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transat

Quarterly Report
Period ended
July 31, 2004

transat

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

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

Travel agencies and distribution

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

Outgoing tour operators

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

Air transportation

- Air Transat
- Handlex
- Star Airlines

Incoming tour operators and services at travel destinations

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

North America

Europe

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 nine-month periods ended July 31

(in thousands of Canadian dollars)

	Three Months 2004 $	Three Months 2003 $	Three Months Variance $	Three Months Variance %	Nine Months 2004 $	Nine Months 2003 $	Nine Months Variance $	Nine Months Variance %
Consolidated statements of income								
Revenues	**499,118**	444,121	54,997	12.4	**1,732,542**	1,692,019	40,523	2.4
Margin[1]	**28,120**	2,531	25,589	1011.0	**124,406**	47,776	76,630	160.4
Net income (loss)	**12,823**	(10,088)	22,911	227.1	**61,083**	(1,686)	62,769	3722.9
EPS (LPS) – Basic	**0.36**	(0.33)	0.69	209.1	**1.77**	(0.13)	1.90	1461.5
EPS (LPS) – Diluted	**0.31**	(0.33)	0.64	193.9	**1.49**	(0.13)	1.62	1246.2
Consolidated statements of cash flows								
Operating activities	**66,023**	45,037	20,986	46,6	**195,690**	110,352	85,338	77.3

	As at July 31, 2004 $	As at October 31, 2003 $	Variance $	Variance %
Consolidated balance sheets				
Cash and cash equivalents	**490,976**	349,125	141,851	40.6
Debt (short term and long term)	**31,301**	65,331	(34,030)	(52.1)
Total debt[2]	**552,350**	595,249	(42,899)	(7.2)
Net debt[3]	**183,688**	352,297	(168,609)	(47.9)

[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.12 (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 third 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 nine-month period ended July 31, 2004 compared with the quarter and nine-month period ended July 31, 2003 and should be read in conjunction with the unaudited consolidated interim financial statements for the third 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 third 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 September 8, 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 the world. 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 grow 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. This strategy is focused on maximizing shareholder value.

The following objectives were established 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

On July 13, 2004 Transat announced the implementation of a plan to reorganize and reposition Look Voyages, which we will discuss elsewhere in the MD&A. This plan is the latest step in an effort to return this subsidiary to profitability. As a result, we have modified our objective related to Look Voyages and believe we will be able to return this subsidiary to profitability beginning in the latter part of fiscal 2006 instead of fiscal 2005.

In order to successfully implement Transat's strategy and achieve its objectives, we identified the following key performance drivers:

- Market share
- Cost reduction
- Margin

Transat's capability to deliver results is dependent on its 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, structure, relationship with suppliers and 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 1.8 million euros ($3.0 million) in cash including 0.2 million euros ($0.4 million) in transaction costs. As a result, the percentage ownership in Tourgreece is 90%. This step acquisition was accounted for using the purchase method and the results have been included in the Corporation's results since the acquisition date. Previously, the results were recorded under the equity method.

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.

As a result of these transactions, the goodwill on the balance sheet increased by almost $19.0 million. *See note 8 to the unaudited consolidated interim financial statements.*

CONSOLIDATED OPERATIONS

Quarter ended July 31, 2004 compared with the quarter ended July 31, 2003 and nine-month period ended July 31, 2004 compared with the nine-month period ended July 31, 2003

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

Revenues (in thousands of dollars)

Three months				Nine months			
2004	2003	Variance	Variance	**2004**	2003	Variance	Variance
$	$	$	%	$	$	$	%
499,118	444,121	54,997	12.4	**1,732,542**	1,692,019	40,523	2.4

Overall, our revenues increased by $55.0 million or 12.4% in the current quarter compared with the corresponding quarter in 2003 and by $40.5 million or 2.4% in the first nine months of fiscal 2004 compared with the corresponding period in 2003.

The overall increase in the current quarter compared with the corresponding period in 2003 is due to a 20.3% increase in the number of travellers and revenues generated by our recent acquisitions offset by a 45.5% drop in air only passengers at Look Voyages (tour operators record round-trips in terms of travellers and airlines record flight segments in terms of passengers).

The overall increase in the current nine-month period is due to an increase in the number of travellers of 9.8% and revenues generated by our recent acquisitions offset by both a drop in air only passengers at Look Voyages of 32.0% and the fact that we did not generate any revenues from Americanada in 2004. In 2003 we recorded $20.6 million of revenues during the first six months.

These increases are despite a reduction in third party revenues generated by our Canadian airline company Air Transat. In addition, the number of travellers in the third quarter of fiscal 2003 were much lower principally due to the impact of severe acute respiratory syndrome (SARS).

The reduction of air only passengers, capacity and third party revenues discussed above are in line with our long-term growth strategy, which is to concentrate on 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. ("WestJet") 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 withdrawal from the air only market in France.

Operating expenses (in thousands of dollars)

	Three months				Nine months			
	2004	2003	Variance	Variance	**2004**	2003	Variance	Variance
	$	$	$	%	**$**	$	$	%
Direct costs	**239,763**	210,016	29,747	14.2	**881,091**	828,881	52,210	6.3
Salaries and fringe benefits	**55,946**	56,244	(298)	(0.5)	**167,355**	179,797	(12,442)	(6.9)
Commissions	**35,344**	31,033	4,311	13.9	**150,334**	142,992	7,342	5.1
Aircraft fuel	**34,465**	30,187	4,278	14.2	**89,079**	105,816	(16,737)	(15.8)
Aircraft maintenance	**24,405**	29,681	(5,276)	(17.8)	**72,152**	98,591	(26,439)	(26.8)
Aircraft rental	**15,472**	16,261	(789)	(4.9)	**43,991**	56,665	(12,674)	(22.4)
Airport and navigation fees	**17,342**	16,587	755	4.6	**42,621**	46,262	(3,641)	(7.9)
Other	**48,261**	51,581	(3,320)	(6.4)	**161,513**	185,239	(23,726)	(12.8)
	470,998	441,590	29,408	6.7	**1,608,136**	1,644,243	(36,107)	(2.2)

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

Overall, our operating expenses increased by $29.4 million or 6.7% in the current quarter compared with the corresponding quarter in 2003 and decreased by $36.1 million or 2.2% in the first nine months of fiscal 2004 compared with the corresponding period in 2003.

Direct costs increased both in terms of dollars and as a percentage of revenues in the current quarter and current nine-month period compared to the corresponding quarter and period in 2003. These increases are the result of increased business activity and our partnership agreement with WestJet.

Salaries and fringe benefits decreased slightly during the current quarter and decreased by 6.9% during the current nine-month period compared with the corresponding quarter and period of fiscal 2003. The 6.9% decrease is a direct result of our restructuring efforts undertaken in 2003, which resulted in the termination of over 700 positions.

The increases in commissions in both the current quarter and current nine-month period compared with the corresponding periods in 2003 is the result of increased business activity.

Aircraft fuel increased in the current quarter by 14.2% compared to the corresponding quarter in 2003. This increase is the result of increased business activity and the recent surge in fuel costs partially offset by a stronger Canadian dollar. For the current nine-month period however, aircraft fuel decreased compared to the corresponding period in 2003 due to our restructuring efforts, which resulted in the phase out of our remaining Lockheed L1011-500s in Canada offset, in part, by the increased business activity and fuel costs of the current quarter.

The decreases in aircraft maintenance and aircraft rental when comparing both the quarters and nine-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.

The increase in airport and navigation fees in the current quarter compared with the corresponding period in 2003 is the result of increased business activity. On a cumulative basis, these expenses decreased when comparing the current nine-month period to the corresponding period in 2003. This decrease is the result of the phase out of the remaining Lockheed L1011-500s in Canada.

Included in other expenses is a $4.6 US million ($6.2 million or $3.9 million after-tax) amount paid to the Corporation in August, 2004 for the settlement of litigation it was party to through the Air Transport Association of Canada against the United States government related to fees paid pursuant to U.S. regulations which were subsequently deemed to be null and void by the U.S. courts. The settlement was reached in July 2004.

As a result of the above expense decreases, our margins increased to 5.6% (4.4% excluding the $6.2 million settlement) in the current quarter from 0.6% in the corresponding quarter in 2003 and increased to 7.2% (6.8% excluding the $6.2 million settlement) in the first nine months of fiscal 2004 from 2.8% in the corresponding period in 2003.

GEOGRAPHIC BUSINESS AREAS

Revenues (in thousands of dollars)

	Three months				Nine months			
	2004	2003	Variance	Variance	**2004**	2003	Variance	Variance
	$	$	$	%	$	$	$	%
Canada	**355,176**	289,628	65,548	22.6	**1,348,549**	1,265,964	82,585	6.5
France and other	**143,942**	154,493	(10,551)	(6.8)	**383,993**	426,055	(42,062)	(9.9)
Total	**499,118**	444,121	54,997	12.4	**1,732,542**	1,692,019	40,523	2.4

Operating expenses (in thousands of dollars)

	Three months				Nine months			
	2004	2003	Variance	Variance	**2004**	2003	Variance	Variance
	$	$	$	%	$	$	$	%
Canada	**322,873**	283,355	39,518	13.9	**1,207,058**	1,205,212	1,846	0.2
France and other	**148,125**	158,235	(10,110)	(6.4)	**401,078**	439,031	(37,953)	(8.6)
Total	**470,998**	441,590	29,408	6.7	**1,608,136**	1,644,243	(36,107)	(2.2)

Canada

In Canada, revenues increased by 22.6% in the current quarter and 6.5% in the first nine months of fiscal 2004 compared with the corresponding periods in 2003. These increases are due to an increase in the number of travellers by 22.4% and 9.4% respectively compared with the corresponding periods in 2003 and the additional revenues generated by the recent acquisition of Jonview ($17.7 million for the quarter and $18.6 million for the first nine months) partially offset by a reduction in sales made to external tour operators (i.e. tour operators outside the Transat group of companies). As discussed previously, the corresponding periods included a reduced number of travellers due to the impact of SARS and we did not generate any revenues from Americanada in fiscal 2004. In fiscal 2003 we recorded $20.6 million of revenues during the first six months. Demand increased for all European destinations, especially the United Kingdom, France, Germany and the Netherlands. Overall prices, however, have not returned to pre SARS levels.

The restructuring efforts undertaken in 2003 continued to be felt in the current quarter and current nine-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 9.1% (7.3% excluding the $6.2 million settlement) compared with 2.2% in the corresponding quarter of 2003 and for the first nine months of fiscal 2004 our margins increased to 10.5% (10.0% excluding the $6.2 million settlement) compared with 4.8% in the corresponding period in 2003.

France and other

As previously stated, on July 13, 2004 the Corporation announced the implementation of a plan to return Look Voyages to profitability. The plan calls for a reorganization including the abandonment of its air-only operations, which could result in staff reductions affecting about 90 people. The plan also calls for the intensified development of our core holiday package business along with the increased use of Internet technologies to stimulate sales to both travel agencies and the general public.

Transat has entered into negotiations with regulatory authorities in France which have not been finalized. As a result Transat is not in a position to disclose the amounts associated with this plan. However, we do not expect these amounts to exceed $19.0 million of which a maximum of $11.0 million would be in cash. The plan is expected to positively affect our 2005 results however. Information on anticipated annual savings and expenses related to the reorganization will be disclosed along with our fourth quarter and year-end results in January 2005.

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

Despite increases in the number of travellers in both the current quarter and nine-month period by 14.6% and 11.4% 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 45.5% and 32.0% respectively. This drop in revenues was partially offset by the inclusion of Tourgreece's revenues as of June 10, 2004 in the amount of $4.5 million. As discussed previously, the corresponding periods included a reduced number of travellers due to the impact of SARS.

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

The increase in travellers for the current nine-month period was mostly due to increased demand for long-haul travel from Europe to the Caribbean at Vacances Transat (France) and to the Mediterranean Basin at Look Voyages at lower overall prices.

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 $3.0 million (31.2%) to $6.6 million from $9.6 million in the current quarter. This decrease is the result of lower overall property, plant and equipment balances due to the write-down of the Lockheed L-1011-500s in fiscal 2003.

Additionally, during the first nine months of fiscal 2004, amortization expense decreased by $5.6 million (17.9%) to $25.6 million from $31.1 million during the corresponding period of the preceding fiscal year. This decrease is also due to the result of lower overall property, plant and equipment balances, offset by the accelerated depreciation on the remaining Lockheed L-1011-500 aircraft, which were still operational during the winter season.

Interest

Interest on long-term debt, obligations under capital leases, and debentures decreased by $1.0 million (38.6%) to $1.7 million from $2.7 million during the quarter and decreased by $1.8 million (23.8%) to $5.8 million from $7.6 during the first nine months of fiscal 2004 compared with the corresponding periods in 2003. These decreases are due to lower debt obligations.

Other interest and financial expenses decreased during the quarter and during the first nine months of fiscal 2004 compared with the corresponding periods of 2003. These decreases are due to lower average bank loans for our French operations.

Interest and other income decreased slightly in the current quarter despite larger overall cash balances due to lower interest rates. During the first nine months of fiscal 2004 interest and other income increased by $1.9 million (28.7%) compared with the corresponding period in the preceding fiscal year due mainly to a dividend received from Star Airlines S.A. ("Star") in the second 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 (loss) on long-term monetary items

For the current quarter and current nine-month period of fiscal 2004, the Corporation recorded a foreign exchange loss on long-term monetary items due to the strengthening Canadian dollar against the U.S dollar. A stronger Canadian dollar reduces the value of our long-term monetary assets and liabilities. Due to our reduced debt levels, the favourable impact of exchange rates on our debt levels is minimal. However, we continue to incur exchange losses on the deposits we make related to engine and airframe overhaul expenses to certain aircraft lessors in U.S dollars. In the comparative periods this loss was offset by foreign exchange gains on our higher debt levels.

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 nine-month period with the corresponding periods of the preceding fiscal year. The corresponding quarter included a net income of $0.2 million from Star and the corresponding nine-month period included losses in the amount of $3.4 million from Star due to the situation in France in fiscal 2003 that included health concerns regarding SARS, the economy and the overcapacity in the French marketplace.

Income taxes

Our total income tax provision amounted to $7.4 million for the quarter ended July 31, 2004 compared with a recovery of $4.4 million for the corresponding quarter of the preceding fiscal year. Excluding the share of net income of companies subject to significant influence, the effective tax rates were 36.4% for the quarter ended July 31, 2004 and 29.6% for the quarter ended July 31, 2003.

For the nine-month period ended July 31, 2004, our total income tax provision amounted to $36.8 million compared with a provision of $3.6 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 37.0% for the nine-month period ended July 31, 2004 and 70.9% for the corresponding period in 2003.

Under both comparative periods above, the variance in our effective tax rate from the preceding corresponding periods is primarily due to the effect of the permanent differences at our airline company on our consolidated taxable income.

Net income

As a result of the items discussed in "Consolidated operations," our net income was $12.8 million or $0.36 per share for the quarter ended July 31, 2004 ($8.9 million or $0.24 per share excluding the $3.9 million after-tax settlement) compared with a net loss of $10.1 million or $0.33 per share for the corresponding quarter of the preceding year ($5.8 million of net loss or $0.20 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 33,458,000 for the current quarter and 32,811,000 for the corresponding quarter of the preceding year.

Our net income was $61.1 million or $1.77 per share for the first nine months of fiscal 2004 ($57.2 million or $1.65 excluding the $3.9 million after-tax settlement) compared with a net loss of $1.7 million or $0.13 per share for the corresponding period of the preceding year ($5.2 million of net income or $0.08 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 33,185,000 for the current nine-month period and 32,773,000 for the corresponding period of the preceding year.

On a diluted per share basis, the current quarter's earnings per share was $0.31 per share ($0.21 per share excluding the $3.9 million after-tax settlement) compared with a $0.33 loss per share in the corresponding quarter of 2003 ($0.20 per share excluding the effect of the after-tax restructuring charge) and the earnings per share for the first nine months of fiscal 2004 on a diluted per share basis was $1.49 per share ($1.40 per share excluding the $3.9 million after-tax settlement) compared with $0.13 per share in the corresponding period of 2003 ($0.08 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 was 41,553,000 for the current quarter and 32,811,000 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 nine months of fiscal 2004 were 41,045,000 and 32,773,000 for the corresponding period of the preceding year. *See note 5 to the unaudited consolidated interim financial statements.*

LIQUIDITY AND CAPITAL RESOURCES

Cash flows (in thousands of dollars)

	Three months			Nine months		
	2004	2003	Variance	**2004**	2003	Variance
	$	$	$	**$**	$	$
Cash flows relating to operating activities	**66,023**	45,037	20,986	**195,690**	110,352	85,338
Cash flows relating to investing activities	**(6,292)**	(2,293)	(3,999)	**(25,696)**	(9,546)	(16,150)
Cash flows relating to financing activities	**3,395**	(14,087)	17,482	**(28,143)**	(33,509)	5,366
Net change in cash and cash equivalents	**63,126**	28,657	34,469	**141,851**	67,297	74,554

As at July 31, 2004 we had $491.0 million in cash and cash equivalents (including $122.3 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 $213.8 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 $62.5 million as at July 31, 2004.

Total assets increased by $167.1 million (23.4%) to $881.8 million from $714.8 million as at October 31, 2003 due mainly to a $141.9 million increase in cash and cash equivalents. Shareholders' equity increased by $66.1 million to $307.4 million from $241.3 million as at October 31, 2003 due mainly to the $61.1 million in net income for the first nine months of fiscal 2004.

Operating activities

During the current quarter cash flows of $66.0 million were generated from operating activities, an increase of $21.0 million compared with the corresponding quarter of 2003. Additionally, during the first nine months of fiscal 2004, cash flows of $195.7 million were generated from operating activities, an increase of $85.3 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 $4.0 million more in the current quarter compared with the corresponding quarter in 2003 due mainly to additions to property, plant and equipment in the amount of $5.3 million which were mostly related to aircraft improvements and the acquisition of Tourgreece for $3.0 million, offset by the cash and cash equivalents in Tourgreece.

Cash flows used in investing activities were $16.2 million more in the current nine-month period compared with the corresponding period in 2003 due mainly to the acquisitions of Jonview and Tourgreece for $9.6 million and $3.0 million, respectively.

Financing activities

Cash flows from financing activities were $17.5 million more in the current quarter compared with the corresponding quarter in 2003 due to the fact that our reduced debt levels did not require any significant repayments during the current quarter and due to the proceeds received from the issuance of common shares.

Cash flows used in financing activities were $5.4 million less during the current nine-month period compared to the corresponding period in fiscal 2003 due mainly to proceeds in the amount of $6.2 million received from the issuance of common shares as well as the $3.2 million received to finance a portion of the Jonview acquisition from the minority shareholder.

Our revolving credit facility in the amount of $90.0 million expired in August 2004 and was not renewed at our request due to our strong financial position.

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 July 31, 2004. Total debt obligations amounted to $31.3 million as at July 31, 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 with entities that are not consolidated with the Corporation and are made up of:

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

The total amount of off-balance sheet debt that can be estimated was approximately $521.0 million as at July 31, 2004 ($529.9 million as at October 31, 2003) and can be reconciled as follows:

	As at July 31, 2004 $	As at October 31, 2003 $
Guarantees		
Irrevocable letters of credit	**30,372**	42,724
Security contracts	**1,045**	1,420
Operating leases		
Commitments under operating leases	**414,921**	411,188
Guaranteed residual value	**74,711**	74,586
	521,049	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 July 31, 2004 have decreased compared with October 31, 2003.

Our balance sheet debt dropped by $34.0 million to $31.3 million from $65.3 million due mainly to the repayment of this debt and our off-balance sheet debt decreased by $8.9 million from $529.9 million to $521.0 million resulting in a total debt reduction of $42.9 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 $183.7 million from $352.3 million, a 47.9% decrease.

NORMAL COURSE ISSUER BID

The Board of Directors of Transat A.T. inc. announced on June 10 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, the Corporation stated 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 began on June 15, 2004 and will terminate no later than June 14, 2005.

During the current quarter, 5,000 Common Shares were purchased for cancellation for a cash consideration of $90,000. No Convertible Debentures were purchased during the quarter.

ACCOUNTING CHANGES

During the first nine 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 resulted in a $65,000 reduction on our results for both the quarter and nine-month period ending July 31, 2004 but had no effect on our financial position or cash flows during the same periods.

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.

APPOINTMENT

On August 24, 2004 the Corporation announced the appointment of Nelson Gentiletti to the newly created position of Executive Vice-President, Transat Tours Canada (TTC). Mr. Gentiletti will also remain in his current function of Vice-President, Finance & Administration, and Chief Financial Officer until a successor is appointed.

OUTLOOK

In Canada European booking levels for the fourth quarter thus far are back to the levels of 2002 and overall bookings are up by approximately 13% compared with 2003. Prices however are not yet back to 2002 levels. The Corporation expects the remainder of the fourth quarter to follow this trend. The Corporation expects the pricing environment to continue to be as challenging as it has been over the summer season thus far as booking cycles continue to be short at 1 to 6 weeks prior to departure. The Corporation will also continue to feel the impact of the recent surge in fuel prices which will only be partially offset by its hedging program, fuel surcharges and the favorable impact of the stronger Canadian dollar.

In France the Corporation does not expect improvements in Look Voyages' results in the fourth quarter. However, with the announcement of its plan to reorganize and reposition Look Voyages, its losses are expected to decrease by approximately 50% in fiscal 2005 and a return to profitability is expected by the end of fiscal 2006. As a result of these continued losses the Corporation will no longer be recording any income tax recovery related to its French operations beginning in the fourth quarter. Transat expects to record the restructuring charge related to Look Voyages in the fourth quarter as well. The amount of the restructuring charge is not expected to exceed $19.0 million, of which a maximum of $11.0 million would be in cash.

The French operations in the fourth quarter will also be impacted by the fact that the Corporation is no longer using the equity method in accounting for its investment in its French airline company as of February 1, 2004. In the fourth quarter of 2003, the Corporation recorded an equity pick up of $3.4 million from Star Airlines.

Transat's fourth quarter outlook is in line with the guidance given at the end of the second quarter.

In conclusion, the Corporation expects to end the fiscal year with a good summer that, combined with the exceptional winter season it just went through, is expected to result in a record year.

Transat began the year with a strategy designed to focus on its core business, reduce its costs and improve its margins. Its recent performance and expected performance in the fourth quarter will clearly demonstrate that it has delivered on this strategy. Transat is now well positioned to invest in its future and grow the company.

Consolidated Balance Sheets

(in thousands of dollars)

	As at July 31, 2004 (Unaudited) $	As at October 31, 2003 (Audited) $
Assets		
Current assets		
Cash and cash equivalents *[note 3]*	**490,976**	349,125
Accounts receivable	**86,617**	72,929
Future income tax assets	**972**	959
Inventories	**9,249**	7,829
Prepaid expenses	**38,124**	40,379
Current portion of deposits	**29,720**	24,053
Total current assets	**655,658**	495,274
Deposits	**19,336**	14,172
Future income tax assets	**9,215**	13,371
Property, plant and equipment	**93,523**	101,741
Goodwill	**88,685**	69,682
Other assets	**15,393**	20,517
	881,810	714,757
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**263,880**	181,971
Income taxes payable	**22,961**	2,699
Customer deposits and deferred income	**155,062**	146,025
Current portion of long-term debt and obligations under capital leases	**—**	20,102
Total current liabilities	**441,903**	350,797
Long-term debt	**—**	4,811
Obligations under capital leases	**—**	10,437
Debentures *[note 4]*	**31,301**	29,981
Provision for engine and airframe overhaul in excess of deposits	**62,063**	43,495
Non-controlling interest and other liabilities	**21,427**	22,474
Future income tax liabilities	**17,710**	11,416
	574,404	473,411
Shareholders' equity		
Share capital *[note 5]*	**117,536**	111,247
Convertible debentures and equity component of a debenture *[notes 4 and 6]*	**55,297**	52,855
Retained earnings	**128,863**	70,336
Warrants	**4,056**	4,122
Contributed surplus	**65**	—
Deferred translation adjustments	**1,589**	2,786
	307,406	241,346
	881,810	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 July 31		Nine (9) months ended July 31	
	2004	2003	**2004**	2003
	$	$	**$**	$
Revenues	**499,118**	444,121	**1,732,542**	1,692,019
Operating expenses				
Direct costs	**239,763**	210,016	**881,091**	828,881
Salaries and fringe benefits	**55,946**	56,244	**167,355**	179,797
Commissions	**35,344**	31,033	**150,334**	142,992
Aircraft fuel	**34,465**	30,187	**89,079**	105,816
Aircraft maintenance	**24,405**	29,681	**72,152**	98,591
Aircraft rent	**15,472**	16,261	**43,991**	56,665
Airport and navigation fees	**17,342**	16,587	**42,621**	46,262
Other	**48,261**	51,581	**161,513**	185,239
	470,998	441,590	**1,608,136**	1,644,243
	28,120	2,531	**124,406**	47,776
Amortization	**6,626**	9,634	**25,561**	31,122
Restructuring charge *[note 7]*	**—**	6,597	**—**	10,345
Interest on long-term debt, obligations under capital leases and debentures	**1,672**	2,721	**5,786**	7,592
Other interest and financial expenses	**613**	756	**1,731**	2,860
Interest and other income	**(2,152)**	(2,395)	**(8,377)**	(6,507)
Foreign exchange (gain) loss on long-term monetary items	**900**	114	**139**	(2,681)
Share of net (income) loss of companies subject to significant influence	**(177)**	(649)	**1,451**	2,902
	7,482	16,778	**26,291**	45,633
Income (loss) before the following items	**20,638**	(14,247)	**98,115**	2,143
Income taxes (recovery of)				
Current	**7,625**	856	**24,286**	674
Future	**(177)**	(5,258)	**12,520**	2,905
	7,448	(4,402)	**36,806**	3,579
Income (loss) before non-controlling interest in subsidiaries' results	**13,190**	(9,845)	**61,309**	(1,436)
Non-controlling interest in subsidiaries' results	**(367)**	(243)	**(226)**	(250)
Net Income (loss) for the period	**12,823**	(10,088)	**61,083**	(1,686)
Basic earnings (loss) per share	**0.36**	(0.33)	**1.77**	(0.13)
Diluted earnings (loss) per share	**0.31**	(0.33)	**1.49**	(0.13)

Consolidated Statements of Retained Earnings

(in thousands of dollars) (Unaudited)

	Nine (9) months ended July 31	
	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 (loss) for the period	**61,083**	(1,686)
Premium paid on redemption of common shares	**(73)**	—
Interest on equity component of debentures – net of related income taxes of $1,071 [$1,066 in 2003]	**(2,483)**	(2,425)
Retained earnings, end of period	**128,863**	24,525

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars) (Unaudited)

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2004	2003	**2004**	2003
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income (loss) for the period	**12,823**	(10,088)	**61,083**	(1,686)
Items not involving an outlay (receipt) of cash				
Amortization	**6,626**	9,634	**25,561**	31,122
Restructuring charge	**—**	46	**—**	766
Foreign exchange (gain) loss on long term monetary items	**900**	114	**139**	(2,681)
Share of (net income) net loss of companies subject to significant influence	**(177)**	(649)	**1,451**	2,902
Non-controlling interest in subsidiaries' results	**367**	243	**226**	250
Future income taxes	**(177)**	(5,258)	**12,520**	2,905
Interest on debentures	**207**	205	**619**	613
Operating cash flow	**20,569**	(5,753)	**101,599**	34,191
Net change in non-cash working capital balances related to operations	**34,351**	47,527	**74,715**	57,800
Net change in deposits, expenses and provision for engine and airframe overhaul	**11,103**	3,263	**19,376**	18,361
Cash flows relating to operating activities	**66,023**	45,037	**195,690**	110,352
INVESTING ACTIVITIES				
Increase in deposits	**(3,771)**	—	**(8,499)**	(877)
Additions to property, plant and equipment	**(5,267)**	(2,141)	**(14,512)**	(11,801)
Other assets	**1,300**	(449)	**(625)**	(130)
Repayment of deposits	**118**	130	**4,264**	3,095
Dividends	**—**	167	**431**	167
Cash and cash equivalents from acquired company *[note 8]*	**4,282**	—	**5,905**	—
Consideration paid for acquired company *[note 8]*	**(2,954)**	—	**(12,660)**	—
Cash flows relating to investing activities	**(6,292)**	(2,293)	**(25,696)**	(9,546)
FINANCING ACTIVITIES				
Bank Loans	**—**	(2,317)	**—**	(10,277)
Interest on convertible debentures	**—**	—	**(2,300)**	(2,300)
Repayment of long-term debt and obligations under capital leases	**(159)**	(11,770)	**(35,969)**	(23,683)
Proceeds from issue of common shares	**3,360**	—	**6,210**	744
Proceeds from issue of a debenture *[note 4]*	**—**	—	**3,156**	—
Other liabilities	**284**	—	**850**	2,007
Repurchase of common shares	**(90)**	—	**(90)**	—
Cash flows relating to financing activities	**3,395**	(14,087)	**(28,143)**	(33,509)
Net change in cash and cash equivalents for the period	**63,126**	28,657	**141,851**	67,297
Cash and cash equivalents, beginning of period	**427,850**	298,763	**349,125**	260,123
Cash and cash equivalents, end of period	**490,976**	327,420	**490,976**	327,420

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 seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 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 resulted in a reduction in net income of $65,000 and had no impact on earnings per share for the three- and nine-month periods ended July 31, 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 nine-month period ended July 31, 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 July 31, 2004 $	As at October 31, 2003 $
Cash and cash equivalents	**368,662**	242,952
Cash in trust or otherwise reserved	**122,314**	106,173
	490,976	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 8]*. The debenture is repayable in one instalment 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 totalled $802,000 and $2,354,000 respectively. As at July 31, 2004, they totalled $764,000 and $2,392,000 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

	Nine (9) months ended July 31, 2004	
	Number	Amount ($)
Common shares		
Balance as at October 31, 2003	32,863,553	111,247
Exercise of options	785,498	5,469
Issued from treasury	44,047	604
Exercise of warrants	22,750	220
Conversion of debentures	1,484	13
Repurchase of shares	(5,000)	(17)
Balance as at July 31, 2004	33,712,332	117,536

Normal course issuer bid

The Corporation filed a normal course issuer bid in the normal course of business for a 12-month period that began June 15, 2004. With this bid, the Corporation intends, among other things, to purchase for cancellation up to a maximum of 1,662,847 common shares of the Corporation, which represented approximately 5% of issued and outstanding common shares at the offer date. Shares are purchased at market prices plus brokerage fees.

During the three- and nine-month periods ended July 31, 2004, the Company repurchased and cancelled 5,000 common shares under its normal course issuer bid for a net cash consideration of $90,000.

b) Options

Options issued and outstanding

	Nine (9) months ended July 31, 2004	
	Number of options	Weighted average price ($)
Balance as at October 31, 2003	2,281,666	6.75
Granted	161,500	15.68
Exercised	(785,498)	6.96
Cancelled	(95,947)	7.33
Balance as at July 31, 2004	1,561,721	7.52
Exercisable options as at July 31, 2004	909,838	8.30

Compensation expense related to stock option plan

During the quarter ended July 31, 2004, the Corporation granted 161,500 stock options to certain key employees and its directors. The average fair value of each option granted was estimated at the date of grant using the Black-Scholes option pricing model. The Corporation recorded a corresponding compensation expense of $65,000 during the three- and nine-month periods ended July 31, 2004.

The assumptions used and the weighted average fair value of the options on the date of grant for the three- and nine-month periods ended July 31, 2004 are as follows:

Risk-free interest rate	4.82%
Expected life	6 years
Expected volatility	56%
Dividend yield	0%
Weighted-average grant-date fair value	$8.99

Pro forma disclosure of fair value of stock options

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

Pro forma disclosure of fair value of stock options

(Cont'd)

	Three (3) months ended July 31, 2003 $	Nine (9) months ended July 31, 2003 $
Net loss	10,088	1,686
Adjustment –		
Stock-based compensation	72	76
Pro forma net loss	10,160	1,762
Pro forma loss per share	0.34	0.13
Pro forma diluted loss per share	0.34	0.13

c) Earnings per share

Earnings (loss) per share and the fully diluted earnings (loss) per share for the three-month and nine-month periods ended July 31, 2004 and 2003 were computed as follows:

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2004 **$**	2003 $	**2004** **$**	2003 $
Numerator				
Net income (loss)	**12,823**	(10,088)	**61,083**	(1,686)
Interest on convertible debentures	**(823)**	(868)	**(2,417)**	(2,425)
Income (loss) available to common shareholders	**12,000**	(10,956)	**58,666**	(4,111)
Interest on convertible debentures	**823**	—	**2,417**	—
Interest on debentures that may be settled in common shares	**33**	—	**77**	—
Income (loss) used to calculate diluted earnings per share	**12,856**	(10,956)	**61,160**	(4,111)
Denominator				
Weighted average number of outstanding shares	**33,458**	32,811	**33,185**	**32,773**
Convertible debentures	**5,841**	—	**5,841**	—
Debentures that may be settled in common shares	**315**	—	**256**	—
Stock options	**1,052**	—	**982**	—
Warrants	**887**	—	**781**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**41,553**	32,811	**41,045**	32,773
Basic earnings (loss) per share	**0.36**	(0.33)	**1.77**	(0.13)
Diluted earnings (loss) per share	**0.31**	(0.33)	**1.49**	(0.13)

Convertible debentures, debentures that may be settled in common shares and warrants were excluded from the computation of diluted loss per share for the three- and the nine-month periods ended July 31, 2003 in view of their antidilutive effect. The potential impact on the denominator of these securities for the quarter ended July 31, 2003, is 7,846,413 shares and 7,753,897 shares for the nine-month period then ended. Given the loss recorded for the three- and nine-month periods ended July 31, 2003, the 2,525,478 common stock options outstanding were excluded from the computation in light of their antidilutive effect.

Note 6

Convertible debentures

Under its normal course issuer bid that began June 15, 2004 *[see note 5]*, the Corporation intends to repurchase for cancellation up to a maximum of $2,554,600 in convertible debentures of the Corporation, which represented approximately 5% of floating convertible debentures at the issuer bid date. Convertible debentures are repurchased at market prices plus brokerage fees.

During the three- and nine-month periods ended July 31, 2004, the Corporation did not redeem or cancel any convertible debentures under its issuer bid.

Note 7

Restructuring Charge

During the year ended October 31, 2003, the Corporation developed a restructuring program, which led to changes in its management structure and a reorganization affecting both the nature and focus of its operations in France and Canada. 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 $3,962,000 during the nine-month period ended July 31, 2004, resulting in a balance of $2,142,000 as at July 31, 2004.

Note 8 Acquisitions

Jonview

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 through 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.

Tourgreece S.A

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 €1,797,000 ($2,954,000) in cash, including acquisition costs of €219,000 [$354,000]. The acquisition was accounted for as a step acquisition and the results were included in the Corporation's results as of the acquisition date. Total goodwill resulting from the two acquisition transactions amounted to $6,996,000. Previously, the results were recorded under the equity method.

Pursuant to this transaction, the Corporation now holds 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.

The business acquisitions are summarized as follows:

	Jonview	Tourgreece	Total
	$	$	$
Assets acquired			
Cash and cash equivalents	1,623	2,141	3,764
Non-cash current operating assets	1,635	963	2,598
Property, plant and equipment	798	43	841
Goodwill	11,956	3,338	15,294
	16,012	6,485	22,497
Liabilities assumed			
Non-cash current operating liabilities	3,033	3,531	6,564
Long-term debt	208	—	208
	3,241	3,531	6,772
Net assets acquired at fair value	12,771	2,954	15,725

Note 9 Segmented Information

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

	Three (3) months ended July 31, 2004			Nine (9) months ended July 31, 2004		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	355,176	143,942	499,118	1,348,549	383,993	1,732,542
Operating expenses	322,873	148,125	470,998	1,207,058	401,078	1,608,136
	32,303	(4,183)	28,120	141,491	(17,085)	124,406
Amortization	5,619	1,007	6,626	22,231	3,330	25,561
Additions to property, plant and equipment	5,267	—	5,267	13,429	1,083	14,512
Property, plant and equipment and goodwill [1]				128,630	53,578	182,208

	Three (3) months ended July 31, 2003			Nine (9) months ended July 31, 2003		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	289,628	154,493	444,121	1,265,964	426,055	1,692,019
Operating expenses	283,355	158,235	441,590	1,205,212	439,031	1,644,243
	6,273	(3,742)	2,531	60,752	(12,976)	47,776
Amortization	8,226	1,408	9,634	26,223	4,899	31,122
Additions to property, plant and equipment	630	1,511	2,141	7,370	4,431	11,801
Property, plant and equipment and goodwill [2]				128,816	42,607	171,423

[1] As at July 31, 2004.

[2] As at October 31, 2003.

Note 10 Guarantees

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

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

Notes 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 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 July 31, 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 licences 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 July 31, 2004. Historically, the Corporation has not made any significant payments under such agreements.

As at July 31, 2004, no amounts have been accrued with respect to the abovementioned agreements.