



ANNUAL INFORMATION FORM
PERIOD ENDED ON OCTOBER 31, 1997

March 13, 1998

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ITEM 1. INCORPORATION

1.1 TRANSAT A.T. INC.

Transat A.T. Inc. (the “Corporation” or “Transat”) was incorporated under the *Canada Business Corporations Act* by Certificate of Incorporation dated February 13, 1987, under the name of 154117 Canada Inc.

Since its incorporation, several amendments have been made to the articles of the Corporation:

- on April 27, 1987, a Certificate of Amendment was issued to the Corporation to change its name to Groupe Transat A.T. Inc. and to provide for the creation of an unlimited number of Preferred Shares issuable in series;
- on November 19, 1990, a Certificate of Amendment was issued to provide for the creation of 2,400,000 Series 1 Preferred Shares;
- on April 24, 1991, a Certificate of Amendment was issued to fix the minimum number of directors at nine and the maximum number of directors at 15;
- on July 22, 1992, a Certificate of Amendment was issued to provide for the creation of 250,000 Series 2 Preferred Shares;
- on April 22, 1993, a Certificate of Amendment was issued to the Corporation to amend certain provisions relating to the Series 1 Preferred Shares and to change the Corporation’s name to Transat A.T. Inc.
- on November 25, 1993, a Certificate of Amendment was issued to provide for the creation of 250,000 Series 3 Preferred Shares;
- on December 18, 1996, a Certificate of Amendment was issued to subdivide each common share on the basis of three common shares for each issued and outstanding common share.

The registered office of the Corporation is located at 300 Léo-Pariseau, Suite 400, Montreal, Quebec, H2W 2P6.

In this information form, unless the context provides otherwise, the Corporation refers to Transat and its subsidiaries.

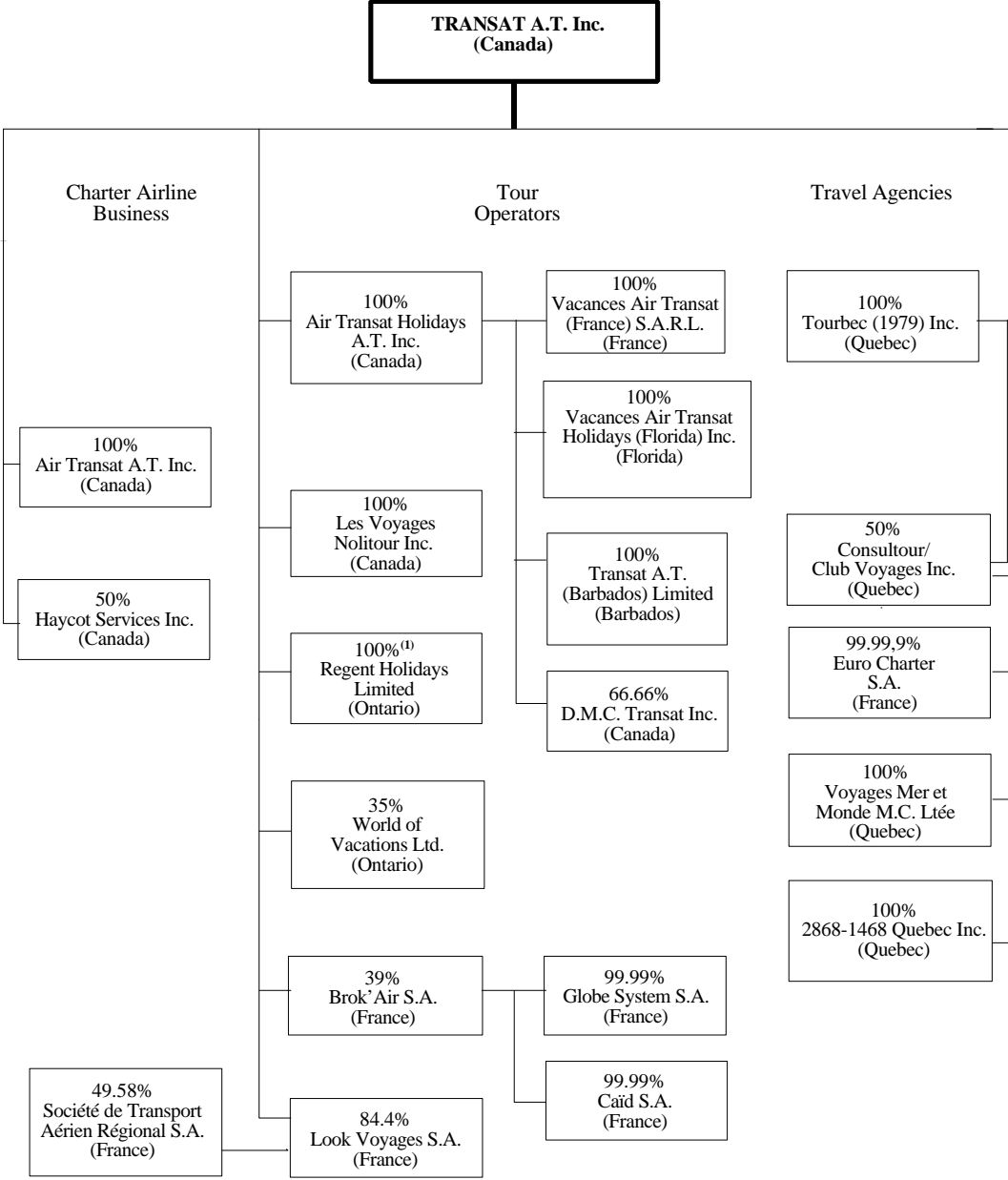
1.2 CORPORATE STRUCTURE AS AT OCTOBER 31, 1997

Transat has five principal wholly-owned subsidiaries, Air Transat A.T. Inc. (“Air Transat”), Air Transat Holidays A.T. Inc. (“Air Transat Holidays”), Tourbec (1979) Inc. (“Tourbec”), Les Voyages Nolitour Inc. (“Nolitour”) and Regent Holidays Limited (“Regent”).

Air Transat Holidays owns 100% of the share capital of Vacances Air Transat (France) S.A.R.L. (“VAT France”), Transat A.T. (Barbados) Limited and Vacances Air Transat Holidays (Florida) Inc. (“ATH Florida”) and holds a 66⅔% interest in DMC Transat Inc. (“DMC”).

The Corporation also holds a 84.4% interest in Look Voyages S.A. (“Look”), a 50% interest in Consultour/Club Voyages Inc. (“Consultour”), a 50% interest in Haycot Services Inc. (“Haycot”), a 35% interest in World of Vacations Ltd and a 39% interest in Brok’ Air S.A. (“Brok’ Air”). Consultour holds a 100% interest in both Voyages Mer et Monde M.C. Ltée and 2868-1468 Quebec Inc. Consultour holds also a 99.9% interest in Euro Charter S.A (“Euro Charter”), whereas Look holds a 49.58% interest in STAR Airlines (“STAR”). Brok’ Air holds a 99.99% interest in each of Globe System S.A., Caïd S.A. and Daily Planet Multimédia S.A.R.L.

The following organization chart sets out the corporate structure of the Corporation as at October 31, 1997, the jurisdiction of incorporation and the percentage of voting and participating shares held in each of the companies included therein:



(1) Transat holds 100% of the participating shares and 50% of the voting shares issued and outstanding of Regent.

ITEM 2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 BUSINESS OF THE CORPORATION

2.1.1 Overview

The Corporation is a holding company which, through subsidiaries or affiliated companies, has operations in all aspects of the organization and distribution of holiday travel. It operates as a tour operator, a travel agent and a travel agency franchisor. In addition, it operates a commercial charter air service for the transportation of passengers and provides airport ground handling services. Its operations are carried out in two geographical areas, Canada and Europe.

2.1.2 Business Strategy

The Corporation's objective is to be a leader in the holiday travel sector in Canada and Europe. It has based its development strategy on the vertical integration of holiday-travel distribution channels. The Corporation's tour operator and travel agent activities benefit from the availability of seats on its own air carrier. This strategy encourages synergies, ensures reciprocal loyalty between the three levels of operations and permits better quality control of the Corporation's products and services. It also gives the Corporation more flexibility to adjust prices, products and services offered by the three levels of operations, enhancing its ability to operate profitably.

This strategy has led the Corporation to acquire, or to invest in, tour operators and travel agencies in Canada and in Europe while continuing to expand its air carrier services.

2.1.3 General Development of the Business

Air Transat Holidays was incorporated in 1983 under the name *Trafic Voyages Ltée* ("Trafic Voyages"). Its principal market at that time was the Montreal–Paris route and its activities were limited to those of a tour operator until 1987, when Air Transat was founded as part of a vertical-integration strategy. Air Transat was initially financed by a public offering of the Corporation's securities, which was completed in June 1987. Air Transat signed its first operating lease for a Lockheed L-1011 aircraft in September 1987 and its first commercial flight took place on November 14 of the same year.

The Corporation created *Trafic Tours France S.A.R.L.* in February 1987 to increase the number of passengers on the Montreal–Paris route, reduce its dependency on independent tour operators in France and increase its sales of seats in the French market. Initially, most of *Trafic Voyages* passengers traveled principally between April and October. In July 1987, in order to increase its November-to-April operations, the Corporation acquired *Les Vacances Multitour International Inc.* ("Multitour"), which specialized in southern destinations.

While seeking to expand the scope of its tour operator activities, the Corporation also wanted to ensure a presence in the retail travel business that was consistent with its vertical-integration strategy. In August 1988, the Corporation acquired a 50% interest in *Consultour*, a travel agency franchisor now comprising 206 travel agencies doing business under the *Club Voyages*, *Voyages en Liberté*, *Inter Voyage* and *Tourbec* banners.

In addition, in October 1988 the Corporation acquired 50% of the shares of *Haycot*, a provider of ground handling services in Montreal and in February 1989 it purchased all the outstanding shares of *Tourbec*, which then operated 11 travel agencies primarily in the Greater Montreal Region.

In November 1989, *Trafic Voyages* and *Multitour* merged and in February of 1991 they adopted the name *Air Transat Holidays A.T. Inc.* with a view to capitalizing on the quality image Air Transat had acquired in the travel market.

In December 1989, the Corporation decided to enter the Toronto market through the acquisition of *British Airways Holidays (Canada) Limited*, which adopted the *Air Transat Holidays* trademark in February 1992 before merging with *Air Transat Holidays* in May 1992.

In August 1990, the Corporation acquired 100% of the share capital of Placements Venaco Inc., a holding company for two well-known, established tour operators doing business in the Quebec City and Montreal areas under the name of Vacances Fantasia. On October 31, 1992, Vacances Fantasia merged with Air Transat Holidays and in May 1996, the Quebec City operations were merged with Air Transat Holidays' Montreal operations.

In July 1992, to further consolidate its position in the Toronto market, the Corporation acquired a 50% interest in Regent, a tour operator. During the 1997 fiscal year, the Corporation acquired the balance of the issued and outstanding participating shares of the capital of Regent, thereby increasing its interest to 100%.

In 1993, in order to better control the distribution of its products in the Toronto–United Kingdom market, Air Transat entered into a firm five-year distribution agreement with The Globespan Group plc (“Globespan”), one of Great Britain’s foremost tour operators for travel to Canada. This agreement was renewed during the 1997 fiscal year for an additional period of three years.

With a view to continuing its growth in Quebec, the Corporation acquired control of Nolitour by share purchases in July 1993 and July 1994. In April 1994, Nolitour abandoned its direct sales operations, transferred its travel agencies to Tourbec and made its products broadly available to all travel agencies. During the 1997 fiscal year, Nolitour acquired certain assets of Auratours, a tour operator specializing in travel products to Italy.

In July 1993, Air Transat Holidays opened a new division in Vancouver to further expand its Canadian operations.

ATH Florida was formed in December 1993 to offer representation services to customers of Air Transat Holidays at their destinations in Florida.

In 1995, Air Transat Holidays transferred its incoming tour operator activities to DMC, a newly formed company. On June 13, 1995, the Fonds de solidarité des travailleurs du Québec (F.T.Q.) acquired one-third of the outstanding common shares of DMC in consideration of \$2.5 million. DMC’s mission is to develop incoming tourism services in Canada and, more specifically, in Quebec. On November 1, 1996, DMC merged with Club Kilomètre Inc., a small tour operator located in Quebec City acquired in April 1996.

On October 19, 1995, a subsidiary of Caisse de dépôt et placement du Québec (“Caisse”) purchased 25% of the common shares of Air Transat Holidays, which shares were redeemed on November 1, 1995. In a related transaction, Air Transat Holidays issued a debenture to Caisse in an aggregate principal amount of \$10 million. This debenture bears interest at 17.5% per annum and matures on November 1, 2005. It is redeemable at Air Transat Holidays’ option on or after November 1, 2000 and convertible into 25% of Air Transat Holidays’ common shares at Caisse’s option on or after November 1, 2000. In the event the debenture is redeemed, the redemption price will be equal to the amount paid plus a premium that is sufficient to enable the holder to obtain a compound annual return of 20.5% on the amount paid, calculated from November 1, 1995, taking into consideration annual interest paid on the debenture during the period. The debenture may also be redeemed on the same conditions by Air Transat Holidays, in the event that Caisse exercises the option to convert the debenture into shares of Air Transat Holidays. Finally, should the Corporation be subject to a takeover bid, Caisse has the option to purchase all of the outstanding shares of Air Transat Holidays at a price to be determined in accordance with the terms and conditions of the debenture. The debenture also includes several undertakings of Air Transat Holidays and Transat in favour of Caisse.

The debenture is collateralized, among other things, by the guarantee of Transat and Air Transat, a second-ranking movable hypothec on the shares of certain of the Corporation’s affiliates and a movable hypothec without delivery on the universality of the movable property of Air Transat Holidays and of Air Transat.

In 1996, the Corporation first acquired a 33.7% interest in Look, which interest was increased to 68% in October 1996. On June 2, 1997, following a takeover bid at a price of 8 FF per share (approximately \$2), the Corporation increased this interest to 84.4%.

The Corporation also acquired a 35% interest in World of Vacations Ltd. in 1996 and a 34.4% interest in Brok’ Air.

In December 1996, the Corporation increased its interest in Brok' Air from 34.4% to 39%.

In September 1997, Transat, Air Transat and Air Transat Holidays entered into an arrangement with a banking syndicate pertaining to a revolving term loan in an amount of \$55 million and special revolving credit in an amount of \$27 million. Pursuant to the banking arrangement, Transat, as well as its subsidiaries Air Transat and Air Transat Holidays, granted their bankers movable hypothecs on the universality of their movable property. In addition, Transat granted a movable hypothec on the shares of the subsidiaries it owns and Air Transat granted an immovable hypothec on the hangar and administrative building located at the Montreal International Airport in Mirabel, Quebec.

The revolving term loan matures on February 29, 2000 but may be extended for two consecutive periods of 12 months. In accordance with the conditions of this arrangement, amounts may be drawn in the form of bankers' acceptances or bank loans in Canadian or US dollars. The interest rate is determined on the basis of a rate schedule that varies in accordance with the level of certain financial ratios calculated on a consolidated basis.

2.2 RECENT ACQUISITIONS

2.2.1 Look

On April 19, 1996, the Corporation acquired 33.7% of the capital of Look for a consideration of \$12.1 million, which was paid in cash. On October 15, 1996, this interest was increased to 68% following the acquisition of the shares held by a major shareholder at a price of \$1.1 million, payable on January 31, 1998. On June 2, 1997, following a takeover bid at a price of 8 FF per share (approximately \$2), the Corporation increased this interest to 84.4%. In addition, for the purpose of absorbing certain losses, paying certain restructuring costs and developing the operations of Look, Transat loaned an approximate amount of \$27.2 million to Look through its subsidiaries. This amount was financed in part through working capital and in part through a bank loan bearing interest at the bankers' acceptances rate plus 1% per annum. This loan was repaid on September 24, 1997 out of the proceeds of financing obtained pursuant to a new banking arrangement entered into during the same month.

Look is one of the largest French tour operators with annual sales exceeding 1.4 billion FF for the fiscal year ended October 31, 1997. With its 314 employees as at October 31, 1997, Look operates primarily in the chartering of flights and the marketing of airline tickets and acts as a tour operator. In May 1997, Look's travel agencies were sold to Consultour. The principal destinations served by Look are the French West Indies, the Mediterranean region and North America.

In December 1995, Look participated in the establishment of a new air carrier, STAR, Look holds 49.58% of STAR's capital. STAR now operates four aircraft and primarily services the Mediterranean region.

2.2.2 World of Vacations Ltd.

On August 9, 1996, the Corporation purchased 35% of the shares of Canadian Holidays, a Toronto-based tour operator, at a price of \$2 million payable in cash. Canadian Holidays changed its name to World of Vacations Ltd. on September 6, 1996. In addition, a loan of \$4 million bearing interest at 12% and repayable in 12 quarterly installments ending on July 31, 1999, was made between Canadian Holidays and Transat. The Corporation also has an option to increase its interest in the capital of World of Vacations Ltd. to 100%. This option is exercisable between May 1, 1999, and April 30, 2001, at a price based on World of Vacations' financial results. The Corporation is to renegotiate the terms of these agreements.

2.2.3 Regent

On March 19, 1997, the Corporation acquired from a shareholder of Regent the aggregate of the shares he held in the capital of that company, hence increasing its interest in Regent from 50% to 69%. In return, the Corporation released 43,579 Series 3 Preferred Shares from escrow for the benefit of the selling shareholder, and the balance of the Series 3 Preferred Shares held by such shareholder was transferred to Regent.

On April 30, 1997, the Corporation acquired the balance of the issued and outstanding participating shares of Regent, at a price to be established on the basis of the net income of the 1994 to 1999 fiscal years, hence increasing its interest in this company to 100% of the participating shares and 50% of the voting shares issued and outstanding.

2.2.4 *Brok'Air*

On July 1996, the Corporation acquired 34.4% of the capital of Brok'Air for a cash consideration of \$751,000. In December 1997 this interest was increased to 39% for a cash consideration of \$86,000.

2.3 OVERVIEW OF THE INDUSTRY

The holiday travel industry is composed of tour operators, travel agents and charter air carriers.

2.3.1 *Tour Operators*

The market for tour operators is well established in Europe, Asia and Canada. Tour operators purchase the various components of a trip and resell them to the consumer through the services of travel agencies, either as a travel package or separately. A tour operator purchases blocks of seats or complete flights from charter air carriers and undertakes to pay for all the seats so purchased whether it sells them or not, thereby obtaining a better price. The tour operator also negotiates with hotel facilities for blocks of rooms and makes arrangements in order to offer travel packages at lower prices than if consumers were to make their own reservations.

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

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

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

2.3.2 *Travel Agents*

Travel agents are the intermediary between the tour operator and the consumer. They meet with, advise and sell the product to the consumer and are remunerated by commission paid by tour operators and other suppliers. Travel agents also sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by scheduled airline carriers and other travel products and services.

Travel agents operate independently as part of large corporate groups, as franchisees and within associations.

2.3.3 Charter Air Carriers

Air carriers provide their services to travel agencies and tour operators. These carriers are known as “scheduled” when they sell their services directly to the public and to travel agencies and “charter” when they sell their seats in blocks to tour operators.

Generally speaking, charter air carriers specialize in the holiday travel market, whereas scheduled carriers rely on the business travel segment. Both types of carriers compete in the so-called “visiting friends and relatives” travel market.

Airline companies either own their aircraft or lease aircraft on short- or long-term basis. Aircraft are configured differently depending on their use by scheduled or charter carriers in order to meet their respective needs in terms of service and capacity.

2.3.4 Factors Affecting Demand

In recent years, the vacation package and air charter industries have grown as a result of several factors, including: an aging population with more leisure time and financial resources; improved airplane efficiency reducing the costs of airline travel; the addition of new destinations; the increasing popularity of all-inclusive packages; and recognition that travel requirements for vacationers are distinct from those of business travellers. The single most important factor affecting demand remains the general state of the economy of the various countries in which tour operators operate.

2.3.5 Trends

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

Although the United Kingdom has experienced similar trends, France is still a largely fragmented market with several large tour operators and a large number of smaller ones. The Corporation believes that France will also be affected by globalization and concentration.

ITEM 3. DESCRIPTION OF THE BUSINESS

3.1 TOUR OPERATOR ACTIVITIES

The Corporation acts as a tour operator through its wholly-owned subsidiaries, Vacances Air Transat (Montreal, Toronto, Vancouver and regional offices in Quebec City, Halifax and Calgary) and VAT France (Paris), Nolitour (Montreal), Regent (Toronto), as well as through its subsidiary Look (France) and its affiliates, World of Vacations Ltd. (mainly Toronto and Vancouver) and Brok’Air (Paris). DMC and ATH Florida operate as incoming tour operators in Quebec and Florida respectively. Each of these subsidiaries and affiliates operates independently in its own market in the development and marketing of its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by the Corporation’s strategy of vertical integration.

3.1.1 Products of Air Transat Holidays

Air Transat Holidays offers its clientele quality travel at good prices. It has developed two principal types of products: travel packages for southern destinations during the winter season and charter flights with complementary products and services for travel to Europe during the summer season.

For travel to Europe, travellers may also make reservations for short hotel stays, car rentals or train tickets. In France, Air Transat flies mainly to Paris, Nice, Bordeaux, Marseilles, Lyons, Basel, Mulhouse, Toulouse and Nantes, and in the

United Kingdom and Ireland mainly to London, Manchester, Glasgow, Newcastle, Birmingham, Edimburgh, Belfast and Dublin. Air Transat also flies to Brussels, Frankfurt, Amsterdam, Rome and Athens. Flights to London and Paris are offered year round, but fewer flights are available from November to March. French destinations are primarily sold out of the Montreal and Quebec City offices, whereas United Kingdom and Ireland destinations are primarily sold out of the Toronto and Vancouver offices. Air Transat Holidays also offers bus tours throughout Europe.

With respect to southern destinations, the Montreal, Quebec City, Toronto, Vancouver, Halifax and Calgary offices offer destinations in the Dominican Republic, the French West Indies, Cuba, Venezuela, Mexico, Costa Rica, Colombia and the United States, among others. Air Transat Holidays also offers cruises to the Caribbean.

In addition to European and southern destinations, Air Transat Holidays offers charter flights within Canada as well as Canadian travel packages.

For the 12-month period ended October 31, 1997, approximately 632,000 travellers traveled with Air Transat Holidays.

3.1.2 Products of Nolitour

Nolitour offers its Montreal area clients products similar to those of Air Transat Holidays. It specializes in southern destination and lower-cost packages. For the 12-month period ended on October 31, 1997, approximately 75,000 travellers traveled with Nolitour. During the 1997 fiscal year, Nolitour undertook to develop new products in order to balance its revenues from one season to the next. Hence, in the spring of 1997, it acquired Auratours, a specialist in travel products to Italy. In addition, during the summer 1998 season, Nolitour will market Air Transat flights to Greece.

3.1.3 Products of VAT France

The main objective of VAT France is the distribution of complete holiday packages to Canada through French travel agencies. VAT France also offers its French clientele various Air Transat Holidays destinations in the Caribbean, such as Martinique, Guadeloupe and the Dominican Republic, and the eastern seaboard of the United States. For the 12-month period ended October 31, 1997, approximately 90,000 travellers traveled with VAT France.

3.1.4 Products of Regent

Toronto-based tour operator Regent offers products substantially similar to those offered by Air Transat Holidays. It has built an enviable reputation for cruises in the Caribbean in the winter and in Greece in the summer. For the 12-month period ended October 31, 1997, approximately 121,000 travellers traveled through Regent.

3.1.5 Products of World of Vacations Ltd.

Tour operator Canadian Holidays, now known as World of Vacations Inc., offers products substantially similar to those offered by Air Transat Holidays. It offers departures primarily from Toronto and Vancouver to Europe, Las Vegas and Florida in the summer and packages to southern destinations in winter. It has built a reputation for packages to Florida, having flown approximately 48,000 travellers to that country last winter alone. For the 12-month period ended October 31, 1997, approximately 300,000 travellers traveled with World of Vacations Ltd.

3.1.6 Products of Look

Look is one of the largest French tour operators and is recognized as a leader in the air-only flight market. It also offers exclusive value-added products in the form of holiday packages in "Club" hotels. "Lookéa" is the trademark used for these all-inclusive hotels which include group animations and target a youthful family-oriented clientele. Look's products are sold year round, but the summer season, which in France runs from April to October, is by far its busiest. Its most popular destinations are located in the Mediterranean region. Look's medium-term strategy is to develop value-added

products aimed at increasing its vacation package activities, while remaining a leader in the distribution of air-only tickets markets.

For the 12-month period ended October 31, 1997, approximately 1,275,000 travellers traveled with Look.

3.1.7 Products of DMC

DMC provides VAT France with a complete range of competitively priced Canadian tourism products, for both groups and individual travellers. In addition, DMC offers two major types of products, the organization of leisure trips (traditional, discovery and adventure tourism) and business trips (incentive trips, meetings, conferences) which it markets mostly in Europe. DMC, which served 55,000 customers during the 12-month period ended October 31, 1997, is one of the largest incoming tour operators in Canada.

3.1.8 Market Share and Competition

Management believes that the Corporation is the largest tour operator in Quebec with approximately 65% of the market. Its competition consists of a number of smaller tour operators.

The Ontario market is the largest in Canada, with the number of passengers on international charter flights being approximately twice that of Quebec. A few large tour operators dominate the Ontario market, including Canadian Leisure Group (which includes Sunquest and Alba Tours), Signature Vacations Inc. and the Corporation. Regent and Air Transat Holidays have succeeded in establishing a significant market share in the Toronto–United Kingdom travel segment during the summer season, as well in the Caribbean (particularly the Dominican Republic) during the winter season. Success has also been achieved in operating to Las Vegas on a year-round basis. The Corporation estimates that Air Transat Holidays, Regent and World of Vacations Ltd. account for approximately 33% of the market in Ontario.

The French market consists of approximately 350 tour operators with total revenues estimated at \$8 billion, the largest of which are Club Med, Nouvelles Frontières, Voyages FRAM, Jet Tours and Look. The trend towards consolidation that has characterized the tour operator industry in Canada is just beginning in France.

Although quality is an important factor, competition between tour operators is mainly based on price, with consumers looking for the most affordable way to travel to their destinations. Reduced profit margins in recent years have caused tour operators to seek higher volumes and larger market shares. Another important factor relative to competition is exclusive access to certain hotels in southern destinations, which may enable a few major tour operators to control the best hotels.

3.2 TRAVEL AGENT BUSINESS

The Corporation operates 206 travel agencies in Quebec, four of which are corporate establishments of Tourbec or its affiliate, Consultour, and 202 are franchisees. These travel agencies sell a wide variety of products including those offered by the Corporation. Under the terms of the franchises, travel agencies are required to pay fees based on their revenues and to devote a certain percentage of their sales to the Corporation. Consultour, through Euro Charter, owns and operates 48 travel agencies throughout France. For the year ended October 31, 1997, these agencies had revenues of 560 million francs.

Travel agents make reservations for products, including those of the Corporation, either through computer reservation systems or by telephone.

3.2.1 Market Share and Competition

According to industry sources, there are more than 5,000 travel agents in Canada (including approximately 1,100 in Quebec), 5,000 in France and 7,000 in the United Kingdom. For the year ended October 31, 1997, the travel agencies related to Consultour recorded \$426 million in revenues, representing approximately 30% of the Quebec market.

Competition between travel agents is principally based on price. As is the case with tour operators, low profit margins cause travel agents to seek higher volumes and larger market shares.

3.3 CHARTER AIRLINE BUSINESS

Air Transat, a charter air transportation company, was incorporated under the *Canada Business Corporations Act* by Certificate of Incorporation dated October 31, 1986, under the name of Les Services Aériens de Transport International S.A.T.I. Ltée. This name was changed to Air Transat A.T. Inc. by way of a Certificate of Amendment dated April 29, 1987.

Air Transat aims to offer a high quality service. It was awarded the “Air Carrier of the Year” award by The Association of Quebec Travel Agencies in 1989, 1990, 1991, 1993 and 1995.

Air Transat offers charter flights mainly out of Montreal, Toronto, Vancouver, Quebec City, Calgary and Halifax. Since November 2, 1997, Air Transat has been one of the two Canadian air carriers to operate scheduled flights between Canada and France, in particular between Montreal–Mirabel and Paris–Charles-de-Gaulle. This scheduled-service route is in addition to that already held by Air Transat between Canada and Cuba.

Air Transat currently operates a fleet of ten Lockheed L-1011-150s with 362 seats each, three Lockheed L-1011-500s with 309 seats each, five Boeing 757-200ERs with 228 seats each and two Boeing 737-400s with 170 seats each leased for three winter seasons starting in 1997-1998. Pursuant to the lease agreements for the five Boeing 757s, Air Transat has deposited amounts totaling \$5,610,000, to be applied against the last rental payments at the expiry of the leases. Pursuant to the majority of the lease agreements, the Corporation must deposit with its lessors certain amounts calculated on the basis of the number of flight hours in order to provide for the overhaul costs of engines and airframes.

Air Transat believes it derives a competitive advantage from the mix of recent and older aircraft. Older aircraft generally carry lower fixed costs whereas newer aircraft must be used almost constantly in order to be profitable. The mix gives Air Transat flexibility to select which aircraft are to be used during low demand periods.

On December 17, 1997, Air Transat announced an operating lease agreement in respect of two Airbus A-330-200s. Delivery of the first is scheduled for February 1999 and the second for April of the same year. These long-haul widebody aircraft constitute the beginning of the fleet-renewal program that will span a few years.

The Corporation holds an 84.4% interest in the capital of Look. Look co-founded and holds a 49.58% interest in STAR, a French charter air transportation company. STAR operates four Airbus A-320 aircraft with 180 seats each. These aircraft service Look’s destinations in the Mediterranean region and other destinations as required.

Air Transat achieved load factors of 91% for the summer of 1997 and 87% for the preceding winter. In 1997, Air Transat recorded on-time departure ratios (being the percentage of on-time departure with 15 minutes tolerance, excluding delays due to force majeure) of 98.9% for its B-757s and 98.3% for its L-1011s.

3.3.1 Distribution and Marketing

The marketing of charter air services for passenger transportation is effected on a seasonal basis, in large part by the Corporation’s tour operators who organize package tours. In the winter season, most of the seats sold are to southern destinations whereas in the summer season seats are primarily sold to Europe. The selection of destinations is determined in close collaboration with tour operators, which enter into charter agreements with the air carrier six to eight months prior to the beginning of each season and undertake to effect payment thereto. Charter agreements are generally short-term agreements covering one season at a time, although Air Transat has succeeded in signing short- and medium- term contracts with certain tour operators that are not subsidiaries, including affiliated companies, in particular.

Tour operators owned by or affiliated with the Corporation provided 65% of Air Transat’s revenues for the 12-month period ended on October 31, 1997.

3.3.2 Maintenance

On February 3, 1994, Air Transat acquired a hangar with two bays of approximately 5,100 square meters each as well as administrative offices at Montreal International Airport in Mirabel, Quebec. The Corporation effects both regular and major maintenance work itself on its L-1011-150 and L-1011-500 aircraft, and subcontracts major maintenance work for its B-757s. Air Transat also performs some maintenance work for other airlines.

Air Transat carries a large inventory of Lockheed L-1011 spare parts from aircraft it purchased and dismantled for this purpose.

Air Transat's aircraft maintenance procedures and standards exceed Transport Canada's requirements and equal those set by well-known scheduled airlines having a reputation for high maintenance standards.

3.3.3 Insurance

Air Transat carries insurance in amounts in accordance with industry standards and in compliance with applicable statutory requirements and the covenants in its aircraft lease agreements. The Corporation's liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The coverage limit for any single event is \$850 million.

3.3.4 Fuel Supply

Fuel costs represent a major component of Air Transat's operating expenses. The Corporation has negotiated with national and international oil companies to ensure that aircraft are supplied with fuel at all airports where it operates. Fuel prices are agreed to for each season on the basis of fixed margins over fluctuating world prices. When deemed necessary, the Corporation hedges a portion of its fuel requirements. The tariff filed by Air Transat with the Canadian Transportation Agency states that charter agreements signed with tour operators may be amended in the event of significant variations in the price paid for fuel.

3.3.5 Ground Handling and Airport Services

Ground handling and airport services (airport representation, baggage handling and aircraft cleaning) required for the operation of aircraft are provided by Haycot in Montreal and Toronto and by subcontractors in Quebec City, Vancouver and other airports.

3.3.6 Market Share and Competition

The distribution of charter air carriers' products is controlled by tour operators, which reserve blocks of seats from air carriers, negotiate bulk hotel room rates and make other arrangements to render the price of a package vacation sold to the consumer cheaper than it would have been if the same consumer had attempted to make his own reservations.

Over the last few years, scheduled air carriers have been forced to deal with significant competition in international charter markets. Following the 1984 liberalization and the 1988 deregulation in Canada, several carriers specializing in passenger charter services appeared in 1988 and 1989. The following table shows that during the last few years, the availability of seats from Canadian charter air carriers has fluctuated substantially.

**Increase (Decrease) in Available Seats –
Canadian Charter Companies**

<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
18%	(11%)	(14%)	7.2%	(0.9%)	9.5%	3%	(21%) ⁽¹⁾

(1) The significant decrease is explained by the transfer from charter transborder operations to scheduled transborder operations.

Source: Statistics Canada

The following table sets forth the market shares of Canadian charter airline companies for international charter flights in the last six years including flights to the United States.

Market Share – International Charter Flights (Including U.S.A.)

	<u>1991</u>	<u>1992</u>	<u>1993⁽¹⁾</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Air Canada	13.4 %	13.6 %	11.8 %	8.6 %	4.2 %	0.5 % ⁽²⁾
Air Club	—	—	—	2.2 %	6.1 %	7.7 %
Air Transat	18.0 %	20.1 %	30.1 %	27.8 %	26.9 %	39.2 %
Canada 3000	17.7 %	19.9 %	21.4 %	25.4 %	28.7 %	20.4 % ⁽²⁾
Canadian	20.4 %	18.3 %	18.0 %	17.3 %	10.9 %	3.6 % ⁽²⁾
Nationair	23.1 %	23.1 %	8.3 %	—	—	—
Royal	—	1.6 %	8.6 %	16.7 %	18.4 %	21.9 %
Others	7.4 %	3.4 %	1.8 %	2.0 %	4.8 %	6.7 %
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Source: Statistics Canada

(1) In April 1993, Nationair declared bankruptcy and most tour operators doing business with Nationair made arrangements for Air Transat to replace Nationair for the 1993 summer season.

(2) The significant decreases in the number of passengers for Air Canada, Canadian et Canada 3000 are attributable to the transfer of their charter transborder operations to their scheduled transborder operations.

The following table sets forth the market shares of Canadian charter airline companies for international charter flights in the last six years excluding flights to the United States.

Market Share – International Charter Flights (excluding United States)

	<u>1991</u>	<u>1992</u>	<u>1993⁽¹⁾</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Air Canada	4,7 %	2,5 %	2,9 %	1,3 %	0,7 %	0,3 %
Air Club	—	—	—	3,6 %	8,1 %	5,7 %
Air Transat	29,3 %	32,5 %	43,5 %	39,9 %	35,3 %	40,7 %
Canada 3000	17,9 %	18,5 %	20,0 %	23,0 %	21,5 %	23,2 %
Canadian	7,8 %	7,6 %	9,2 %	8,0 %	6,4 %	4,0 %
Nationair	37,2 %	36,0 %	12,6 %	—	—	—
Royal	—	1,1 %	10,7 %	22,2 %	21,9 %	19,8 %
Others	3,1 %	1,8 %	1,1 %	2,0 %	6,1 %	6,3 %
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Source: Statistics Canada

(1) See preceding note 1

Competition between charter air carriers is essentially based on price, which is mainly a function of the level of capacity in the industry. Prices therefore vary significantly in accordance with seasonal variations in demand and price wars are often triggered whenever carrier capacity exceeds demand or a competitor seeks to increase its market share. The large number of charter air carriers and scheduled airlines flying to U.S. destinations has resulted in heavy competition and lower profit margins on flights to these destinations.

3.4 REGULATORY ENVIRONMENT

3.4.1 Tour Operators and Travel Agents

In all jurisdictions where the Corporation operates, tour operators and travel agents are governed by legislation providing financial and other protection to the travel consumer. Generally, pursuant to such legislation, travel agents and tour operators require permits, which are granted if certain conditions are met and, in some cases, if a fee is paid. In some jurisdictions, such as Quebec, Ontario and British Columbia, monies received from customers must be deposited in a trust account and may be withdrawn only to effect payments on behalf of customers. Remaining monies may only be withdrawn by the tour operator once the services have been rendered.

Certain legislation also provides that a bond is required as a condition to receiving a travel agent permit. To ensure compliance with applicable legislation, control and inspection mechanisms have been put in place. In addition, in some jurisdictions travel agents must contribute to compensation funds used to protect against fraud and bankruptcies. The Corporation holds all necessary permits and believes that it is in compliance with the requirements of all such legislation.

3.4.2 Charter Air Carriers

International Regulation

The commercial aspect of international air transport is regulated by international conventions, principally the Chicago Convention of 1944 relative to International Civil Aviation (the “Chicago Convention”), by the domestic legislation of countries in which air transport is conducted, and by numerous bilateral agreements. If the charter flight is operated solely between two destinations located in Canada, only Canadian legislation applies.

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

The Chicago Convention also established the International Civil Aviation Organization (“ICAO”), a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. No other agreement is ordinarily required in order to operate charter flights between most countries, subject to certain exceptions regarding capacity quotas. In France, foreign charter carriers are allocated a quota of seats every year based on the number of passengers transported to France in the previous year.

Canadian Legislation

The operation of a commercial airline in Canada is regulated by the *Aeronautics Act* and the *Canada Transportation Act*. Such operation is subject to the issuance of an operating certificate, certifying that the aircraft complies with Canadian standards and a licence appropriate to the operations concerned. In the case of charter flights, permits are required for each proposed flight or series of flights. Licences and charter permits are issued by the National Transportation Agency (the “Agency”), and the operating certificate is issued by Transport Canada. This certificate certifies that the air carrier is

adequately equipped and able to conduct its business in compliance with the *Canadian Aviation Regulations* and the *Air Transportation Regulations*. Such a certificate was issued to Air Transat on November 13, 1987. It was subsequently modified to reflect the Corporation's changing operating conditions, the last such modification having been made on December 24, 1997.

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

The air carrier must charge the charterer a price determined on the basis of the rate provided for in the tariff previously filed with the Agency. In return, the charterer offers the seats to the public at a price not lower than that established pursuant to the tariff, subject to adjustments in certain cases.

Other conditions apply to the sale of seats on international flights if the charterer accepts advance bookings or organizes package charter flights. The conditions generally include restrictions relating to advance bookings and payment, cancellation charges, minimum price, duration of stay, transferability and the requirement that all sales be made on a round-trip basis. Under current Canadian regulations, an air carrier does not have the right to sell seats on international charter air services directly to the public, but must charter an aircraft to one or more competent charterers.

Air Transat holds all necessary certificates and permits and believes that it is in compliance with the requirements of all applicable Canadian legislation. Furthermore, all of Air Transat's aircraft meet the "Stage 3" noise requirements set by Transport Canada.

In addition, pursuant to the *Canada Transportation Act*, not more than 25% of the voting shares issued and outstanding may be held, directly or indirectly, by non-Canadians within the meaning of that statute.

The conditions and restrictions mentioned previously do not apply to Canadian domestic operations in that the legislation no longer makes any distinction between scheduled flight services and charter flight services, and in fact deregulates the domestic market. In addition, Transat's scheduled service flights to Cuba and France are subject to the rules established under the bilateral agreements entered into between Canada and these countries.

Foreign Legislation

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

3.5 EMPLOYEES

As at October 31, 1997, the Corporation and its wholly-owned subsidiaries had 2,425 full-time employees and its affiliates had 1,272 full-time employees, for a total of 3,697 employees, as follows:

Air Transat	1,322	Haycot	490	Transat	15
Air Transat Holidays	446	Look	314	VAT France	105
Brok' Air	55	Nolitour	65	World of Vacations	300
Consultour	86	Regent	99	ATH Florida	13
DMC	30	STAR	166		
Euro Charter	175	Tourbec	16		

The Corporation favours employee ownership of its share capital, and for this purpose has established a common share purchase plan for employees and executives and a stock option plan for directors, officers and employees.

Some of Air Transat's employees are organized into four employee associations, with which Air Transat has negotiated a series of working conditions. Pilots, flight attendants, crew scheduling personnel and, more recently, mechanics have all been grouped into accredited bargaining units, the flight attendants being affiliated with the Canadian Union of Public Employees and the crew scheduling personnel and mechanics with the International Association of Machinists and Aerospace Workers. Pilots are represented by the Technical Flight Personal Association of Air Transat. A collective agreement has been entered into with the mechanics for a period commencing on November 1, 1995, and ending October 31, 1999. All other agreements have a three-year term ending October 31, 1998.

The Corporation believes that it has good relations with its employees.

3.6 GEOGRAPHIC BUSINESS SEGMENTS

The Company is active in two principal geographic segments, i.e. Canada and France.

	<u>Canada</u>		<u>France</u>		<u>Total</u>	
	1997	1996	1997	1996	1997	1996
	\$	\$	\$	\$	\$	\$
Revenues from third parties	816,955	576,619	499,785	202,538	1,316,740	779,157
Geographic intersegment sales	68,242	53,216	—	—	—	—
Total revenues	885,197	629,835	499,785	202,538	1,316,740	779,157
Amortization	22,524	16,890	2,991	463	25,515	17,353
Assets by segment	359,862	213,434	107,614	95,493	467,476	308,927
Capital asset additions	45,356	22,612	996	674	46,352	23,286

3.7 PREMISES

The Corporation owns the building situated at 11,600 Cargo A-1 Street, Montreal International Airport in Mirabel, Quebec, which is the head office and the principal maintenance base of Air Transat. This property, which has an area of 15,302 m², is mortgaged in favour of the Corporation's bankers.

The addresses of the principal premises leased by the Corporation and its subsidiaries are listed below.

<u>Name</u>	<u>Address</u>	<u>Description</u>	<u>Area</u>
Transat	300 Léo-Pariseau Street Suite 400 Montreal, Quebec	Head office	724 m ²
Air Transat	12655 Commerce A-4 Montreal International Airport Mirabel, Quebec	Offices	1,200 m ²
	19555 Cargo A-6 D Building Montreal International Airport Mirabel, Quebec	Warehouse	4,638 m ²
Air Transat Holidays	300 Léo-Pariseau Street Suite 400 Montreal, Quebec	Head office	4,082 m ²
	5915 Airport Road Suite 1000 Mississauga, Ontario	Offices	1,100 m ²
	505 Burrard Street Suite 620 Vancouver, British Columbia	Offices	800 m ²
Nolitour	300 Léo-Pariseau Street 5th Floor Montreal, Quebec	Head office	849 m ²
VAT France	43 Diderot Blvd. 75012 Paris France	Head office	1,650 m ²
DMC Transat	300 Leo-Pariseau Street 6th Floor Montreal, Quebec	Head office	710 m ²
Regent	6205 Airport Road Mississauga, Ontario	Head office	1,397 m ²
Look	12 Truillot Street Ivry-sur-Seine France	Head office	5,277 m ²

In addition, Air Transat leases several ticket counters and maintenance, catering and warehousing facilities in Montreal, Quebec City, Toronto and Vancouver, as well as a flight-simulator facility in Toronto. Air Transat Holidays still

has unused office space under lease in Quebec City and leases several ticket counters in the above four cities and warehousing facilities in Montreal and Toronto.

3.8 ENVIRONMENT

The Corporation is subject to various environmental laws and monitors its operation to ensure that it complies with the applicable environmental requirements and standards and, if necessary, adopts preventive and corrective measures. In this respect, Air Transat has, in particular, implemented a series of programs and procedures to optimize the recovery, recycling and management of fossil fuels. The Corporation complies in all material respects with all the provisions of environmental laws and regulations.

ITEM 4. SELECTED CONSOLIDATED FINANCIAL INFORMATION

4.1 ANNUAL

The Company's selected consolidated financial information over the last five fiscal years ended October 31 has been taken from the Company's consolidated audited financial statements.

	Fiscal Years Ended October 31				
	1997	1996	1995	1994	1993
	(in thousands of dollars, except amounts per share)				
Revenues	1,316,740	779,157	551,766	522,177	445,700
Income before amortization, financial expenses and income taxes	72,457	60,179	47,506	32,781	15,853
Operating income	46,942	42,826	29,261	16,003	3,112
Net income	25,364	22,202	16,910	5,568	465
Operating cash flow	46,117	37,742	33,178	21,417	14,588
Working capital	33,279	(83,517)	(22,646)	(21,595)	(28,949)
Capital assets (including inventory of rotatable aircraft spare parts)	130,083	95,710	79,944	90,363	92,977
Total assets	467,476	308,927	171,773	176,500	174,756
Long-term debt and obligations under capital leases (including current portion)	116,900	44,533	45,816	55,429	56,703
Debenture	10,000	10,000	2,500	2,500	2,500
Shareholders' equity	164,420	52,995	25,824	39,222	32,943
Earnings per share	0.78	0.98	0.45	0.13	0.01
Diluted earnings per share	0.74	0.86	0.41	0.13	0.01

* The numbers of shares as well as the data per share take into account the subdivision of the common shares of the Corporation in December 1996, on the basis of three common shares for each common share issued and outstanding.

4.1.1 Fiscal 1997 Compared to Fiscal 1996

For the year ended on October 31, 1997, the Corporation's revenues exceeded the \$1 billion mark, climbing from \$779.2 million in 1996 to over \$1.3 billion in 1997, an increase of \$537.6 million or 69%. Of this increase, \$342.3 million resulted from its interest in Look (33.7% interest acquired in April 1996 which rose to 68% in October 1996, and to 84.4% in June 1997), Brok'Air (34.4% interest acquired in July 1996 which rose to 39% in December 1996) and World of

Vacations Ltd. (35% interest acquired in August 1996). The other subsidiaries experienced growth of \$195.3 million, or 29% compared with last year's results.

For the year ended on October 31, 1997, the Corporation earned net income of \$25.4 million, or \$0.78 per share (\$0.74 per share on a fully diluted basis), compared with \$22.2 million or \$0.98 per share (\$0.86 per share on a fully diluted basis) for 1996. Net income rose by \$3.2 million, an increase of 14%. The drop in earnings per share is primarily due to the dilution resulting from the issue of common shares in early 1997.

In 1997, the Corporation's results improved due mainly to its stronger market position that led to significant growth in volume particularly in Toronto, Vancouver and France. As prices firmed up, this situation gave rise to an increase in gross margin contribution. However, the increase was partly offset by a drop in value of the French franc against the Canadian dollar, especially during the summer, by higher operating expenses, including fuel and aircraft maintenance costs, and by the loss posted by Look.

Revenues

The Corporation's operations are divided into two main seasons: winter, from November 1 to April 30, when it markets mainly sunshine destination flights and packages leaving Canada and France; and summer, from May 1 to October 31, when it offers flights and packages primarily between Canada and Europe, as well as flights and packages leaving France for destinations in the Mediterranean region, North America and the Caribbean. During the summer, sales include Canadians traveling to Europe as well as Europeans traveling to Canada.

The Corporation's revenues for the 1996-1997 winter season totalled \$628 million compared with \$302.2 million in the same period last year, an increase of \$325.8 million, or 108%. Approximately \$205 million of that total is attributable to the companies acquired in 1996 whose results only had a significant impact in the second half of that year. Thus, in the first half of 1997, Look contributed \$142.1 million to Transat's consolidated revenues, whereas World of Vacations Ltd. and Brok'Air added \$62.9 million (Transat's portion only).

The other subsidiaries' revenues rose by approximately \$120.8 million, or 40%. The remarkable performance from the other subsidiaries is essentially due to higher sales volume in their major markets and to a firming up of prices. Consequently, Air Transat Holidays' revenues increased by 31% in the first half of 1997 compared with the same period last year. Its most striking increases were posted in Ontario and western Canada. During the first six months of the year, revenues at Vacances Air Transat (France) jumped 107%, while those at Nolitour (Quebec market) and Regent (Ontario market) were up 27% and 18%, respectively.

Air Transat's business also grew, with revenues (including business activities within the group) increasing approximately \$74 million, or 63%. In response to the greater demand from the group's tour operators and due to the sales generated by World of Vacations Ltd., which was acquired in 1996, Air Transat had to expand its fleet which, as at October 31, 1997, included 17 aircraft, i.e. ten Lockheed L-1011-150s (eight in 1996), two Lockheed L-1011-500s (none in 1996) and five Boeing 757s (four in 1996). As well, in order to meet additional capacity requirements, Air Transat leased two Boeing 757s for the 1996-1997 winter season.

Revenues for the summer season rose from \$477.0 million in 1996 to \$688.8 million in the second half of 1997, up \$211.8 million or 44%. Similar to the first six months of the year, \$137.6 million of this increase is attributable to the companies acquired in 1996. Almost \$20 million of that increase are related to the share of revenues from World of Vacations Ltd. and Brok'Air, which were acquired in the summer of 1996, and nearly \$115 million to the Corporation's interest in Look. It should be noted that this latter increase is not the result of increased business at Look which in fact, due to its strategic restructuring, suffered a drop in revenues in the 1997 summer season compared with those in 1996. It is instead explained by the Corporation's increased equity interest in that subsidiary (from 33.7% in April 1996 to 68% in October 1996 to 84.4% in June 1997). Look's results consolidated proportionately (33.7% share) as part of Transat's results up to October 15, 1996, have been consolidated for all of fiscal 1997.

The other subsidiaries' revenues rose by \$74.2 million, or 20%, for the summer season. All the group's tour operators recorded higher revenues i.e. an average of 21% at Air Transat Holidays, 14% at VAT France, 10% at Regent, 116% at Nolitour (with the acquisition of Auratours) and 8% at the incoming tour operator, DMC. At the same time, Air Transat's revenues increased by 35%. Higher revenues during the summer of 1997 compared with the previous summer were the result of increased sales volume, with the group's tour operators successfully solidifying their position in their respective markets, as well as higher selling prices.

Although the Corporation maintained its currency hedging policy through the use of forward contracts, revenues and income were affected in 1997 compared with 1996 due to the drop in value of the French franc against the Canadian dollar. Its impact was particularly noticeable during the summer, which is a very busy season for the group in France. In 1997, the drop in value of the French franc led to a reduction in profitability of \$7.1 million compared with 1996.

Expenses and Interest Income

As was the case with revenues, the increase in equity interests and the inclusion for the whole year of the results of companies acquired in 1996 resulted in an increase in expenses in 1997 compared with the previous year. Higher sales activities in 1997 compared with 1996 also caused expenses to rise.

World fuel prices, which substantially higher during the 1996–1997 winter season, also resulted in an increase in expenses in 1997 compared with 1996; this increase was partially reduced by the surcharge imposed on customers. Although this increase was partly offset in the summer season, the 1997 results were approximately \$3.3 million lower than in 1996 due to higher fuel prices.

Moreover, aircraft maintenance costs increased in 1997. It should be remembered that in 1996, the Corporation generated significant savings related to spare parts, by using aircraft acquired specifically for this purpose, rather than purchasing parts on a unit basis, and by renegotiating the terms and conditions for returning certain aircraft upon the termination of their leases. Although the Corporation maintained its policy concerning spare parts, maintenance costs in 1997 were higher than those in 1996.

Amortization expenses rose substantially in 1997 compared with 1996, due to acquisitions and improvements to various aircraft in the fleet carried out over the past two years. The goodwill related to the companies acquired in 1996, which is amortized for the whole fiscal 1997, accounted for higher amortization expenses.

The drop in value of the French franc against the Canadian dollar had a negative impact of some \$7.1 million. However, an appreciation of the Canadian dollar against the U.S. dollar lowered expenses and improved results by approximately \$1.3 million during fiscal 1997.

Despite items that caused a decrease in profitability, higher sales volumes and the firming up of prices improved the gross margin and operating income.

The inclusion of Look's results and the Corporation's share of World of Vacations Ltd. had a negative impact on income in 1997. Look (excluding companies subject to significant influence) reported a loss before income taxes of \$9.8 million in 1997. Look anticipates a loss for 1998, albeit coming closer to break-even point. World of Vacations Ltd. also posted a loss for the year ended October 31, 1997. Transat's share amounts to \$2 million before income taxes.

Interest expenses increased by \$2.6 million in 1997 compared with the previous year as a result of additions to capital assets which were made in 1996 and 1997 and financed through an increase in the debt (primarily obligations under capital leases) and of the bank loan used to finance the acquisition of companies in 1996. Moreover, the consolidation of the results of Look with those of the Corporation resulted in an increase in interest expenses, since Look has its own revolving credit facilities with French financial institutions.

The increase of approximately \$3.2 million in interest income is due primarily to the investment of proceeds from the shares issued at the beginning of the year as well as the consolidation of Look's accounts.

Companies Subject to Significant Influence

Part of the increase in the Corporation's net income is due to its share of net income of companies subject to significant influence, Haycot and Consultour/Club Voyages, both of which enjoyed excellent financial performance in 1997. The French air carrier, STAR, in which Look holds a 49.6% equity interest, also increased its contribution to Transat's results for 1997.

Financial Position

Transat's cash position as at October 31, 1997, was \$141.3 million, compared with \$46.9 million as at October 31, 1996. This \$94.4 million increase reflects net cash flow provided by operating activities of \$24.6 million, net cash flow used in investing activities of \$64.5 million and net cash flow provided by financing activities of \$134.3 million. Net cash flow provided by operating activities is largely due to the operating cash flow generated by Transat amounting to \$46.1 million, or \$1.41 per share (\$1.34 on a fully diluted basis), an increase of 22% over the \$37.7 million, or \$1.69 per share (\$1.45 on a diluted basis), in 1996.

Moreover, cash amounting to \$13.8 million was invested in working capital, including \$5.6 million to increase deposits with various suppliers and \$8.7 million to reduce the accounts payable and accrued liabilities, while customer deposits provided net cash of approximately \$5 million during the year. Finally, the increase in net deposits for engine and airframe overhauls accounted for a reduction of approximately \$7.7 million in the Corporation's cash in 1997.

Transat used \$64.5 million for investing activities during the year ended October 31, 1997. Some \$46.4 million were used for capital expenditures and \$9.1 million for the purchase of rotatable aircraft spare parts. During the year, the Corporation acquired two Lockheed L-1011-150s for a total of \$9.2 million, as well as two Lockheed L-1011-500s and a spare engine for a total of \$23.7 million. In addition, it paid approximately \$4 million for improvements to the various aircraft in Air Transat's fleet as well as \$9.5 million for aircraft, computer, telephone and other equipment. During 1997, a loan of \$6.4 million was made to a company subject to significant influence.

Net cash flow of \$134.3 million provided by financing activities is largely due to the issue of common shares at the beginning of the year generating net proceeds of approximately \$84 million to be used for future acquisitions. During the year, the Corporation increased its bank loans, long-term debt and obligations under capital leases by a net amount of \$49.8 million in order to finance the major capital investments made during the year and to meet Look's cash requirements.

When its \$35 million bank loan matured during the year, the Corporation signed an agreement with a banking syndicate concerning a \$55 million revolving term loan and a \$27 million special revolving credit for the purpose of letters of guarantee (to replace a similar \$25 million loan).

4.1.2 Fiscal 1996 Compared to Fiscal 1995

For the year ended on October 31, 1996, the Corporation earned net income of \$22.2 million, or \$0.98 per share (\$0.86 per share on a fully diluted basis), compared to \$16.9 million, or \$0.45 per share (\$0.41 per share on a fully diluted basis), for 1995. Excluding the non-recurring gain realized in 1995 upon the transfer of incoming tour operator activities, net income rose from \$14.4 million to \$22.2 million, an increase of 54%. This growth was achieved despite the redemption of 48% of the outstanding shares during 1995. Consequently, earnings per share increased by 154% if the non-recurring gain is excluded.

The Corporation improved its results owing to significant growth in its sales in Toronto, Vancouver and France. Furthermore, the Corporation benefited from a favourable exchange rate on its revenues in European currencies. However,

margins were influenced by fare reductions on these programs, especially at the end of the summer season in the United Kingdom, to react to a combination of overcapacity and weak demand. With regard to operating costs, the Corporation succeeded in maintaining a very low cost structure. In particular, it was able to realize considerable savings on the operation of its Lockheed L-1011s by using spare parts from aircraft purchased for that purpose and by refinancing some of the aircraft.

For the year ended on October 31, 1996, the Corporation's revenues reached \$779.2 million compared to \$551.8 million in the previous year, an increase of \$227.4 million, or 41%. Of this increase, \$109.1 million resulted from the acquisition of Look, Brok'Air and World of Vacations Ltd. The existing subsidiaries experienced growth of \$118.3 million, or 21%. Air Transat added three Lockheed L-1011s during the year to keep up with this growth. As at October 31, 1996, Air Transat's fleet consisted of eight Lockheed L-1011s and four Boeing B-757s.

Revenues

The Corporation's sales for the 1995-1996 winter season rose by \$42.5 million, or 16%, compared to the previous winter. During this period, selling prices were comparable to those of the previous year. Despite a difficult market where many competitors saw decreases in their sales, especially in Ontario, the Corporation's tour operator revenues experienced interesting growth at Air Transat Holidays (Toronto), Air Transat Holidays (Vancouver), VAT France and Nolitour. Air Transat's revenues for the season also increased after the addition in December 1995 of a sixth Lockheed L-1011 in response to the higher demand by the group's tour operators.

Sales during the 1996 summer season rose by \$184.9 million, or 63%, compared to the previous summer. During this period, the Corporation acquired new subsidiaries or joint ventures and recorded the following pro rata share of sales: \$96.2 million for Look, \$8.4 million for World of Vacations Ltd. and \$4.5 million for Brok'Air. The existing subsidiaries increased their sales by \$75.8 million, or 26%. Tour operator revenues increased, including for VAT France, Air Transat Holidays (Montreal), Air Transat Holidays (Toronto), Air Transat Holidays (Vancouver) and DMC and its new subsidiary, Club Kilomètre Inc. Air Transat's revenues also rose following the addition of a seventh and an eighth Lockheed L-1011 during the summer of 1996. During the 1996 summer season, the Corporation took advantage of an appreciation in European currencies, and more specifically the French franc, which generated higher revenues. However, selling prices were approximately 2% lower than in the previous summer. This is mostly due to an important reduction in prices at the end of the season in the United Kingdom.

Expenses

During the year, the Corporation continued to focus on tighter control over expenses and, in particular, Air Transat was able to maintain an operating cost per seat-mile of 5.7¢. The Corporation's cost structure, one of the lowest in the industry, is one of its key competitive advantages.

The utilization of the Corporation's aircraft continued to be very efficient in 1996. Air Transat succeeded in improving its average passenger load factor from 89.3% in 1995 to 90.8% in 1996. In addition, the Corporation generated significant savings related to the cost of its spare parts. Rather than purchasing parts on a unit basis, it acquired four Lockheed L-1011s since 1993 in order to recover the engines and spare parts, under the supervision of its Quality Control Department, which is responsible for maintaining very high aircraft safety standards. The Corporation refinanced three Lockheed L-1011s, generating considerable savings by renegotiating among other things, the terms and conditions for returning the aircraft upon the termination of their leases.

The Corporation succeeded in maintaining fuel prices comparable to those paid in 1995, despite higher world fuel prices in the summer of 1996, by efficient hedging through the use of forward contracts.

The inclusion of the results of Look, a new subsidiary, in the Corporation's financial statements in the summer of 1996 had a negative impact. The subsidiary incurred a loss owing to difficult market conditions. The increase in other interest and financial expenses was attributable to Look and to interest on a temporary loan used to finance the redemption of shares in 1995.

Financial Position

The Corporation's cash position as at October 31, 1996, was \$46.9 million compared to \$35.1 million as at October 31, 1995, up \$11.8 million. This reflected net cash flow provided by operating activities of \$27.4 million, net cash flow used in investing activities of \$44.1 million and net cash flow provided by financing activities of \$28.5 million.

Net cash flow provided by operating activities of \$27.4 million was largely due to the excellent operating cash flow which the Corporation continued to generate. During 1996, the Corporation's operating cash flow amounted to \$37.7 million, or \$1.69 per share, compared to \$33.2 million, or \$0.91 per share, in 1995. The \$11.4 million increase in deposits for engine and airframe overhaul should also be noted.

Net cash flow used in investing activities of \$44.1 million arose mainly from capital asset acquisitions of \$23.3 million and the consideration paid for acquired companies aggregating \$16.2 million. During the year, the Corporation acquired three Lockheed L-1011s for a total of \$15.2 million. In addition, it paid \$2.3 million for improvements to the various aircraft in Air Transat's fleet. The Corporation also acquired computer equipment for an amount of \$3.3 million and aircraft and other equipment totaling \$2.5 million. With regard to the acquired companies, the Corporation first acquired 33.7% of the outstanding shares of Look on April 19, 1996, for a consideration of \$12.2 million. Then, on October 15, 1996, it increased its interest in Look to 68% for a consideration of a minimum of \$1.1 million. It should be noted that, further to this acquisition, the Corporation assumed Look's working capital deficit of approximately \$40 million. During the year, the Corporation also acquired 35% of World of Vacations Ltd., 34.4% of Brok'Air and 66 2/3% of Club Kilomètre Inc. for consideration totaling \$2.9 million.

Net cash flow provided by financing activities of \$28.5 million was primarily attributable to the increase in bank loans for a total amount of \$29.9 million. This amount was used mainly to meet Look's cash requirements. During the year, the Corporation increased its debt by \$9.2 million, primarily due to the financing of two of the Lockheed L-1011s acquired during the year. It also repaid \$11.9 million of its existing long-term debt and a loan amounting to \$7.5 million. Finally, the \$10 million non-controlling interest in Air Transat Holidays was converted into debentures.

4.1.3 Fiscal 1995 Compared to Fiscal 1994

During the year ended October 31, 1995, the Corporation's revenues amounted to \$551.8 million, compared to \$522.2 million for the year ended October 31, 1994, an increase of 6%. The Corporation generated net income of \$16.9 million, or \$0.45 per share, compared to net income of \$5.6 million, or \$0.13 per share, in 1994. Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest rose from \$10.1 million in 1994 to \$28.4 million in 1995, i.e. an improvement of \$18.3 million.

Management's consolidation strategy, implemented over the last two years, focused on improving the Corporation's margins. This improvement was primarily made possible due to the better utilization of the Corporation's aircraft. During the year, the Corporation generated slightly higher revenues than the previous year, while operating only nine aircraft compared to twelve in 1994, which resulted in net savings of \$11.9 million.

In addition, the increase in revenues resulted in a \$2.9 million improvement in gross profit. The Corporation also succeeded in saving \$2.7 million during fiscal 1995 by renegotiating some of its handling and in-flight food contracts. Moreover, the Corporation benefited from a favourable exchange rate in francs which contributed \$3.0 million in revenues, net of the effect on its expenses in French francs.

On the other hand, the continued devaluation of the Canadian dollar versus the U.S. dollar represented an additional expense of \$4.1 million. The increase in world fuel prices resulted in a further expense of \$2.3 million. Nevertheless, with the general improvement in its average cash position over the year, the Corporation was able to reduce its other interest and financial expenses by \$700,000 and increase its interest income by \$1.4 million. Finally, during the year, the Corporation realized a \$2.5 million gain further to the transfer of DMC's operations. However, the disposal of one-third of this subsidiary's shares reduced the Corporation's consolidated income before income taxes by approximately \$400,000.

Revenues

The Corporation's sales for the 1994–1995 winter season rose by only \$7.6 million (from \$252 million in 1994 to \$259.6 million in 1995), or approximately 3% over the previous winter. This was mainly due to a general increase in selling prices instituted by the Corporation's various tour operators. However, it did not have a beneficial impact on the Corporation's gross profit, since it was offset by a comparable increase in the cost of the hotel component of the packages sold to consumers. In terms of sales volumes, the Corporation's tour operators consolidated their position in their respective markets, without any material variances.

The growth in sales for the 1995 summer season, as compared to the previous summer, was more significant, amounting to approximately \$22.0 million (from \$270.1 million in 1994 to \$292.1 million in 1995), or 8%, which was mainly attributable to a \$20.9 million rise in sales volume, or approximately 8%. The main areas where progress was made were the following: at Vacances Air Transat in Montreal – higher sales to southern destinations; at Air Transat Holidays in Toronto – increased sales to Las Vegas and to domestic destinations; at Air Transat Holidays in Vancouver – higher sales to European destinations and to domestic destinations; finally, at Regent – sales to domestic destinations also increased. All these increases in sales volume resulted in a \$2.9 million improvement in the Corporation's gross profit.

The stronger sales in the summer of 1995 were also due to the higher value of the franc versus the Canadian dollar, which increased the Corporation's revenues by \$6.6 million. Finally, the new method of accounting for DMC's results, namely proportionate consolidation, which has been applied since June 1995 further to the sale of one-third of its shares to a third party, reduced the Corporation's consolidated revenues by \$5.5 million.

Expenses and Other Income

The significant progress in the Corporation's results in 1995 accrued primarily from a major reduction in its unit costs. Most of this improvement resulted from the more efficient use of its aircraft: in December 1994, the Corporation disposed of its three 179-seat Boeing 727-200 ADVs following the expiry of their leases. It kept nine aircraft: five 362-seat Lockheed L-1011s and four 228-seat Boeing 757-200 ERs. In 1995, Air Transat carried approximately the same number of passengers as during the previous year. However, the better use of the Lockheed L-1011s and the Boeing 757s, which have lower operating costs per seat than the Boeing 727s, reduced variable costs by approximately \$4.0 million in 1995. Furthermore, by eliminating the three Boeing 727s, the Corporation was able to cut its fixed costs, including aircraft rental and insurance, by around \$7.9 million. Moreover, Air Transat implemented a long-term partnership program with its ground-handling subcontractors, resulting in savings of \$1.7 million in 1995. As for purchases of in-flight food, the Corporation made use of new techniques for vacuum-packed frozen meals and renegotiated its contracts, enabling it to save approximately \$1 million. With regard to foreign currency, the Corporation buys futures contracts six to twelve months in advance to partially or fully hedge its foreign currency purchases or sales during the upcoming year and thus maintain the markups anticipated on the list prices in the tour operators' brochures. However, these futures contracts only protect the Corporation against currency fluctuations in the next twelve months, after which it must adapt to the new prevailing exchange rates. Thus, in 1995 the Corporation benefited from an improvement in the price of its futures contracts on its revenues in francs of approximately \$6.6 million, from which the \$3.6 million increase in expenses incurred in France must be deducted.

For its part, the drop in the value of the Canadian dollar against the U.S. currency, especially during the winter season, increased the Corporation's expenses by about \$4.1 million, given that some of its major expenses such as fuel, aircraft rentals and hotel accommodations are paid for in U.S. dollars. As for fuel, the Corporation succeeded in reducing the markups it paid in comparison with international indices. However, it suffered from higher world fuel prices, especially during the summer, which increased its fuel costs by approximately \$2.3 million. The \$1.5 million increase in amortization expense was mainly attributable to the fact that parts were amortized at a faster rate, since they are being used more intensively. However, this increased rate of use also reduced the purchases of parts from outside the Corporation by an equivalent amount. The increase in the average cash position maintained during the year resulted in a decline in other interest and financial expenses of approximately \$700,000, as well as in a raise in interest income of about \$1.4 million.

In June 1995, the Fonds de solidarité des travailleurs du Québec (F.T.Q.) subscribed to one-third of DMC's common shares for \$2.5 million. The gain on dilution resulting from the transfer of operations was recorded as an unusual item. However, the transfer of one-third of DMC's income as of June 1995 reduced the Corporation's consolidated income by about \$400,000 before income taxes.

Companies Subject to Significant Influence and Non-Controlling Interest

The share of net income of companies subject to significant influence amounting to \$467,267 in 1995 mainly arose from Haycot, which performed very well in 1995, although not quite as well as in 1994. Consultour, another company subject to significant influence, generated a slight profit in 1995. The improvement in Regent's net income in 1995 essentially accounted for the increase in the non-controlling interest in the income of subsidiaries from \$76,560 in 1994 to \$296,078 in 1995.

Financial Position

The Corporation's cash position as at October 31, 1995, was \$35.1 million, compared to \$27.2 million as at October 31, 1994, up \$7.9 million. This reflected net cash flow provided by operating activities of \$35.1 million, net cash flow used in financing activities of \$18.3 million and net cash flow used in investment activities of \$9.0 million.

Net cash flow provided by operating activities of \$35.1 million was largely due to the excellent operating cash flow which the Corporation continued to generate. During 1995, the Corporation's operating cash flow amounted to \$33.2 million, or \$0.91 per share, compared to \$21.4 million, or \$0.54 per share, in 1994. The fact that net income rose by \$11.3 million explained most of the increase in the operating cash flow.

Net cash flow used in financing activities of \$18.3 million was primarily due to the two repurchases of common shares effected by the Corporation during the year. Following two issuer bids, the Corporation first repurchased 20% of its issued and outstanding shares, i.e. 2,627,715 shares (before share split), in June 1995 at a price of \$3.00 per share; then, in October 1995, it repurchased 35.6% of its issued and outstanding shares, i.e. 3,750,080 (before share split), at a price of \$5.75 per share. Management considered that these repurchases were the best possible use of the funds; on the one hand, no other investment offered a higher return to the remaining shareholders; on the other hand, each of the issuer bids provided an attractive premium over the market value of the shares to shareholders who accepted the bid. As a precautionary measure, the Corporation contracted a temporary loan of \$7.5 million from Capital d'Amérique CDPQ inc. and a Canadian chartered bank, prior to undertaking the second share repurchase, in order to cover any unforeseen expenses. In October 1995, Capital d'Amérique CDPQ inc. invested \$10 million in Air Transat Holidays, in exchange for 25% of the outstanding shares, with a view to financing future expansion and to continuing to extend the Corporation's distribution network. Finally, repayments of long-term debt and obligations under capital leases in 1995 amounted to \$5.4 million, compared to \$4.3 million in 1994.

Net cash flow used in investment activities of \$9.0 million arose mainly from capital asset acquisitions of \$7.1 million. Of this total, an amount of \$3.4 million was used to acquire a Lockheed L-1011 at the end of the year in light of the Corporation's planned expansion in 1996. The other acquisitions included computer hardware amounting to \$1.8 million, aircraft parts for \$700,000 and miscellaneous equipment and other material for \$1.2 million.

4.2 STATISTICS OF THE LAST EIGHT QUARTERS

Selected Consolidated Quarterly Financial Data

(in thousands of dollars except data per share)

Year ended October 31, 1997	1st quarter	2nd quarter	3rd quarter	4th quarter
Total revenues	279,790	348,192	344,784	343,974
Income (loss) before income taxes	(8,186)	6,070	20,641	24,823
Net income (net loss)	(4,952)	3,335	12,803	14,178
Earnings (loss) per share	(0.17)	0.12	0.40	0.43
Diluted earnings (loss) per share	(0.17)	0.12	0.39	0.40

Year ended October 31, 1996	1st quarter	2nd quarter	3rd quarter	4th quarter
Total revenues	138,611	163,563	234,186	242,797
Income (loss) before income taxes	(145)	4,893	14,563	18,558
Net income (net loss)	(381)	3,035	8,615	10,933
Earnings (loss) per share	(0.02)	0.14	0.39	0.47
Diluted earnings (loss) per share	(0.02)	0.13	0.33	0.42

4.3 DIVIDENDS

Since its incorporation, the Corporation has never declared or paid any dividends. For the time being, the Corporation does not expect to declare any dividends on its common shares and intends to use its future profits to finance its operations and expansion.

4.4 AUDITORS

Caron Bélanger Ernst & Young have been the Corporation's auditors since its incorporation.

ITEM 5. SHARE CAPITAL OF THE CORPORATION, MARKET FOR THE NEGOTIATION OF SECURITIES AND PRIOR DISTRIBUTIONS

5.1 CAPITAL STRUCTURE

The share capital of the Corporation consists of an unlimited number of common shares and an unlimited number of Preferred Shares issuable in series, of which 34,320,516 common shares and 175,471 Preferred Shares Series 3 were issued and outstanding as at March 13, 1998. Only the common shares of the Corporation are voting shares, each common share carrying one vote.

To the knowledge of Transat, the only person or entity holding 10% or more of the voting shares of the share capital of the Corporation is Fonds de solidarité des travailleurs du Québec (F.T.Q.), which, as at March 13, 1998, held 3,868,001 of the issued and outstanding common shares of the Corporation's capital, namely 11.3% of the issued and outstanding common shares of the Corporation.

Pursuant to a commercial agreement entered into on August 24, 1988 (which was amended on August 31, 1988 and April 28, 1993), the Corporation undertook to ensure that two representatives of Consultour/Club Voyages Inc., namely the Chief Executive Officer and any other officer thereof, would be elected to the Corporation's Board of Directors and be kept thereon. This agreement will remain in effect until August 31, 1998.

Moreover, on November 22, 1990, certain members of the Corporation's management on that date and a group of airline pilots of Air Transat A.T. Inc. entered into a shareholders' agreement with Fonds de solidarité des travailleurs du Québec (F.T.Q.) (the "Fonds"), which was amended on June 11, 1992, October 23, 1992, and October 29, 1993 (the "Agreement"). The Agreement governs certain rights and obligations relating to the common shares contemplated by the Agreement and held by each of the signatories, including representation on the Board of Directors of the Corporation. The signatories undertook to ensure that the Fonds would have a representation on the Board proportionate to the number of shares it holds in the Corporation's share capital. In addition, as long as the Fonds holds at least 400,000 common shares of the Corporation (without taking into account the subdivision of the Corporation's common shares in December 1996 on the basis of three common shares for each common share issued and outstanding), a minimum of one seat will be reserved at all times for a representative of the Fonds on the Board of Directors. In return, the Fonds undertook to exercise the voting rights pertaining to the common shares contemplated by the Agreement to elect a minimum of eight directors determined by the other signatories of the Agreement. The Agreement terminates on December 31, 1998.

The *Canada Transportation Act*, to which Air Transat is subject, sets out that the holder of a licence to operate a domestic service or an unscheduled international service must establish that it is a Canadian within the meaning of the *Canada Transportation Act*. The definition of the term "Canadian" found in the *Canada Transportation Act* is as follows:

'Canadian' means a Canadian citizen or a permanent resident within the meaning of the Immigration Act [...] or a corporation or other entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians and of which at least seventy-five percent, or such lesser percentage as the Governor in Council may by regulation specify, of the voting interests are owned and controlled by Canadians.

Since Air Transat is wholly-owned by Transat, the latter must, in order that Air Transat may qualify as a Canadian within the meaning of the *Canada Transportation Act*, itself qualify as a Canadian within the meaning of that statute. As at November 21, 1997, Air Transat qualified as a Canadian within the meaning of that statute.

5.2 MARKET FOR THE NEGOTIATION OF SECURITIES

The common shares are listed on The Montreal Exchange and The Toronto Stock Exchange under the symbol TRZ. The following table sets out the reported high and low prices, and volumes of trading on such exchanges, for the periods indicated.

<u>Period</u>	<u>The Montreal Exchange</u>			<u>The Toronto Stock Exchange</u>		
	<u>High</u>	<u>Low</u>	<u>Trading Volume</u>	<u>High</u>	<u>Low</u>	<u>Trading Volume</u>
<u>1996</u>						
First quarter	\$14.75	\$5.00	5,403,786	\$13.50	\$8.50	110,030
Second quarter	\$24.95	\$14.50	1,971,747	\$23.60	\$15.25	51,985
Third quarter	\$33.50	\$21.00	1,943,619	\$32.00	\$22.00	9,209
Fourth quarter*	\$11.35	\$8.17	6,736,646	\$11.00	\$8.53	334,975
<u>1997</u>						
First quarter	\$13.40	\$7.80	8,500,972	\$13.20	\$8.25	2,975,209
Second quarter	\$10.75	\$8.00	3,475,745	\$10.50	\$8.25	1,196,935
Third quarter	\$11.85	\$8.75	6,163,405	\$11.70	\$8.55	1,156,236
Fourth quarter	\$13.00	\$10.55	2,667,038	\$12.90	\$10.50	700,446

* In December 1996, the articles of the Corporation were amended in order to subdivide each issued and outstanding common share of the Corporation's capital into three common shares. The common shares began trading on a subdivided basis on December 27, 1996. The number of shares and the stock price have been adjusted to take into account the stock split.

5.3 PRIOR DISTRIBUTIONS

During the fiscal year ended October 31, 1997, Transat effected a distribution of 2,900,000 common shares and special warrants (before split) at a price of \$30.25 each, representing a total investment of \$87,725,000, of which the net proceeds for the Corporation were \$83,674,000.

Each special warrant entitled the holder to receive, on the condition that the common shares be qualified in the qualifying provinces prior to January 24, 1997, one common share of the Corporation's capital (before the subdivision of December 1996 on the basis of three common shares for each common share issued and outstanding). On January 22, 1997, the Corporation obtained a final receipt from the provinces of British Columbia, Alberta, Manitoba and Ontario the special warrants were exercised on January 29, 1997, and 4,470,000 common shares of the Corporation were issued on that date.

The Corporation has not made any other distribution of its common shares since this distribution.

ITEM 6. DIRECTORS AND EXECUTIVE OFFICERS

6.1 DIRECTORS

The following table sets forth, for each director, the name, municipality of residence, principal occupation, period since which each director holds its office of director and the number of common shares of Transat over which it exercises control. Each of these directors shall hold office until the next annual meeting of Transat or until his or her replacement is elected. Mr. André Lemire remitted his resignation as a director of Transat in February 1998 and Mrs. Francine Nadeau has already indicated to Transat that she does not intend to submit her candidacy as a director at the next annual meeting of the shareholders of the Corporation. Transat intends to appoint a director to fill the position of Mrs. Francine Nadeau but does not intend to fill the position left vacant by Mr. André Lemire. Pursuant to a resolution of the Board of Directors of Transat, the number of directors of the Corporation from the next annual general meeting of its shareholders, has been established at 12 directors.

Name of Director	Principal Occupation	Director Since	Common Shares Owned or Controlled or Directed
Jean-Marc Eustache ⁽¹⁾ Outremont, Quebec	President and Chief Executive Officer of the Corporation and President and Chief Executive Officer of Look Voyages S.A. (tour operator)	February 1987	895,597
Jean-Paul Bellon ⁽¹⁾ Montreal, Quebec	President and Chief Executive Officer, Consultour / Club Voyages Inc. (travel-agency franchisor) and President of Euro Charter S.A. (chain of travel agencies)	January 1989	10,000
André Bisson O.C. ⁽²⁾ Baie d'Urfé, Quebec	Corporate Director	April 1995	18,000
Lina De Cesare ⁽¹⁾ Montreal, Quebec	President and Chief Executive Officer of Air Transat Holidays A.T. Inc. (tour operator) and President of Tourbec (1979) Inc. (travel agency and franchisor)	May 1989	187,494
Benoît Deschamps ⁽¹⁾ Dorval, Quebec	Vice-President, Financial Planning and Treasurer of Le Groupe Vidéotron Ltée (telecommunications)	April 1997	300
Roger Giraldeau ⁽¹⁾⁽²⁾ Boucherville, Quebec	Vice-President Investments, Fonds de solidarité des travailleurs du Québec (F.T.Q.) (institutional investor)	September 1997	-
Yves Graton ⁽¹⁾⁽³⁾ Montreal, Quebec	Corporate Director	April 1991	-
Jean Guertin ⁽¹⁾⁽³⁾ Montreal, Quebec	Chief Executive Officer of Gasbeau Company (holding company), Chairman of the Board, Telemedia Inc. (communications) and Professor at the École des Hautes Études Commerciales (university)	April 1995	-
Philippe Lortie Saint-Laurent, Quebec	Captain, Air Transat A.T. Inc. (airline company)	April 1997	51,975
Francine Nadeau Laterrière, Quebec	President and Chief Executive Officer of Club Voyages Tournesol Inc. (travel agency)	April 1997	-
Philippe Sureau ⁽¹⁾ Outremont, Quebec	Executive Vice President of the Corporation, President and Chief Executive Officer of Air Transat A.T. Inc. (airline company) and President of DMC Transat Inc. (tour operator)	February 1987	612,026
John D. Thompson ⁽²⁾⁽³⁾ Mont-Royal, Quebec	Deputy Chairman of the Board, Montreal Trust Company (trust company)	April 1995	15,000

(1) Current member of the Executive Committee

(2) Current member of the Audit Committee

(3) Current member of the Human Resources and Compensation Committee

With the exception of Mr Benoît Deschamps over the past five years, each of the directors of Transat has exercised the principal occupation indicated opposite his or her name with the company concerned or other occupations with said company, its subsidiaries or its affiliated companies.

Mr. Benoît Deschamps has been Vice-President, Financial Planning and Treasurer, Le Groupe Vidéotron Ltée since August 1997. From August 1992 to August 1997, he successively held the following positions at the Caisse de Dépôt et Placement du Québec, namely Director, International Corporate Investments, Director, Corporate Investments, Industrial and Services Companies, and Director, and subsequently Vice-President of Capital d'Amérique CDPQ inc.

Transat has no direct information regarding the shares of its share capital which are held by the aforementioned persons or over which they exercise direction or control. This information was provided by the directors.

6.2 OFFICERS

The following table sets forth, for each of the Corporation's executive officers, his or her name, municipality of residence, the first year of service with the Corporation and the position held with the Corporation.

Name and Municipality of Residence	First Year of Service with the Corporation	Position Held with the Corporation
Jean-Marc Eustache Outremont, Quebec	1987	President and Chief Executive Officer of the Corporation and President and Chief Executive Officer of Look Voyages S.A.
Philippe Sureau Outremont, Quebec	1987	Executive Vice-President of the Corporation, President and Chief Executive Officer of Air Transat A.T. Inc. and President of DMC Transat Inc.
Lorraine Maheu Brossard, Quebec	1997	Vice-President Finance and Administration and Chief Financial Officer of Transat
Jean-Marc Bélisle Montreal, Quebec	1997	Vice-President, Information Systems of Transat.

With the exception of Jean-Marc Eustache, who over the past five years exercised the principal occupation indicated opposite his name, the other officers of Transat held the following positions:

Mr. Philippe Sureau was Vice-President Marketing and Sales of Transat, Executive Vice-President, Marketing and Sales of Air Transat and President of DMC until March 5, 1997.

Mrs. Lorraine Maheu was first Manager, National Corporate Investments at the Caisse de dépôt et placement du Québec and then Manager and Director of Capital Communications CDPQ inc., from May 1991 to January 1997.

Mr. Jean-Marc Bélisle was, from March 1993 to August 1997, first Director Technology Orientations and then Director Architecture and Systems at Bombardier, Aerospace Group and before Mr. Belisle was Director of Consulting Services at I.S.T.

6.3 COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors of Transat has formed three committees, entrusted with specific mandates and the powers required to help it to carry out its duties effectively, namely the Executive Committee, the Audit Committee and the Human Resources and Compensation Committee.

6.4 REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Composition of the Committee

The Human Resources and Compensation Committee of the Board of Directors is responsible for establishing the overall strategy regarding the remuneration of the senior executives and the organizational development of the Corporation and for supervising its ongoing implementation. The Committee makes recommendations regarding the remuneration of the senior executives, which recommendations are subject to approval by the Board of Directors.

The Committee is composed of Jean Guertin (Chairman of the Committee), Yves Graton and John D. Thompson. None of the members of the Committee is currently employed by the Corporation or a former senior executive or employee of the Corporation.

Report on Remuneration of Senior Executives

The compensation program for senior executives of the Corporation is intended to reward those senior executives whose performance is in line with the Corporation's values and objectives, its business strategy and its financial performance. It aims to increase the return on shareholders' equity. The goals of the program are the following:

- to attract and keep senior executives who are essential for the long-term success of the Corporation and its subsidiaries;
- to encourage the initiative and performance of senior executives who meet the objectives set by the Corporation and surpass the level of performance in the industry; and
- to reward senior executives for their long-term strategic efforts and their contribution to the increase in the Corporation's economic value.

The key elements of the compensation program for senior executives are the payment of a base salary, a short-term incentive in the form of an annual bonus based on performance and a long-term incentive in the form of stock options. The Committee regularly evaluates the compensation program for senior executives in order to ensure that it continues to attain the above-mentioned objectives. The Committee may call upon independent advisors in order to assist it in evaluating the competitiveness of the program.

The Corporation has made every effort to establish the overall compensation of its senior executives on the basis of the median compensation established for similar positions in Canadian companies of comparable size and complexity.

The various elements included in the compensation are in compliance with the following principles:

- the base salaries reflect the regularity and reliability of the senior executive's contribution to the Corporation's success, within a bracket based on the market median;
- the annual bonuses are established on the basis of the return on shareholders' equity of the Corporation; for executives of subsidiaries, the bonus calculation also takes into account measurable operational results compared to objectives established at the beginning of the year;
- stock options are granted regularly in accordance with a grant policy adopted pursuant to the overall compensation policy of the Corporation, taking into account the performance of senior executives.

Remuneration of the President and Chief Executive Officer

The remuneration of the President and Chief Executive Officer is determined according to the same principles as those applicable to other members of the senior management. The base salary of the President and Chief Executive Officer is reviewed each year by the Human Resources and Compensation Committee according to the contribution of the incumbent, within a salary scale whose mid-point is anchored to the market median.

The annual bonus of the President and Chief Executive Officer is determined by the return on shareholders' equity. For the year ended October 31, 1997, the Corporation realized a return on shareholders' equity which corresponded to the maximum amount of bonus for the President and Chief Executive Officer, as provided in the bonus plan.

On February 27, 1997, the President and Chief Executive Officer was granted stock options determined based on the financial performance of the Corporation for fiscal 1996. Details appear in the table on page ?. These options were granted for a period of 2 to 3 years and no options were granted for fiscal 1997.

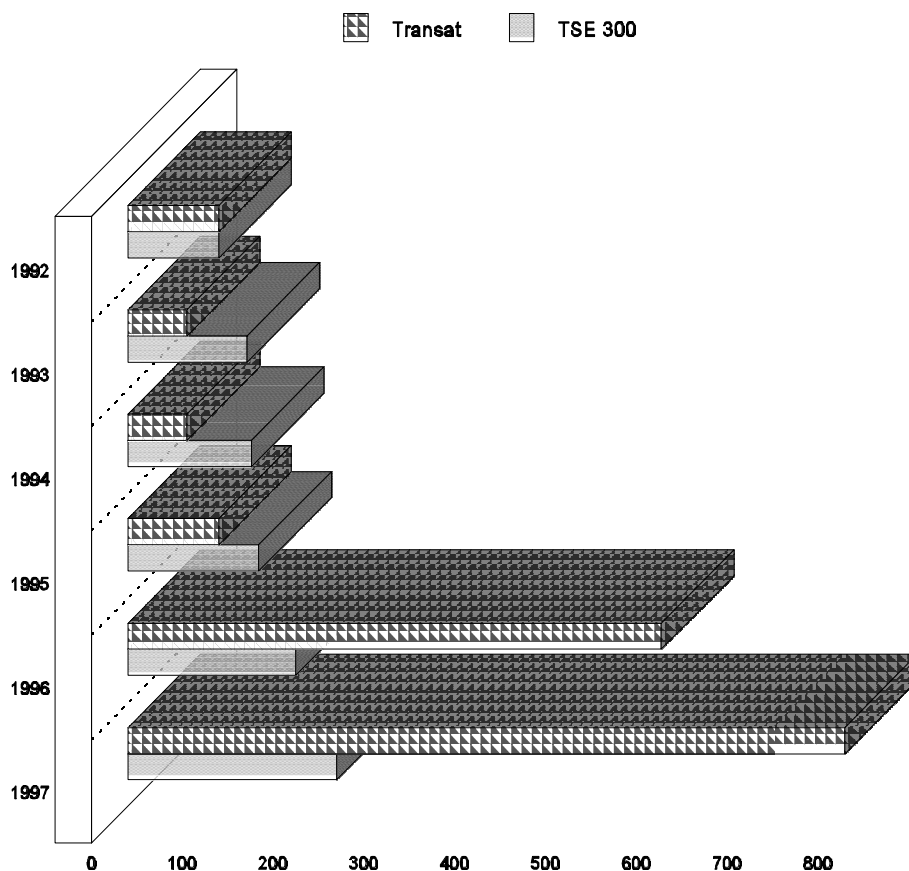
Submitted on behalf of the Human Resources and Compensation Committee by:

Jean Guertin, Chairman
Yves Graton
John D. Thompson

6.5 YIELD ON THE SHARES

The following graph compares the cumulative total return obtained on an investment of \$100 in the common shares of the Corporation made on October 31, 1992, to the cumulative total return of the TSE 300 Index of the Toronto Stock Exchange over the last five fiscal years.*

	1992	1993	1994	1995	1996	1997
TRANSAT	100	65	65	100	587	789
INDICE TSE 300	100	131	136	144	185	230



* All prices of the Corporation's common shares are taken from the files of the Montreal and Toronto stock exchanges and the results represent those of the last transaction effected on the Corporation's securities on The Montreal Exchange or the Toronto Stock Exchange, as the case may be, on October 31 of each year.

Since February 21, 1997, the Corporation has been added to the TSE 300 Composite Index (Transportation and Environmental Sub-Group) and the TSE 200 Index.

6.6 REMUNERATION OF EXECUTIVES OFFICERS

6.6.1 Remuneration of Executive Officers

Summary Compensation Table

The following table sets forth the aggregate compensation paid by the Corporation during each of the last three fiscal years to the President and Chief Executive Officer of the Corporation as well as to the four most highly compensated executive officers.

Name and principal occupation	Year	Annual Compensation			Long-Term Compensation			
		Salary	Bonus ⁽¹⁾	Other annual compensation	Securities under options granted ⁽²⁾	Restricted shares or restricted share units	LTIP payouts ⁽³⁾	All other compensation
		(\$)	(\$)	(\$)	(#)	(\$)	(\$)	(\$)
Jean-Marc Eustache	1997	275,000	288,750	20,187	-	-	-	-
President and Chief Executive Officer of the Corporation and President and Chief Executive Officer of Look Voyages S.A.	1996	275,000	288,750	18,577	90,000	-	-	-
	1995	195,000	167,212	5,166	135,000 ⁽⁴⁾	-	-	-
Philippe Sureau	1997	195,000	146,250	12,576	-	-	-	-
Executive Vice-President of the Corporation, President and Chief Executive Officer of Air Transat A.T. Inc. and President of DMC Transat Inc.	1996	195,000	146,250	10,908	60,000	-	-	-
	1995	150,000	91,875	11,292	90,000 ⁽⁴⁾	-	-	-
François Legault⁽⁵⁾	1997	90,000	-	5,350	-	-	-	-
Executive Vice-President of the Corporation and President and Chief Executive Officer of Air Transat A.T. Inc.	1996	195,000	146,250	11,720	60,000	-	-	-
	1995	150,000	91,875	10,360	90,000 ⁽⁴⁾	-	-	-
Lina De Cesare	1997	175,000	130,000	10,918	-	-	-	-
President and Chief Executive Officer of Air Transat Holidays A.T. Inc. and President of Tourbec (1979) Inc.	1996	160,000	120,000	13,048	60,000	-	-	-
	1995	140,000	85,750	12,298	90,000 ⁽⁴⁾	-	-	-
Jean-Paul Bellon	1997	125,000	107,918	5,495	-	-	-	-
President and Chief Executive Officer of Consultour/Club Voyages Inc. and President of Euro Charter S.A.	1996	125,000	60,315	12,000	20,000	-	-	-
	1995	110,000	46,000	13,000	18,000 ⁽⁴⁾	-	-	-
Sam Ghorayeb	1997	154,648	50,000	9,278	-	-	-	-
President of Les Voyages Nolitour inc.	1996	154,648	25,000	9,054	20,000	-	-	-
	1995	154,648	-	8,401	15,000 ⁽⁴⁾	-	-	-

- (1) The performance bonus for 1997 was granted on February 11, 1998, with respect to the fiscal year ended October 31, 1997. The performance bonus for 1996 was granted on February 27, 1997, with respect to the fiscal year ended October 31, 1996. The performance bonus for 1995 was granted on February 9, 1996, with respect to the fiscal year ended October 31, 1995.
- (2) Stock options for 1996 were granted on February 27, 1997, with respect to the performance of senior executives during the fiscal year ended October 31, 1996. Stock options for 1995 were granted on January 23, 1996, with respect to the performance of senior executives during the fiscal year ended October 31, 1995.
- (3) Long-term incentive plan.
- (4) Taking into account the share split of the common shares of the Corporation in December 1996 on the basis of three common shares for each issued and outstanding common share.
- (5) Mr. Legault ceased to hold office with the Corporation on March 6, 1997.

6.6.2 Stock Option Plan

The Corporation has adopted a stock option plan for directors, officers and employees of Transat and its subsidiaries (the "Option Plan"). The objective of the Option Plan is to encourage, keep and motivate the directors, officers and employees of the Corporation or of any of its subsidiaries by providing them with the opportunity to acquire an interest in Transat through stock options.

The Option Plan enables the Corporation to grant options to eligible persons up to a maximum of 7,715,847 common shares (taking into account the share split of the common shares of the Corporation of December 1996 on the basis of three common shares for each issued and outstanding common share) at a price per share corresponding to the average weighted market price of Transat's common shares on The Montreal Exchange for the five trading days preceding the granting of options. A total of 1,057,450 options are currently issued and outstanding. The options granted under the Option Plan expire five years after the grant date or earlier if the option holder ceases to hold a position in the Company or any of its subsidiaries or if he dies. During the annual meeting held on April 23, 1997, a resolution was adopted to ratify the resolution of the Corporation's Board of Directors, dated February 27, 1997, to increase the maximum number of common shares issuable under the Option Plan from 4,715,847 to 7,715,847 common shares.

During the last fiscal year, 540,000 options were granted to beneficiaries other than the senior executives mentioned in "Remuneration of Executive Officers", at an exercise price of \$12.32 per share. Stock options representing 222,000 common shares at the exercise price of \$1.76 per share, 19,500 common shares at an exercise price of \$0.83 per share and 183,350 common shares at the exercise price of \$1.83 per share were exercised during the last fiscal year. Since the end of the last fiscal year, the Board of Directors of Transat granted 45,000 options, of which 20,000 options were granted to an officer of the Corporation and 25,000 options to an officer of a subsidiary. The exercise price of these options is respectively of \$12.83 and \$12.32 per share.

The following table indicates the number of options issued and outstanding for each of the years 1993, 1995, 1996, 1997 and 1998 as at March 13, 1998 (taking into account the share split of the Corporation's shares of December 1996 on the basis of three common shares for each issued and outstanding common share).

	1993 ⁽¹⁾	1995 ⁽²⁾	1996 ⁽³⁾	1997 ⁽⁴⁾	1998
Directors of the Corporation	-	-	12 000	234 500	-
Officers of the Corporation	-	-	-	60 000	20 000 ⁽⁶⁾
Employees of the Corporation	-	-	10 500 ⁽⁵⁾	49 000	-
Officers of the Subsidiaries	52 500	22 500	51 000 ⁽⁵⁾	240 000	25 000 ⁽⁴⁾
Employees of the Subsidiaries	45 000	19 500	32 950	193 000	-
TOTAL :	97 500	42 000	96 450	776 500	45 000

(1) The exercise price of these options is \$1.76.

(2) The exercise price of these options is \$0.83.

(3) The exercise price of these options is \$1.83.

(4) The exercise price of these options is \$12.32.

(5) One of the beneficiaries of the options was an officer of a subsidiary in 1996 and is now an employee of the Corporation.

(6) The exercise price of these options is \$12.83

Options granted during the fiscal year ended October 31, 1997

The following table sets forth the options granted during the last fiscal year to the President and Chief Executive Officer of the Corporation as well as to the four most highly compensated executive officers. These options were granted on February 27, 1997, with respect to the performance of senior executives during the fiscal year ended October 31, 1996, at an exercise price representing the average weighted market price of the Corporation's common shares quoted on The Montreal Exchange for the five trading days preceding the grant of such options, namely \$12.32.

Name	Shares covered by options (#)	Percentage of total options granted during the fiscal year (%)	Exercise price (\\$)	Average weighted market price of shares covered by options on the grant date (\\$)	Expiry date
Jean-Marc Eustache	90,000	10.6	12.32	12.32	February 27, 2002
Philippe Sureau	60,000	7.1	12.32	12.32	February 27, 2002
François Legault ⁽¹⁾	60,000	7.1	12.32	12.32	June 6, 1997
Lina De Cesare	60,000	7.1	12.32	12.32	February 27, 2002
Jean-Paul Bellon	20,000	2.4	12.32	12.32	February 27, 2002
Sam Ghorayeb	20,000	2.4	12.32	12.32	February 27, 2002

(1) These stock options became null and void following termination of his position with the Corporation.

Options exercised during the fiscal year ended October 31, 1997

The following table sets forth the options exercised by the President and Chief Executive Officer of the Corporation as well as the four most highly compensated executive officers.

Name	Securities acquired on exercise (#)	Aggregate value realized (\\$)	Unexercised options at fiscal year-end (#)	Value of unexercised in-the-money options at fiscal year-end (\\$)
Jean-Marc Eustache	-	-	90,000	16,200
Philippe Sureau	-	-	60,000	10,800
François Legault	-	-	-	-
Lina De Cesare	180,000	1,764,900	60,000	10,800
Jean-Paul Bellon	-	-	20,000	3,600
Sam Ghorayeb	-	-	20,000	3,600

(1) Exercisable

6.7 REMUNERATION OF DIRECTORS

Since February 1998, the annual fee paid by the Corporation to the Directors, for the services rendered by them to the Corporation, has been increased from \$5,000 to \$7,500 and the chairman of each committee of the Board of Directors receives an annual fee of \$2,500. In addition, since February 1998, the directors' fees paid to each director who is not

employed by the Corporation or any of its subsidiaries have been increased from \$750 to \$850 for each meeting of the Board of Directors or of any of its committees. Finally, on February 27, 1997, the Corporation granted 750 stock options to each director of the Corporation then in office, with the exception of Messrs. Jean-Marc Eustache, Philippe Sureau, François Legault, Jean-Paul Bellon and Mrs. Lina De Cesare.

6.8 SUBSEQUENT EVENTS

6.8.1 Restructuring and Subscription to Look's Capital

Look filed a prospectus and obtained a receipt from the competent French regulatory authorities on January 16, 1998, enabling it to proceed with the issue of shares of its capital, having a par value of 10 FF, representing total issue proceeds of approximately 106 million FF.

On February 5, 1998, Transat assigned to a French business corporation to be incorporated, Vacances A.T. (Europe) S.A. ("A.T. Europe") its preferential right to subscribe for Look's capital in proportion to the interest it then holds in Look's capital and also indicated, on the same date, on behalf of A.T. Europe, its intention to subscribe for Look's capital, the whole for a maximum amount of 106 million FF. The subscription for Look's capital will be paid through the compensation of most of the amount owed by Look to A.T. Europe, in a total amount of approximately \$27 million. This amount is derived from the assignment, on February 5, 1998, by Transat A.T. (Barbados) Ltée ("A.T. Barbados") to A.T. Europe, as a corporation to be incorporated, of the loan entered into between A.T. Barbados and Look on October 16, 1996. A.T. Europe was incorporated on February 24, 1998, pursuant to the laws of France and is wholly-owned by Transat.

Finally, on February 26, 1998, the Board of Directors of Look accepted the subscription received and agreed to the compensation of most of the amount owed by Look to A.T. Europe, allocated the subscribed shares amongst the subscribers and evidenced the achievement of the increase in capital. It also reduced the par value of Look's shares from 10 FF to 0.20 FF. Taking into account these transactions, the direct and indirect interest of Transat in Look is now approximately 98% of its capital.

6.8.2 Leases of Airbus aircraft

In December 1997, Air Transat A.T. Inc. concluded an agreement for an operating lease of two A330-200 Airbus aircraft. The delivery of those two aircraft is expected in February and April 1999. Transat's commitment pursuant to those operating leases which terminate in April and June 2009 has been established at approximately \$169,550,000 US.

6.8.3 Guarantee of STAR

In December 1997, Look guaranteed certain obligations of STAR with respect to the operating lease for two aircraft. The amount of the guarantee is for a maximum of \$30,000,000 US in 1998 and decreases to US \$24,000,000 in 1999, to US \$18,000,000 in 2000 and to US \$12,000,000 in 2001.

ITEM 7. ADDITIONAL INFORMATION

- (1) Additional financial data may be found in the Corporation's comparative financial statements as of October 31, 1997.
- (2) Transat shall provide to any person or company, upon request to the Corporate Secretary at 300 Leo-Pariseau Street, 4th Floor, Montreal, Quebec, H2W 2P6:
 - (a) when the securities of Transat are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
 - (i) one copy of this annual information form of Transat together with one copy of any document, or the pertinent pages of any document, incorporated by reference therein,

- (ii) one copy of the comparative financial statements of Transat for its most recently completed fiscal year together with the accompanying auditors' report thereon which are included in the 1997 Annual Report and one copy of any quarterly financial statements of Transat subsequent to the financial statements for its most recently completed fiscal year,
 - (iii) one copy of the Management Proxy Circular of Transat and of the notice of annual meeting of Transat for 1997; and
 - (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and that are not required to be provided under (i) to (iii) above;
- (b) At any other time, one copy of any other documents referred to (2)(a)(i)(ii) and (iii) above, provided Transat may require the payment of a reasonable charge if the request is made by a person who is not a shareholder of Transat.