350	5,758	11,350	47,972
Additions to property, plant and equipment	19,819	7,8	1,083	4,706	20,902	12,513
Property, plant and equipment and goodwill	127,485	128,816	52,609	42,607	180,094	171,423

4.3. Statistics of the Last Eight Quarters

Selected Quarterly Unaudited Financial Data

	In thousands of dollars, except per share data							
	Q1		Q2		Q3		Q4	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Revenues	537,200	529,076	696,224	718,822	499,118	444,121	467,280	404,630
Net income (loss) from continuing operations	2,807	(6,974)	45,453	15,376	12,823	(10,088)	11,368	(7,461)
Earnings (loss) per share from continuing operations	0.06	(0.24)	1.35	0.45	0.36	(0.33)	0.31	(0.25)
Diluted earnings (loss) per share from continuing operations	0.06	(0.24)	1.10	0.39	0.31	(0.33)	0.27	(0.25)

	In thousands of dollars, except per share data							
	Q1		Q2		Q3		Q4	
	2004	2003	2004	2003	2004	2003	2004	2003
Net income (loss)	2,807	(6,974)	45,453	15,376	12,823	(10,088)	11,368	46,622
Basic earnings (loss) per share	0.06	(0.24)	1.35	0.45	0.36	(0.33)	0.31	1.40
Diluted earnings (loss) per share	0.06	(0.24)	1.10	0.39	0.31	(0.33)	0.27	1.40

5. DIVIDENDS

Since its incorporation, Transat has never declared or paid any dividends. For the time being, we do not expect to declare any dividends on our common shares and intend to use our future profits to finance our operations and expansion.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

We refer you to Management's Discussion and Analysis included on pages 12 to 47 in our 2004 Annual Report. Management's Discussion and Analysis is incorporated by reference to this AIF. Our 2004 Annual Report is available for consultation on SEDAR at www.sedar.com.

7. OUR CAPITAL STRUCTURE

7.1. CONSTRAINTS

Pursuant to the *Canada Transportation Act*, Air Transat must establish, at all times, that it is "Canadian" within the meaning of such act in order to hold the licences necessary to operate an air service. Because Transat wholly owns Air Transat, we must qualify as "Canadian" in order for Air Transat to qualify as "Canadian". In other words, we must ensure that no more than 25% of our voting shares are owned or controlled by non-Canadians.

In this respect, our Articles provide for Class A Variable Voting Shares (the "**Variable Voting Shares**") and Class B Voting Shares (the "**Voting Shares**") pursuant to Transat's latest Articles of Amendment, adopted at a special meeting of shareholders held on February 24, 2005, and for which a Certificate of Amendment was issued by Industry Canada on March 4, 2005, bringing the Articles in full force and effect on that date. The Variable Voting Shares may only be owned or controlled by non-Canadians and carry one vote per share unless, notably, the number of issued and outstanding Variable Voting Shares exceeded 25% of all the issued and outstanding Transat voting shares, in which case the vote attached to the Variable Voting Share decreases so that the class of Variable Voting Shares as a whole never carries more than 25% of the vote. The Voting Shares may only be owned and controlled by Canadians and always carry one vote per share. All the other rights privileges, conditions and restrictions for the two classes of shares are the same. Transat's Articles provide for the automatic conversion from Voting Shares to Variable Voting Shares, in the case where such Voting Shares become owned by non-Canadians, and *vice-versa.* You will find the general description of our share capital as at the date of this AIF in Section 7.2 of this AIF. You will also find more information dealing with the background and purpose of Transat's latest amendment to its Articles in our Management Proxy

Circular in respect of the special meeting of shareholders held on February 24, 2005. This document is available for consultation on SEDAR at www.sedar.com.

Pursuant to By-Law No. 1999-1, Transat's Board of Directors may take measures in order to ensure that the Voting Shares are owned and controlled by Canadians and Variable Voting Shares are owned or controlled by non-Canadians at all times, and in particular prior to exercising the right to vote attached to such shares at a shareholders' meeting, in accordance with the provisions of our Articles and the *Canada Transportation Act*. Notably, Transat By-Law No. 1999-1 empowers Transat's Board of Directors to require information in the form of solemn declarations, at any time and at its sole discretion, from holders of Voting Shares confirming that they are Canadian and from holders of Variable Voting Shares confirming that they are non-Canadian.

In the case of a failure to provide such a declaration upon request, our Board of Directors may refuse to recognize ownership rights attributable to the Variable Voting Shares or the Voting Shares, including the voting rights attached to such shares. The Board of Directors may also require participants in The Canadian Depository for Securities Limited (CDS) and the Depository Trust Company (DTC) to withdraw from the book-entry system of such depositories and hold a registered position for such shares.

7.2. General Description of our Share Capital

As at the date of this AIF, Transat's share capital is composed of Voting Shares and Variable Voting Shares introduced in our latest Articles of Amendment filed on March 4, 2005 and effective as at that date, as well as Preferred Shares. There were, as of March 4, 2005, 7,818,212 issued and outstanding Variable Voting Shares and 27,226,862 issued and outstanding Voting Shares. Below is a summary describing the rights, privileges, restrictions and conditions attached to Transat's Variable Voting Shares, Voting Shares and Preferred Shares.

7.2.1 Variable Voting Shares

Exercise of Voting Rights

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

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

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

Dividends

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

Subdivision or Consolidation

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

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

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

Conversion

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

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

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

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

Constraints on Share Ownership

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

7.2.2 Voting Shares

Exercise of Voting Rights

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

Dividends

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

Subdivision or Consolidation

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

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

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

Conversion

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

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

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

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

Constraints on Share Ownership

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

7.2.3 Preferred Shares

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

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

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

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

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

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

8. MARKET FOR SECURITIES

8.1. TRADING PRICE AND VOLUME

Transat's common shares, as they existed prior to the filing of our latest Articles of Amendment on March 4, 2005, are listed on the Toronto Stock Exchange ("**TSX**"), under the symbol TRZ. Following the coming into effect of the amendments to Transat's Articles and more specifically the conversion of the common shares into Class A Variable Voting Shares and Class B Voting Shares, as the case may be, Class A Variable Voting Shares are listed on the TSX under the symbol TRZ.RV.A and Class B Voting Shares are under the symbol TRZ.B.

The following table sets out the reported high and low prices and traded volume of the Common Shares on the TSX, for the most recently completed financial year.

The Toronto Stock Exchange Price Range and Volume Traded			
Monthly Period	**High Price**	**Low Price**	**Traded Volume**
November 2003	$10.45	$8.00	9,291,059
December 2003	$11.49	$10.05	2,236,144
January 2004	$15.25	$9.47	11,450,753
February 2004	$16.40	$14.15	6,765,101
March 2004	$17.13	$15.21	6,066,687
April 2004	$17.00	$15.51	4,813,381
May 2004	$16.51	$14.51	3,337,360
June 2004	$19.85	$15.00	6,396,677
July 2004	$22.00	$19.15	4,052,131
August 2004	$22.30	$18.55	2,901,110
September 2004	$22.75	$19.50	11,193,891
October 2004	$22.75	$20.50	11,679,563

On October 29, 2004, the closing price of the common shares on the TSX was $22.50 per share.

8.2. PRIOR SALES

During the fiscal year ended October 31, 2004, we issued 44,047 common shares for a total of $602,000 under the share purchase plan for the benefit of employees and executives of Transat.

In the course of our January 10, 2002 financing, we issued 1,421,225 warrants entitling the holders to subscribe to the same number of common shares of Transat at an exercise price of $6.75 each. These warrants expire on January 10, 2007. As at October 31, 2004, 44,200 warrants were exercised.

9. OUR DIRECTORS AND OFFICERS

9.1. OUR DIRECTORS

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

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed[(1)]

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed(1)
Jean-Marc Eustache *Québec, Canada*	Chairman of the Board, President and Chief Executive Officer, Transat, President, Look Voyages and Chairman of the Board, Transat Tours Canada	February 1987	609,710
André Bisson, O.C. *Québec, Canada*	Chairman of the Board, CIRANO *(Centre for Interuniversity Research and Analysis on Organizations)*	April 1995	14,262
Lina De Cesare *Québec, Canada*	President, Tour Operators, Transat, President, Cameleon Hotel Management Corporation and President, Transat Tours Canada	May 1989	126,013
Benoît Deschamps *Québec, Canada*	President, Champré Capital Inc.	April 1997	6,502
Jean Guertin *Québec, Canada*	Corporate Advisor and Director, Honorary Professor, HEC Montréal	April 1995	5,596
H. Clifford Hatch Jr.(2) *Ontario, Canada*	President and Chief Executive Officer, Aurdisyl Management Corporation and Cliffco Investments Limited	March 2001	3,374
Jacques Simoneau *Québec, Canada*	President and Chief Executive Officer, Hydro-Québec CapiTech Inc.	November 2000	--
Helen K. Sinclair *Ontario, Canada*	President and Chief Executive Officer, BankWorks Trading Inc.	March 2003	5,690
Philippe Sureau *Québec, Canada*	President, Distribution, Transat and President, Consultour	February 1987	364,262
John D. Thompson *Québec, Canada*	Deputy Chairman, Montréal Trust Company of Canada	April 1995	15,512

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed[(1)]
Denis Wood, O.C. *Québec, Canada*	Chairman of the Board, President and Chief Executive Officer, Dennis Wood Holdings Inc. and Chairman of the Board, Evolved Digital Systems Inc.	March 2004	7,143

(1) Under the guidelines adopted by Transat, each director who is not an employee must hold a number of shares or deferred share units equivalent to three times the base annual fees to which he or she is entitled after having served three years as a director. The number of shares indicated is given as at March 15, 2005 and is based on the declarations of our directors. Until November 19, 2004, Mr. Jacques Simoneau was under the employment of the Solidarity Fund QFL (the "**Solidarity Fund**") and sat on our Board of Directors as a Solidarity Fund representative. Due to this position and pursuant to the Solidarity Fund's code of ethics, Mr. Simoneau was not authorized to hold any voting shares of Transat.

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

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

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

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

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

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

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

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

Messrs. André Bisson, O.C. and Benoît Deschamps, as well as Mrs. Helen K. Sinclair, are members of the Corporate Governance and Nominating Committee chaired by Mr. H. Clifford Hatch Jr.

9.2. OUR OFFICERS

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

Name, Province and of Residence	First Year of Service with Transat	Position Held with Transat	Voting Shares Owned or Controlled or Directed[1]
Jean-Marc Eustache *Québec, Canada*	1987	Chairman of the Board, President and Chief Executive Officer	609,710
Philippe Sureau *Québec, Canada*	1987	President, Distribution	364,262
Lina De Cesare *Québec, Canada*	1989	President, Tour Operators	126,013
Jean-Marc Bélisle *Québec, Canada*	1997	Vice-President and Chief Information Officer	25,138
Bernard Bussières *Québec, Canada*	2001	Vice-President, General Counsel and Corporate Secretary	20,741
André De Montigny *Québec, Canada*	2000	Vice-President, Corporate Development	14,513
Nelson Gentiletti *Québec, Canada*	2002	Vice-President, Finance and Administration and Chief Financial Officer	8,867
Louise Piché *Québec, Canada*	2002	Corporate Vice-President, Human Resources	7,738

(1) The number of shares indicated is given as at March 15, 2005 and is based on the declarations of our officers. You will find information pertaining to the number of shares held by executive officers of certain of our subsidiaries, which executive officers are not mentioned in this AIF, in the Management Proxy Circular in respect of the special meeting of shareholders held on February 24, 2005.

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

- Mr. Philippe Sureau was Executive Vice-President of Transat, just prior to being named President, Distribution on December 17, 2004. He was President and Chief Executive Officer of Air Transat from March 1997 to November 2000. He is also President of Consultour;
- Mrs. Lina De Cesare was Executive Vice-President, Tour Operators of Transat, just prior to being named President, Tour Operators on December 17, 2004. She is also President of Cameleon Hotel Management Corporation and Transat Tours Canada;
- Mr. Bernard Bussières was a senior partner of Fasken Martineau DuMoulin LLP from January 1995 to February 2001;
- Mr. André De Montigny was Vice-President, Telecommunications of Capital Communications, a subsidiary of Caisse de dépôt et placement du Québec, from February 1998 to June 2000;
- Mr. Nelson Gentiletti was Vice-President and Chief Financial Officer at Unican Security Systems Limited from September 1997 to March 2001. From April 2001 to July 2002, he was Chief Financial Officer at BCE Emergis Inc., a subsidiary of BCE Inc. He is also Executive Vice-President of Transat Tours Canada since August 30, 2004; and
- Mrs. Louise Piché was Vice-President, Human Resources at the Business Development Bank of Canada from 1998 to August 2002.

10. LEGAL PROCEEDINGS

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

Air Transat is the subject of proceedings instituted by passengers on board one of its Airbus A300-200s that had to make an emergency landing in the Azores on August 24, 2001. Out of 293 passengers and 13 crew members on board, sixteen passengers and two crew members were injured during the evacuation of the aircraft. All injuries were minor or very minor except for two passengers, who suffered serious, but no life threatening, injuries.

On September 14, 2001, Josephine and Jorge Nunes instituted a class action in the Ontario Superior Court of Justice against Air Transat, Rolls-Royce Canada Limited and Airbus of North America, Inc., claiming damages in the amount of $70.0 million. This class action was certified in August 2003. Plaintiffs Jason, Lucy and Victor Carvalho also filed a separate action against Air Transat on December 5, 2001 in the Ontario Superior Court of Justice, claiming an amount of $1.4 million.

Air Transat's insurers and counsel for the passengers reached a settlement agreement on March 1, 2005. The $7.65 million settlement applies to 175 passengers, the 118 others having already settled their cases out of court. The compensation offered to passengers varies on a case per case basis and is strictly confidential, but it should be noted that a significant portion of the settlement covers administrative expenses as well as legal fees for the passengers' counsel. As is the case with any out of court settlement arising in a class action proceeding, the parties' settlement is subject to Court approval. The latter is expected sometime in April 2005 and will bring an end to all proceedings initiated in connection with the emergency landing of flight TS 236.

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

11. TRANSFER AGENT AND REGISTRAR

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

12. AUDIT COMMITTEE DISCLOSURE

12.1. AUDIT COMMITTEE'S CHARTER

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

Audit Committee

Constitution

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

The Audit Committee helps the Board of Directors discharge the oversight responsibilities it owes to shareholders, employees, and all interested parties. Such oversight responsibilities pertain to the financial statements of the Corporation, internal control systems, identification of risks (in collaboration with the Corporate Governance and Nominating Committee), the statutory audit of the annual financial statements and compliance with the laws, regulations and codes as established by management and the Board.

Role of the external auditors

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

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

supervising the participants in the preparation procedure of the financial information and reporting thereon to the Board of Directors of the Corporation.

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

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

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

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

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

Powers

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

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

Financial Literacy

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

Mandate

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

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

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

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

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

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

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

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

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

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

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

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

X. Examine the appropriateness of setting up an internal audit system and, when in place, see to the scope of its work. The internal auditors will have the responsibility, among others, to assess the internal controls put in place by management to:
- determine whether they are effective and efficient; and
- identify and disclose any weaknesses noted to the Audit Committee and the parties concerned;

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

XII. Draft and ensure follow-up of a policy on complaint procedures for accounting and auditing matters for the Corporation and its subsidiaries and ensure compliance therewith[3].

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

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

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

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

XVII. Review the status of capital expenditures;

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

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

XX. Ensure that management of the Corporation maintains effective internal control and risk management systems, see to the efficient operation of the internal control system and periodically receive from management and, as the case may be, from the internal auditors, confirmation as to:
- the efficiency of operations;
- the reliability of the financial information disclosed;
- compliance with laws and regulations;

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

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

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

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

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

The external auditors may perform all other non-audit services, including taxation services, provided that the services offered are pre-approved by the Audit Committee[4].

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

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

- bookkeeping or other services related to the accounting records or the financial statements;
- valuation services, opinions on the fairness of the price offered or reports on contributions in kind;
- internal audit outsourcing services;
- management functions;
- human resources services;
- expert services prohibited by regulatory authorities;
- design and implementation of a financial information system;
- legal services;
- actuarial services; and
- brokerage, investment counsel and investment agreement services;

XXV. Review, with the Corporation's external auditors, the findings resulting from their audit, if any, and report to the Board of Directors on the following points:
- the effectiveness of the registers and the accounting, internal control and information systems of the Corporation and the extent to which such registers are appropriately kept and such systems are uniformly applied;
- in collaboration with the Human Resources and Compensation Committee, the competence and efficiency of personnel assigned to finance, accounting and internal control of the activities of the Corporation; and
- examine any other issue or perform any other work that the Board of Directors may deem appropriate to entrust to the Audit Committee from time to time.

<u>Annual Work Program</u>

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

<u>Additional Comments</u>

The Audit Committee approves the disclosure policy and reviews it periodically. When a follow-up is required of the Audit Committee, the latter coordinates the appropriate solution and

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

supervises disclosure to ensure the consistency of any information that is disseminated regarding the Corporation.

The charters of our Corporate Governance and Nominating Committee and our Human Resources and Compensation Committee, as well as our Code of Ethics, will be published in our Management Proxy Circular in respect of the 2005 annual and special meeting of shareholders to be held on April 27, 2005.

12.2. COMPOSITION OF OUR AUDIT COMMITTEE

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

Financial Literacy

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

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

Jean Guertin. Mr. Guertin holds an MBA degree from HEC Montréal and a Ph.D. in Business Administration, with a major in Corporate Finance, from Harvard University. From 1975 to 1987, he taught corporate finance at HEC Montréal. He then became Director of HEC Montréal from 1987 to 1994. From 1995 to 1999, Mr. Guertin was Chairman of the Board and Chief Executive Officer of Société Gasbeau and, from 1999 to 2001, he held the same position with Société Télémédia, two private corporations. He is currently Corporate Advisor and Honorary Professor at HEC Montréal. During the course of his career, Mr. Guertin acted as a director of several publicly traded corporations, including Alimentation Couche-Tard Inc. and The Algo Group. Mr. Guertin currently sits on several boards of directors, including that of Canadian Helicopters Limited, for which he acts as Chairman of the Board, and the Canadian Investor Protection Fund. He chairs the Portfolio Evaluation Committee of Desjardins Venture Capital and sits on several advisory boards, including that of Voyages Aller Retour Limitée, Capital Benoît and Starlink Aviation, and also of several non-profit organizations. During the years he spent at the head of HEC Montréal, Mr. Guertin was instrumental in launching fund raising activities and repatriating the institution's retirement fund. He was also involved in the planning, financing and construction of the building now housing HEC Montréal, a project estimated at $110.0 million. As part of his academic activities, Mr. Guertin presided over the general review of the institution's curriculum. Mr. Guertin's primarily role as Chairman of the Board and Chief Executive Officer of Société Gasbeau and Société Télémédia included business mandates, specifically the privatization of the public company, the global refinancing of the business and the redeployment of venture capital activities. Mr. Guertin's strong background in corporate finance, supported by his experience both in the public and private sectors, gives him an understanding of the accounting principles used by Transat in the preparation of its financial statements.

John D. Thompson. Mr. Thompson has a bachelor's degree in engineering from McGill University. He also holds an MBA degree from the University of Western Ontario. From 1962 to 1994, Mr. Thompson held several managerial positions in the field of commercial financing and corporate financing for large firms with Roynat Capital, Canada's leading private merchant bank, where he was employed as General Manager from 1968, President and Chief Executive Officer from 1973 and of which he became Chairman of the Board of Directors in 1989. During the same year, Mr. Thompson was promoted to the position of President and Chief Executive Officer of the Montréal Trust Company of Canada. In 1994, he became Deputy Chairman of Montréal Trust, which position he holds to this day. During the course of his career, Mr. Thompson also acted as a director of various Canadian companies. He currently sits on the board of directors of the National Trust Company, the Bank of Nova Scotia Trust Company, the Scotia Life Insurance

Company, the Scotia General Insurance Company, the Scotia Mortgage Corporation, the Mortgage Insurance Company of Canada, Shermag Inc. and Triton Électronique Inc. He is also a director of the MacDonald Stewart and Windsor foundations. As part of the numerous managerial positions he has held in the field of commercial financing and corporate financing for large firms, Mr. Thompson's primarily role was to analyse, structure and conclude financings for private and publicly traded corporations of all sizes. In doing so, he closely examined financial statements on a regular basis and questioned management thereon. He has developed an understanding of accounting principles through his experience in carrying out comprehensive analyses or evaluations of financial statements. He has also assessed a company's internal controls and procedures for financial reporting. Furthermore, Mr. Thompson acted as a member of the audit committee for various Canadian companies.

12.3. COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

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

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

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

12.5. EXTERNAL AUDITOR SERVICE FEES

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

For the fiscal years ended October 31, 2004 and October 31, 2003, Ernst & Young LLP billed the following fees for audit, audit-related, tax and all other services provided to the Corporation:

	2004	2003
Audit Fees[1]	$891,000	$887,000

	2004	2003
Audit-Related Fees[2]	$26,000	$159,000
Tax Fees[3]	$502,000	$748,000
All Other Fees[4]	$0	$0
TOTAL	$1,419,000	$1,794,000

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

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

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

[4] This category of fees would normally include professional services rendered by the Corporation's external auditors, which are not reported under the captions "audit fees", "audit related fees" and "tax fees". No such services were rendered to the Corporation for the fiscal years ended October 31, 2004 and October 31, 2003.

13. ADDITIONAL INFORMATION

(1) Additional financial data may be found in our comparative financial statements and Management's Discussion and Analysis for the year ended October 31, 2004.

(2) Additional information including directors' and officers' remuneration and indebtedness, principal holders of Transat securities and securities authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular in respect of the 2004 annual meeting of shareholders.

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

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

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

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

(ii) the comparative financial statements of Transat for its most recently completed fiscal year together with the auditors' report thereon included in the 2004 Annual Report and any quarterly financial statements of Transat subsequent to the financial statements for its most recently completed fiscal year;

(iii) the Management Proxy Circular of Transat and the Notice of Annual Meeting of Shareholders for 2004; and

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

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

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

SCHEDULE A -
COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

A. OBJECTIVES AND SCOPE

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

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

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

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

B. WHO IT APPLIES TO

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

C. POLICY OVERVIEW

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

D. COMMUNICATION AND ENFORCEMENT

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

E. RAISING A CONCERN OR COMPLAINT

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

Activities that can be reported

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

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

Channels of communication

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

Other channels of communication

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

Confidentiality

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

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

Retaliation

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

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

F. PROCEDURES FOR HANDLING THE REPORTING OF A REPORTABLE ACTIVITY

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

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

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

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

G. RETENTION OF COMPLAINTS AND INVESTIGATION REPORTS

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

H, CONTACT PERSONS

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

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

Me Bernard Bussières
Vice-President, General Counsel and Corporate Secretary of Transat A.T. Inc.
Place du Parc
300 Léo-Pariseau Street
Suite 600
Montréal, Québec H2X 4C2
Tel: (514) 987-1660, ext.: 4520
Fax: (514) 987-6239
bernard.bussieres@transat.com

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

I. Statement of Principles

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

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

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

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

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

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

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

II. Delegation of Authority

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

III. Audit Services

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

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

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

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

IV. Audit-Related Services

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

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

V. Tax Services

The Audit Committee believes that the external auditor may provide tax services to the *Corporation*, such as tax compliance, planning and consulting services, without impairing his independence. Therefore, the Audit Committee believes that it may pre-approve tax services that have traditionally been provided by the external auditor. The Audit Committee has reviewed these services and believes that they do not impair the independence of the external auditor and that they are consistent with the rules on independence of the auditors.

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

VI. All Other Services

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

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

VII. Prohibited Non-Audit Services

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

VIII. Pre-Approval of Fee Levels and Budgeted Amounts

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

IX. Procedures

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

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

X. Additional Requirements

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

APPENDIX A

PRE-APPROVED SERVICES FOR A FISCAL YEAR

Transat A.T. Inc.

Pre-approval Form

Services Rendered by Ernst & Young

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

APPENDIX B

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