2

transat

Quarterly Report
Period ended
April 30, 2004

transat

Travel agencies and distribution

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

Outgoing tour operators

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

Air transportation

- Air Transat
- Handlex
- Star Airlines

Incoming tour operators and services at travel destinations

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

North America

Europe

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

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

www.transat.com

Head Office

Transat A.T. Inc.
Place du Parc
300 Léo-Pariseau Street, Suite 600
Montreal, Quebec H2X 4C2
Telephone: (514) 987-1660
Fax: (514) 987-8035

Transfer Agent and Registrar

Computershare Trust Company
of Canada

Stock Exchange

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

Financial Highlights of the quarters and six-month periods ended April 30

(in thousands of Canadian dollars)

	Three Months				Six Months			
	2004 $	2003 $	Variance $	Variance %	2004 $	2003 $	Variance $	Variance %
Consolidated statements of income								
Revenues	696,224	718,822	(22,598)	(3.1)	1,233,424	1,247,898	(14,474)	(1.2)
Margin[1]	79,341	40,446	38,895	96.2	96,286	45,245	51,041	112.8
Net income	45,453	15,376	30,077	195.6	48,260	8,402	39,858	474.4
EPS – Basic	1.35	0.45	0.90	200.0	1.41	0.21	1.20	571.4
EPS – Diluted	1.10	0.39	0.71	182.1	1.18	0.21	0.97	461.9
Consolidated statements of cash flows								
Operating activities	36,709	2,992	33,717	1,126.9	129,667	65,315	64,352	98.5

	As at April 30, 2004 $	As at October 31, 2003 $	Variance $	Variance %
Consolidated balance sheets				
Cash and cash equivalents	427,850	349,125	78,725	22.5
Debt (short term and long term)	32,055	65,331	(33,276)	(50.9)
Total debt[2]	568,127	595,249	(27,122)	(4.6)
Net debt[3]	238,383	352,297	(113,914)	(32.3)

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

[2] *Debt plus off-balance sheet arrangements presented on p.10 (non-GAAP financial measure used by management to assess the Corporation's future liquidity requirements).*

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

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc's operations, performance and financial condition for the quarter and six-month period ended April 30, 2004 compared with the quarter and six-month period ended April 30, 2003 and should be read in conjunction with the unaudited consolidated interim financial statements for the second quarter of 2004 and of 2003, the notes thereto, and the 2003 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second quarter update to the information contained in the MD&A section of our 2003 Annual Report. The risks and uncertainties set out in the MD&A of the 2003 Annual Report and in our 2004 Annual Information Form filed with the Canadian securities commissions are herein incorporated by reference and remain substantially unchanged.

This MD&A also contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. The information contained herein is dated as of June 10, 2004.

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

OVERVIEW

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

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

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

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

We set ourselves the following objectives for fiscal 2004:

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

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

- Market share
- Cost reduction
- Margin

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

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

ACQUISITIONS

On June 10, 2004 the Corporation acquired an additional 50% participation in Tourgreece S.A. ("Tourgreece"), an incoming tour operator, for a total consideration of 1.6 million euros ($2.6 million) in cash. The acquisition will be recorded under the purchase method and the results will be included in the Corporation's results as of the acquisition date. Previously, the results were recorded under the equity method.

Pursuant to this transaction, the Corporation will hold a 90% interest in Tourgreece. Under the Agreement, the Corporation has a call option related to the acquisition of the balance of shares at any time prior to 2011.

On April 8, 2004 the Corporation completed the acquisition of the remaining 50% participation in Jonview Corporation ("Jonview"), an incoming tour operator, in partnership with the Solidarity Fund QFL (a minority shareholder of Jonview) for $12.8 million, including $0.1 million in transaction costs.

A total of $9.6 million was paid at closing with the balance to be paid in cash in three instalments until September 2006. In connection with this transaction, a $3.2 million dollar debenture was issued to the minority shareholder in order to finance a portion of this acquisition.

The transaction was accounted for using the purchase method. The results of operation of Jonview have been included in the Corporation's results since April 8, 2004, the date of acquisition.

Our percentage ownership in Jonview is approximately 80% as a result of this transaction. *See note 7 to the unaudited consolidated interim financial statements.*

CONSOLIDATED OPERATIONS

Quarter ended April 30, 2004 compared with the quarter ended April 30, 2003 and six-month period ended April 30,2004 compared with the six-month period ended April 30, 2003

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

Revenues (in thousands of dollars)

Three months				Six months			
2004 $	2003 $	Variance $	Variance %	2004 $	2003 $	Variance $	Variance %
696,224	718,822	(22,598)	(3.1)	1,233,424	1,247,898	(14,474)	(1.2)

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

Overall, our revenues decreased by $22.6 million in the current quarter compared with the corresponding quarter in 2003 and decreased by $14.5 million in the first six months of fiscal 2004 compared with the corresponding period in 2003.

These decreases are the result of a combination of factors. The reorganization of our Canadian tour operator Americanada in 2003 was one such factor. We recorded revenues of $10.5 million and $20.3 million in the corresponding quarter and six-month period of fiscal 2003 respectively related to Americanada's operations compared with none in fiscal 2004. Our determination to improve our margins was the other factor. There has been a reduction in air only passengers (airlines record flight segments in terms of passengers) in France and a reduction in overall capacity and in third party revenues generated by our Canadian airline company Air Transat which has been partially offset by an increase in the number of travellers (tour operators record round-trips in terms of travellers) in both our Canadian and French tour operators.

These factors are very much in line with our long-term growth strategy. Our determination to improve our margins led us to concentrate on our core business, which is basically holiday travel and its related products. As a result, we provide air transportation as a component of a holiday package. This resulted, in part, in the consolidation of our Canadian tour operators. It also led to the increased utilization of our aircraft in Canada for our own internal tour operators. We also signed an agreement with WestJet Airlines Ltd. in 2003 that enabled us to broaden our service offerings in new markets and better serve our existing customers. Our concentration on holiday packages also led to our continued withdrawal from the air only market in France. The combination of these factors led to a slight reduction in revenues and to a significant reduction in expenses.

Operating expenses (in thousands of dollars)

	Three months 2004 $	2003 $	Variance $	Variance %	Six months 2004 $	2003 $	Variance $	Variance %
Direct costs	357,484	368,762	(11,278)	(3.1)	641,328	618,865	22,463	3.6
Commissions	62,999	60,746	2,253	3.7	114,990	111,959	3,031	2.7
Salaries and fringe benefits	55,888	62,366	(6,478)	(10.4)	111,409	123,553	(12,144)	(9.8)
Aircraft fuel	29,441	40,713	(11,272)	(27.7)	54,614	75,629	(21,015)	(27.8)
Maintenance	26,764	36,711	(9,947)	(27.1)	47,747	68,910	(21,163)	(30.7)
Aircraft rental	14,605	20,240	(5,635)	(27.8)	28,519	40,404	(11,885)	(29.4)
Airport and navigation fees	11,555	14,714	(3,159)	(21.5)	25,279	29,675	(4,396)	(14.8)
Other	58,147	74,124	(15,977)	(21.6)	113,252	133,658	(20,406)	(15.3)
	616,883	678,376	(61,493)	(9.1)	1,137,138	1,202,653	(65,515)	(5.4)

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

Overall, our operating expenses decreased by $61.5 million in the current quarter compared with the corresponding quarter in 2003 and by $65.5 million in the first six months of fiscal 2004 compared with the corresponding period in 2003.

Direct costs decreased slightly in the current quarter but remained unchanged as a percentage of revenues at 51.3%. These same expenses increased by 3.6%, representing 52.0% of revenues, in the first six months of fiscal 2004 compared with 49.6% of revenues in the corresponding period in 2003 due mainly to our partnership agreement with WestJet.

Salaries and fringe benefits decreased by 10.4% and 9.8% in the current quarter and first six months of fiscal 2004 respectively compared with the corresponding periods in 2003 as a direct result of our restructuring efforts undertaken in 2003, which resulted in the termination of over 700 positions.

The decreases in aircraft fuel, maintenance, aircraft rental and airport and navigation fees when comparing both the quarters and six month periods are also the direct result of our restructuring efforts, which resulted in the phase out of our remaining Lockheed L1011-500s in Canada.

As a result of the above expense decreases our margins increased to 11.4% in the current quarter from 5.6% in the corresponding quarter in 2003 and increased to 7.8% in the first six months of fiscal 2004 from 3.6% in the corresponding period in 2003.

GEOGRAPHIC BUSINESS AREAS

Revenues (in thousands of dollars)

	Three months 2004 $	2003 $	Variance $	Variance %	Six months 2004 $	2003 $	Variance $	Variance %
Canada	554,479	558,987	(4,508)	(0.8)	993,373	976,336	17,037	1.7
France and other	141,745	159,835	(18,090)	(11.3)	240,051	271,562	(31,511)	(11.6)
Total	696,224	718,822	(22,598)	(3.1)	1,233,424	1,247,898	(14,474)	(1.2)

Operating expenses (in thousands of dollars)

	Three months				Six months			
	2004	2003	Variance	Variance	2004	2003	Variance	Variance
	$	$	$	%	$	$	$	%
Canada	470,897	517,743	(46,846)	(9.0)	884,185	921,857	(37,672)	(4.1)
France and other	145,986	160,633	(14,647)	(9.1)	252,953	280,796	(27,843)	(9.9)
Total	616,883	678,376	(61,493)	(9.1)	1,137,138	1,202,653	(65,515)	(5.4)

Canada

In Canada, revenues decreased slightly in the current quarter and increased slightly in the first six months of fiscal 2004 compared with the corresponding periods in 2003. Once the loss in revenue from Americanada is factored in, revenues also increased in the current quarter. These increases are due to an increase in the number of travellers by 7.5% and 5.3% respectively compared with the corresponding periods in 2003, offset by a reduction in sales made to external tour operators (i.e. tour operators outside the Transat group of companies). Demand was strong for destinations to the Caribbean, Europe and Florida. Higher prices also contributed to these increases.

The restructuring efforts undertaken in 2003 continued to be felt in the current quarter and current six-month period. The consolidation of the Canadian tour operators and distribution activities resulting in a better management of airline seats and hotel rooms combined with a better utilization of our aircraft along with reduced expenses and increased demand by travellers have led to increased margins. For the quarter, our margins increased to 15.1% compared with 7.4% in the corresponding quarter of 2003 and for the first six months our margins increased to 11.0% compared with 5.6% in the corresponding period in 2003.

France and other

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

Despite increases in the number of travellers in both the current quarter and six month period by 7.0% and 8.9% respectively, 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% in both periods.

The increase in travellers was mostly due to increased demand for long-haul travel from Europe to Caribbean destinations both at Vacances Air Transat (France) and Look Voyages at lower prices overall. The lower prices are the result of competitive pressure.

Amortization

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

Amortization expense decreased by $1.7 million (16.4%) to $8.7 million from $10.4 million in the current quarter. Additionally, during the first six months of fiscal 2004, amortization expense decreased by $2.6 million (11.9%) to $18.9 million from $21.5 million during the corresponding period of the preceding fiscal year. These decreases are the result of lower overall property, plant and equipment balances, offset by the accelerated depreciation on the remaining Lockheed L-1011-500 aircraft.

Interest

Interest on long-term debt, obligations under capital leases, and debentures remained relatively stable during the quarter compared with the corresponding quarter of the preceding fiscal period and decreased by $0.8 million (15.5%) during the first six months of fiscal 2004 compared with the first six months of 2003. This decrease is due to lower debt obligations.

Other interest and financial expenses remained relatively stable during the quarter as well compared with the corresponding quarter of the preceding fiscal period and decreased by $1.0 million (46.9%) during the first six months of fiscal 2004 compared with the first six months of 2003. This decrease is due to lower average bank loans for our French operations.

Interest and other income increased by $2.0 million (114.0%) in the current quarter and by $2.1 million (51.4%) in the current six-month period compared with the corresponding periods in the preceding fiscal year. These increases are due to a dividend received from Star Airlines S.A. ("Star") in the current quarter in the amount of $1.4 million and higher overall cash balances. Of the $1.4 million dividend received, $1.1 million was recorded as dividend income and $0.3 million was recorded as a reduction in the carrying value of Star. *See Accounting Changes.*

Foreign exchange gain on long-term monetary items

Foreign exchange gain on long-term items decreased by $1.6 million (92.5%) to $0.1 million from $1.8 million in the current quarter. During the first six months of fiscal 2004, this gain decreased by $2.0 million (72.8%) to $0.8 million from $2.8 million during the corresponding period of 2003. These decreases are due to a combination of lower debt levels and the favourable impact of exchange rates.

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

On February 1, 2004, we discontinued using the equity method in accounting for our investment in Star, our French airline company with a carrying value of $1.0 million. Although we still own 44.3% of the voting shares of Star, we no longer exercise significant influence over their strategic operating, investing and financing policies. We are also unable to obtain sufficient information to perform equity accounting. *See Accounting Changes.*

The fact that we do not have any equity pickup in the current quarter for Star is the main reason for the variance when comparing the current quarter and current six-month period with the corresponding periods of the preceding fiscal year. Those periods included losses from Star due to the situation in France in fiscal 2003 that included health concerns regarding SARS, the economy in France and the overcapacity in the French marketplace. The variance was expected to be even greater given that we were expecting Star to be profitable in the current quarter.

Income taxes

Our total income tax expense amounted to $26.5 million for the quarter ended April 30, 2004 compared with an expense of $10.2 million for the corresponding quarter of the preceding fiscal year. Excluding the share of net income (loss) of companies subject to significant influence, the effective tax rates were 36.9% for the quarter ended April 30, 2004 and 38.1% for the quarter ended April 30, 2003.

For the six-month period ended April 30, 2004, our total income tax expense amounted to $29.4 million compared with an expense of $8.0 million for the corresponding period of the preceding fiscal year. Excluding the share of net loss of companies subject to significant influence, the effective tax rates were 37.1% for the six-month period ended April 30, 2004 and 40.0% for the corresponding period in 2003.

Under both comparative periods above, the reduction of our effective tax rate from the preceding corresponding periods is primarily due to the reduction of the federal statutory tax rate in Canada, which was substantially enacted by the Canadian taxation authorities for the current fiscal year.

Net income

As a result of the items discussed in "Consolidated operations," our net income was $45.5 million or $1.35 per share for the quarter ended April 30, 2004 compared with a net income of $15.4 million or $0.45 per share for the corresponding quarter of the preceding year ($18.0 million of net income or $0.52 per share excluding the after-tax effect of the restructuring charge). The weighted average number of common shares outstanding used to establish the per share amounts were 33,160,000 for the current quarter and 32,758,000 for the corresponding quarter of the preceding year.

Our net income was $48.3 million or $1.41 per share for the first six months of fiscal 2004 compared with a net income of $8.4 million or $0.21 per share for the corresponding period of the preceding year ($11.0 million of net income or $0.29 per share excluding the after-tax effect of the restructuring charge). The weighted average number of common shares outstanding used to establish the per share amounts were 33,048,000 for the current six month period and 32,726,000 for the corresponding period of the preceding year.

On a diluted per share basis, the current quarter's earnings per share was $1.10 per share compared with $0.39 per share in the corresponding quarter of 2003 ($0.46 per share excluding the effect of the after-tax restructuring charge) and the earnings per share for the first six months of fiscal 2004 on a diluted per share basis was $1.18 per share compared with $0.21 per share in the corresponding period of 2003 ($0.29 per share excluding the effect of the after-tax restructuring charge). The adjusted weighted average number of outstanding shares used in computing diluted earnings per share were 41,331,000 for the current quarter and 39,094,000 for the corresponding quarter of the preceding year. The adjusted weighted average number of outstanding shares used in computing diluted earnings per share for the first six months of fiscal 2004 were 41,084,000 and 33,188,000 for the corresponding period of the preceding year. *See note 4 to the unaudited consolidated interim financial statements.*

LIQUIDITY AND CAPITAL RESOURCES

Cash flows (in thousands of dollars)

	Three months			Six months		
	2004 $	2003 $	Variance $	2004 $	2003 $	Variance $
Cash flows relating to operating activities	36,709	2,992	33,717	129,667	65,315	64,352
Cash flows relating to investing activities	(10,828)	(5,221)	(5,607)	(19,404)	(7,253)	(12,151)
Cash flows relating to financing activities	(18,185)	(14,430)	(3,755)	(31,538)	(19,422)	(12,116)
Net change in cash and cash equivalents	7,696	(16,659)	24,355	78,725	38,640	40,085

As at April 30, 2004 we had $427.9 million in cash and cash equivalents (including $98.1 million held in trust or otherwise reserved) compared with $349.1 million as at October 31, 2003 (including $106.2 million held in trust or otherwise reserved). Our balance sheet reflects a current ratio of 1.5 and working capital of $193.9 million compared with a current ratio of 1.4 and working capital of $144.5 million as at October 31, 2003. We also have access to unused lines of credit totalling $61.8 million.

Total assets increased by $75.0 million (10.5%) to $789.8 million from $714.8 million as at October 31, 2003 due mainly to a $78.7 million increase in cash and cash equivalents. Shareholders' equity increased by $51.0 million to $292.3 million from $241.3 million as at October 31, 2003 due mainly to the $48.3 million in net income for the first six months of fiscal 2004.

Operating activities

During the current quarter cash flows of $36.7 million were generated from operating activities, an increase of $33.7 million compared with the corresponding quarter of 2003. Additionally, during the first six months of fiscal 2004, cash flows of $129.7 million were generated from operating activities, an increase of $64.4 million compared with the corresponding period of 2003. These increases are mostly due to the strong margins generated in these periods.

Investing activities

Cash flows used in investing activities were $5.6 million more in the current quarter compared with the corresponding quarter in 2003 and $12.1 million more in the first six months of fiscal 2004 compared with the corresponding period in 2003 due mainly to the $9.6 million of cash disbursed for the acquisition of Jonview.

Financing activities

Cash flows used in financing activities were $3.8 million more in the current quarter compared with the corresponding quarter in 2003 and $12.1 million more in the first six months of fiscal 2004 compared with the corresponding period in 2003 due mainly to the increased repayments of other long-term debt and obligations under capital leases.

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

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited consolidated interim financial statements as at April 30, 2004. Total debt obligations amounted to $32.1 million as at April 30, 2004 ($65.3 million as at October 31, 2003). Obligations that are not reflected as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into entities that are not consolidated with the Corporation and are made up of:

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

The total amount of off-balance sheet debt that can be estimated was approximately $536.1 million as at April 30, 2004 ($529.9 million as at October 31, 2003) and can be reconciled as follows:

	As at April 30, 2004 $	As at October 31, 2003 $
Guarantees		
Irrevocable letters of credit	30,656	42,724
Security contracts	1,420	1,420
Operating leases		
Commitments under operating leases	426,527	411,188
Guaranteed residual value	77,469	74,586
	536,072	529,918

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

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

Debt levels

Debt levels as at April 30, 2004 have decreased compared with October 31, 2003.

Our balance sheet debt dropped by $33.3 million to $32.1 million from $65.3 million due mainly to the repayment of this debt and our off-balance sheet debt increased by $6.2 million from $529.9 million to $536.1 million due mainly to foreign exchange rate increases resulting in a total debt reduction of $27.1 million compared with October 31, 2003.

When we deduct our cash and cash equivalents that are not in trust or otherwise reserved from our total debt, our net debt drops to $238.4 million from $352.3 million, a 32.3% decrease.

NORMAL COURSE ISSUER BID

The Board of Directors of Transat A.T. inc. today announced that it has obtained approval from the Toronto Stock Exchange to proceed for a twelve-month period with a normal course issuer bid. In the notice, the Corporation states its intention to purchase for cancellation up to a maximum of 1,662,847 Common Shares of the Corporation, representing 5% of the issued and outstanding Common Shares and 5.9% of the public float of Common Shares and a maximum of 25,546 Convertible Debentures representing 5% of the public float of Convertible Debentures. As of June 9, 2004, there were 33,256,955 Common Shares issued and outstanding, and 510,920 Convertible Debentures of which the respective public float was 28,174,385 Common Shares and 510 920 Convertible Debentures.

This program is designed to allow the Corporation to purchase Common Shares or Convertible Debentures in the normal course, when the Corporation estimates that the Common Shares or Convertible Debentures are undervalued by the Market.

These purchases are to be made through the facilities of the Toronto Stock Exchange in accordance with its policy on normal course issuer bids. The price that the Corporation will pay for any Common Shares or Convertible Debentures will be the market price at the time of acquisition plus brokerage fees. Purchases may commence on or around June 15, 2004 and will terminate no later than June 14, 2005.

ACCOUNTING CHANGES

During the first six months of fiscal 2004, we adopted the Canadian Institute of Chartered Accountants (CICA) amendments to Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments,” and the CICA Accounting Guideline 13 (AcG-13), “Hedging Relationships” and we changed the method of accounting for one of our long-term investments.

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

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

Effective February 1, 2004 we discontinued using the equity method with regards to Star due to the fact that we no longer exercise significant influence over this entity. As a result, the value of our investment in Star will be its carrying value as at February 1, 2004. Accumulated dividends received by the Corporation subsequent to February 1, 2004 that exceed our share of the accumulated earnings of Star for such periods will be applied in reduction of its carrying value.

OUTLOOK

With a successful winter season behind us our attention now turns to our upcoming summer season for which we are cautiously optimistic. The bookings to date do not permit us to provide a reliable forecast since the majority of the booking cycle continues to be 1 to 6 weeks prior to departure.

In Canada, overall booking levels for the summer season are ahead of last year by approximately 13% and our European bookings are almost back to the levels of 2002. As for our margins, although pricing has not returned to pre-SARS levels, our cost reduction efforts at the airline are ahead of plan. The impact of the recent increase in the cost of fuel will be partially mitigated by our hedging program, fuel surcharges and the favorable impact of the stronger Canadian dollar. As a result, the summer season in Canada is off to a good start.

In France, we are on track with our initiatives at Look Voyages with regards to reducing our exposure to air only business and increasing our holiday package business. We do, however, expect the summer season to be very competitive with regards to both capacity and prices. As a result, we do not expect any improvements in Look Voyages' results for the summer season compared to last year. We will continue to support Look Voyages in its turnaround efforts and we are accelerating our efforts and updating our plan regarding Look Voyages in light of its financial results and expect to have this updated plan approved by the Board of Directors of Transat A.T. Inc. by this fiscal year end.

At the beginning of the second quarter, we discontinued using the equity method in accounting for our investment in our French airline company, Star, because we are unable to exercise any significant influence over this company. As a result we will not be recording any share in net income related to Star in the upcoming summer season. In the 2003 summer season we recorded an after-tax net income of $3.7 million, most of which was recorded in the fourth quarter of 2003.

The profitability of the remainder of our French operations is ahead of last year.

Overall, we are on track with our stated objectives. We basically did what we said we would do and proven that our long-term strategy was the right course of action for us. Now we must accelerate our efforts related to Look Voyages and be prepared for a challenging season in France.

Consolidated Balance Sheets

(in thousands of dollars)

	As at April 30, 2004 (Unaudited) $	As at October 31, 2003 (Audited) $
Assets		
Current assets		
Cash and cash equivalents *[note 3]*	427,850	349,125
Accounts receivable	74,469	72,929
Future income tax assets	942	959
Inventories	7,120	7,829
Prepaid expenses	35,491	40,379
Current portion of deposits	24,335	24,053
Total current assets	570,207	495,274
Deposits	15,603	14,172
Future income tax assets	7,952	13,371
Property, plant and equipment	94,992	101,741
Goodwill	81,245	69,682
Other assets	19,758	20,517
	789,757	714,757
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	228,486	181,971
Income taxes payable	16,613	2,699
Customer deposits and deferred income	130,340	146,025
Current portion of long-term debt and obligations under capital leases	910	20,102
Total current liabilities	376,349	350,797
Long-term debt	—	4,811
Obligations under capital leases	—	10,437
Debentures *[note 4]*	31,145	29,981
Provision for engine and airframe overhaul in excess of deposits	50,586	43,495
Non-controlling interest and other liabilities	22,180	22,474
Future income tax liabilities	17,218	11,416
	497,478	473,411
Shareholders' equity		
Share capital *[note 5]*	114,164	111,247
Convertible debentures and equity component of a debenture *[note 4]*	55,246	52,855
Retained earnings	116,972	70,336
Warrants	4,068	4,122
Deferred translation adjustments	1,829	2,786
	292,279	241,346
	789,757	714,757

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Income

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

	Three (3) months ended April 30		Six (6) months ended April 30	
	2004	2003	**2004**	2003
	$	$	**$**	$
Revenues	696,224	718,822	1,233,424	1,247,898
Operating expenses				
Direct costs	357,484	368,762	641,328	618,865
Commissions	62,999	60,746	114,990	111,959
Salaries and fringe benefits	55,888	62,366	111,409	123,553
Aircraft fuel	29,441	40,713	54,614	75,629
Maintenance	26,764	36,711	47,747	68,910
Aircraft rent	14,605	20,240	28,519	40,404
Airport and navigation fees	11,555	14,714	25,279	29,675
Other	58,147	74,124	113,252	133,658
	616,883	678,376	1,137,138	1,202,653
	79,341	40,446	96,286	45,245
Amortization	8,716	10,432	18,935	21,488
Restructuring charge *[note 6]*	—	3,748	—	3,748
Interest on long-term debt, obligations under capital leases and debentures	2,149	2,219	4,114	4,871
Other interest and financial expenses	664	697	1,118	2,104
Interest and other income	(3,784)	(1,768)	(6,225)	(4,112)
Foreign exchange gain on long-term monetary items	(132)	(1,755)	(761)	(2,795)
Share of net (income) loss of companies subject to significant influence	(349)	1,289	1,628	3,551
	7,264	14,862	18,809	28,855
Income before the following items	72,077	25,584	77,477	16,390
Income taxes (recovery of)				
Current	16,280	543	16,661	(182)
Future	10,221	9,697	12,697	8,163
	26,501	10,240	29,358	7,981
Income before non-controlling interest in subsidiaries' results	45,576	15,344	48,119	8,409
Non-controlling interest in subsidiaries' results	(123)	32	141	(7)
Net Income for the period	45,453	15,376	48,260	8,402
Basic earnings per share	1.35	0.45	1.41	0.21
Diluted earnings per share	1.10	0.39	1.18	0.21

Consolidated Statements of Retained Earnings

(in thousands of dollars) (Unaudited)

	Six (6) months ended April 30	
	2004	2003
	$	$
Retained earnings, beginning of period as previously shown	70,336	30,243
Change in an accounting policy	—	(1,607)
Restated retained earnings, beginning of period	70,336	28,636
Net income for the period	48,260	8,402
Interest on equity component of debentures – net of related income taxes of $755 [$766 in 2003]	(1,624)	(1,557)
Retained earnings, end of period	116,972	35,481

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars) (Unaudited)

	Three (3) months ended April 30		Six (6) months ended April 30	
	2004	2003	**2004**	2003
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income for the period	45,453	15,376	48,260	8,402
Items not involving an outlay (receipt) of cash				
Amortization	8,716	10,432	18,935	21,488
Restructuring charge	—	720	—	720
Foreign exchange gain on long term monetary items	(132)	(1,755)	(761)	(2,795)
Share of (net income) net loss of companies subject to significant influence	(349)	1,289	1,628	3,551
Non-controlling interest in subsidiaries' results	123	(32)	(141)	7
Future income taxes	10,221	9,697	12,697	8,163
Interest on debentures	204	190	412	408
Operating cash flow	64,236	35,917	81,030	39,944
Net change in non-cash working capital balances related to operations	(42,198)	(42,612)	40,364	10,273
Net change in deposits, expenses and provision for engine and airframe overhaul	14,671	9,687	8,273	15,098
Cash flows relating to operating activities	36,709	2,992	129,667	65,315
INVESTING ACTIVITIES				
Increase in deposits	(509)	(66)	(4,728)	(877)
Additions to property, plant and equipment	(7,317)	(6,110)	(9,245)	(9,660)
Other assets	504	370	(1,925)	319
Repayment of deposits	4,146	585	4,146	2,965
Dividends	431	—	431	—
Cash and cash equivalents from acquired company *[note 7]*	1,623	—	1,623	—
Consideration paid for acquired company *[note 7]*	(9,706)	—	(9,706)	—
Cash flows relating to investing activities	(10,828)	(5,221)	(19,404)	(7,253)
FINANCING ACTIVITIES				
Bank Loans	—	(7,990)	—	(7,960)
Interest on convertible debentures	(2,300)	(2,300)	(2,300)	(2,300)
Repayment of long-term debt and obligations under capital leases	(20,692)	(4,808)	(35,810)	(11,913)
Proceeds from issue of common shares	1,368	744	2,850	744
Proceeds from issue of a debenture *[note 4]*	3,156	—	3,156	—
Other liabilities	283	(76)	566	2,007
Cash flows relating to financing activities	(18,185)	(14,430)	(31,538)	(19,422)
Net change in cash and cash equivalents for the period	7,696	(16,659)	78,725	38,640
Cash and cash equivalents, beginning of period	420,154	315,422	349,125	260,123
Cash and cash equivalents, end of period	427,850	298,763	427,850	298,763

See accompanying notes to consolidated interim financial statements.

Notes to Consolidated Interim Financial Statements

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

Note 1

Basis of Presentation

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

Note 2

Changes in Accounting Policies

Foreign Currency Translation

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

Stock-Based Compensation and Other Stock-Based Payments

On November 1, 2003, the Corporation adopted prospectively the amended CICA, Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". The amendments require that the fair value-based method be applied to awards granted to employees, and that a compensation charge be accounted for. Enterprises are required to account for the effect of such awards in their financial statements for fiscal years beginning on or after January 1, 2004. Retroactive, with or without restating prior periods, or prospective application is allowed. However, prospective application is only available to enterprises that elect to apply the fair value-based method of accounting for fiscal years beginning before January 1, 2004. The adoption of these amendments had no impact on the Corporation's results, financial position, or cash flows as no awards were granted to employees during the current six-month period ended April 30, 2004.

Investments

On February 1, 2004, the Corporation ceased to exercise significant influence over Star Airlines S.A. ["Star"]. As a result, the value of the investment in this company will be its carrying value as of that date. Also effective February 1, 2004, dividends received by the Corporation will be applied against the value of the investment in Star to the extent that the cumulative amount exceeds the Corporation's share of the total income realized by Star for such periods.

During the three months ended April 30, 2004, the Corporation received a dividend of €880,000 [$1,416,000] of which €694,000 [$1,116,000] was included in income and €186,000 [$300,000] was applied against the investment in Star, as part of “Other assets.” The investment was previously recorded under the equity method.

Note 3 Cash and Cash Equivalents

	As at April 30, 2004 $	As at October 31, 2003 $
Cash and cash equivalents	329,744	242,952
Cash in trust or otherwise reserved	98,106	106,173
	427,850	349,125

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

Note 4 Debentures

On April 6, 2004, D.M.C. Transat Inc. [“DMC“] issued a debenture in the amount of $3,156,000 to the Solidarity Fund QFL, a minority shareholder, bearing interest at a rate of 6% related to the acquisition of Jonview Corporation [“Jonview”] *[see note 7]*. The debenture is repayable in one installment in September 2009 in cash or shares of the Corporation at the Corporation’s option. The debenture is also repayable in advance at DMC’s option as of April 2007 in return for a premium whereby the holder 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 totaled $802,000 and $2,354,000 respectively. As at April 30, 2004, they totalled $794,000 and $2,362,000 respectively.

Note 5 Share Capital

a) Share capital
Authorized
An unlimited number of common shares.

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

Issued and outstanding

	Six (6) months ended April 30, 2004	
	Number	Amount ($)
Common shares		
Balance as at October 31, 2003	32,863,553	111,247
Exercise of options	296,410	2,120
Issued from treasury	44,047	604
Exercise of warrants	18,625	180
Conversion of debentures	1,484	13
Balance as at April 30, 2004	33,224,119	114,164

b) Options

Options issued and outstanding

	Six (6) months ended April 30, 2004 Number of options	Weighted average price ($)
Balance as at October 31, 2003	2,281,666	6.75
Exercised	(296,410)	6.93
Cancelled	(88,060)	7.53
Balance as at April 30, 2004	1,897,196	6.65
Exercisable options as at April 30, 2004	1,325,331	7.46

c) Earnings per share

Earnings per share and the fully diluted earnings per share for the three-month and six-month periods ended April 30, 2004 and 2003 were computed as follows:

	Three (3) months ended April 30		Six (6) months ended April 30	
	2004	2003	**2004**	2003
	$	$	**$**	$
Numerator				
Net income	45,453	15,376	48,260	8,402
Interest on convertible debentures	(791)	(768)	(1,594)	(1,557)
Income available to common shareholders	44,662	14,608	46,666	6,845
Interest on convertible debentures	791	768	1,594	—
Interest on debentures that may be settled in common shares	23	38	44	114
Income used to calculate diluted earnings per share	45,476	15,414	48,304	6,959
Denominator				
Weighted average number of outstanding shares	33,160	32,758	33,048	32,726
Convertible debentures	5,841	5,841	5,841	—
Debentures that may be settled in common shares	358	495	420	462
Stock options	1,158	—	1,066	—
Warrants	814	—	709	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	41,331	39,094	41,084	33,188
Basic earnings per share	1.35	0.45	1.41	0.21
Diluted earnings per share	1.10	0.39	1.18	0.21

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

Note 6

Restructuring Charge

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

The balance of the restructuring provision as at October 31, 2003 amounted to $6,104,000. The Corporation disbursed a total of $3,546,000 during the six-month period ended April 30, 2004, resulting in a balance amounted of $2,558,000 as at this date. The Corporation plans to make the last disbursements regarding its restructuring provision before year-end.

Note 7

Acquisition

On April 8, 2004, a subsidiary of the Corporation, in partnership with Solidarity Fund QFL, acquired the balance of the outstanding shares (50%) of incoming tour operator, Jonview, for a total consideration of $12,771,000, including acquisition costs of $113,000. A cash amount of $9,593,000 was paid at the closing of the transaction and the balance of $3,065,000 will be paid in cash in three instalments until September 2006. The minority shareholder's portion was financed, in part, by the issuance of a debenture *[see note 4]*. The acquisition was recorded under the purchase method. Jonview's results were included in the Corporation's results as of the acquisition date. Previously, the results were recorded on a proportionate consolidation basis. Pursuant to these transactions, the Corporation now holds an 80.1% interest in Jonview.

	$
Assets acquired	
Cash and cash equivalents	1,623
Non-cash current operating assets	1,635
Property, plant and equipment	798
Goodwill	11,956
Liabillities assumed	16,012
Non-cash current operating liabilities	3,033
Long-term debt	208
	3,241
Net assets acquired at fair value	12,771

Note 8 Segmented Information

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

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

	Three (3) months ended April 30, 2004			Six (6) months ended April 30, 2004		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	558,987	159,835	718,822	976,336	271,562	1,247,898
Operating expenses	517,743	160,633	678,376	921,857	280,796	1,202,653
	41,244	(798)	40,446	54,479	(9,234)	45,245
Amortization	8,692	1,740	10,432	17,997	3,491	21,488
Additions property, plant and equipment	3,529	2,581	6,110	6,740	2,920	9,660
Property, plant and equipment and goodwill [2]				128,816	42,607	171,423

[1] As at April 30, 2004.

[2] As at October 31, 2003.

Note 9 Guarantees

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

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

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

Operating leases

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

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $20,146,000 as at April 30, 2004. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $1,420,000 as at April 30, 2004. Historically, the Corporation has not made any significant payments under such agreements.

As at April 30, 2004, no amounts have been accrued with respect to the above-mentioned agreements.

Note 10 *Subsequent Events*

On June 10, 2004 the Corporation acquired an additional 50% participation in Tourgreece S.A. ("Tourgreece"), an incoming tour operator, for a total consideration of €1,578,000 ($2,600,000) in cash. The acquisition will be recorded under the purchase method and the results will be included in the Corporation's results as of the acquisition date. Previously, the results were recorded under the equity method.

Pursuant to this transaction, the Corporation will hold a 90% interest in Tourgreece. Under the Agreement, the Corporation has a call option related to the acquisition of the balance of shares at any time prior to 2011.