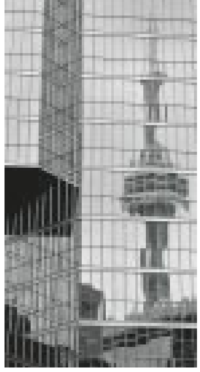
  

1997

ANNUAL REPORT
TRANSAT A.T. INC.

TRANSAT

VACANCES TOURBEC

CONSULTOUR / CLUB VOYAGES

EURO CHARTER

VACANCES AIR TRANSAT

AIR TRANSAT HOLIDAYS

VOYAGES NOLITOUR

REGENT HOLIDAYS

WORLD OF VACATIONS

VACANCES AIR TRANSAT (FRANCE)

LOOK VOYAGES

BROK'AIR

DMC TRANSAT

VACANCES AIR TRANSAT HOLIDAYS (FLORIDA)

AIR TRANSAT

STAR AIRLINES

SERVICES HAYCOT

Results

Years ended October 31
(in thousands of dollars)

	1997	1996
Revenues	**1,316,740**	779,157
Operating income	**46,942**	42,826
Net income	**25,364**	22,202
Operating cash flow	**46,117**	37,742

Balance sheets

As at October 31
(in thousands of dollars)

	1997	1996
Cash	**141,333**	46,897
Total assets	**467,476**	308,927
Long-term debt, debenture and obligations under capital leases (including current portion)	**126,900**	54,533
Shareholders' equity	**164,420**	52,995

Per common share

Years ended October 31
(in dollars)

After subdivision[1]	1997	1996
Earnings	**0.78**	0.98
Diluted earnings	**0.74**	0.86
Operating cash flow	**1.41**	1.69

[1] On December 31, 1996, each common share of the Corporation was divided into three common shares.

transat A.T. inc.

Transat A.T. Inc. is an integrated company in the tourism industry. It is active in every aspect of the organization and distribution of holiday travel. Transat is represented by subsidiaries or affiliated companies at each of three levels: providing retail sales through travel agencies, creating and distributing vacation packages through tour operators, and providing air transportation.

Each member company of the Transat group specializes in its respective field; together they form a large "holiday maker." The objectives of Transat are to maintain its position of leadership in vacation travel in Canada and to be one of the leaders in this industry in Europe, offering high-quality vacation packages at affordable prices to a mass clientele.

CORPORATE PROFILE

TRANSAT

The year 1997 enabled Transat A.T. to demonstrate its capacity to adapt to a changing environment while maintaining efforts to improve performance. At the end of the fiscal year, the Corporation's position was stronger, thus allowing it to pursue its development in Canada and in Europe.

Performance

For the first time, the Transat group posted annual revenues that exceeded one billion dollars. Revenues for fiscal 1997 totalled $1.3 billion, a 69% increase over the $779.2 million reported the previous year. The interests in Look Voyages, Brok'Air, and World of Vacations, acquired in 1996, account for two-thirds of the increase in revenues, while the other third can be attributed to the group's remaining subsidiaries, whose sales increased sharply by 29%, or $195.3 million, over last year.

Net income increased 14.2% to reach $25.4 million, a considerable improvement over $22.2 million in 1996. However, net earnings per share declined from $0.98 ($0.86 after dilution) in 1996 to $0.78 ($0.74 after dilution) in 1997, due to an increase in the number of outstanding shares.

In an environment where competition remains fierce, the overall performance of the Transat group of companies met our expectations.

Canadian Operations

In Canada, the group's tour operators saw significant growth in their business activity and in their respective market shares. The sales volumes of Vacances Air Transat increased 25%, due in large part to heightened business activity in Ontario and western Canada.

In Toronto, sales by Regent Holidays increased by over 14%, a testimony to its vigour in the cruise market and in travel to the Mediterranean region. In spring of 1997, Transat increased its interest in Regent Holidays to100%. The balance of purchase price for this acquisition is payable on October 31, 1999 at a price in accordance with a formula that takes into account the tour operator's performance from 1994 to 1999, inclusive.

Jean-Marc Eustache
Chairman of the Board, President and Chief Executive Officer of Transat and President and Chief Executive Officer of Look Voyages

In Montreal, Nolitour's sales increased by over 38%. This subsidiary's profitability was enhanced by the acquisition of Auratours, a tour operator specializing in travel to Italy during the summer. For its part, World of Vacations undertook a broad restructuring program in response to several changes that occurred.

With regard to the air transportation sector, Air Transat benefited greatly from the increase in sales of the group's tour operators. Sales increased 45% over the previous year. To sustain this growth and better serve its markets, Air Transat expanded its fleet to some twenty aircraft. During the past months, the carrier acquired three long-range Lockheed L-1011-500s and two Lockheed L-1011-150s. In addition, it signed operating leases for one Boeing 757-200 ER and two Boeing 737-400s, the latter two for three winter seasons only.

Air Transat has also embarked upon a process of fleet renewal. The first stage of this program consists of a firm order for two new Airbus A330-200s. Delivery of the first aircraft is scheduled for February 1999, the second for April of the same year.

On March 18, 1997, Canada's Minister of Transport designated Air Transat as the second Canadian carrier eligible to offer scheduled services between Canada and France. While this designation has no significant impact on the Corporation's primary mission—which involves chartered flights—it opens the door to the implementation of additional means of marketing and distribution to ensure the optimal utilization of capacity.

Concurrent with Air Transat, business activity increased for Services Haycot, the airport handling services company. While meeting the needs of Air Transat, it also served other air carriers at airports where it does business.

Transat ensures a balanced presence in the travel-agency sector in Quebec through participation in Consultour / Club Voyages, the travel-agency franchise group. This network now has 206 outlets and this year equipped itself with highly advanced communication tools that place it at the forefront of intranet technology in North America.

The Board of Directors of Transat
Seated, from left to right: Jean-Marc Eustache, Philippe Sureau, and Francine Nadeau.
Standing, from left to right: Roger Giraldeau, Jean-Paul Bellon, Benoît Deschamps, Lina De Cesare, Yves Graton, John D. Thompson, André Bisson, Jean Guertin, and Philippe Lortie.
Absent: André Lemire.

European Operations

The French market henceforth represents an important part of the Corporation's operations, particularly as it involves both travel to Canada and to all the most popular destinations for French travellers. Transat is active in France as a tour operator (Vacances Air Transat (France) and Look Voyages), as a ticket consolidator (Brok'Air), as a travel agent (Euro Charter – Club Voyages), and as an air carrier (STAR Airlines).

The tour operator, Vacances Air Transat (France), continues to implement a strategy to strengthen its position in the market for travel to Canada, and to offer an expanded line of destinations that includes Cuba and the Dominican Republic during winter and the United States during summer. These actions have resulted in a 25% increase in sales. Euro Charter – Club Voyages, Consultour's new subsidiary in the travel-agency market (acquired from Look Voyages), underwent restructuring and finished the year with a profit.

Look Voyages—whose operations I personally oversaw—reached its targeted financial objectives. During the year, Transat increased its interest in this subsidiary to 84.4% following an offer to purchase the shares of minority shareholders. As a result of the restructuring of the company's share capital structure at the beginning of 1998, the Corporation's interest in Look Voyages now stands at 98%. The total investment in Look Voyages has reached $42 million; no additional investment is foreseen for 1998.

In our revitalization plan, we forecasted a downturn in sales volume which reached 20% and a deficit for Look Voyages during this fiscal period. Given this situation, and the context of the tour operator's operations, we consequently chose to target the most promising niche—the "all-inclusive club-type" packages—while maintaining our position as market leader in the chartering and air-only tickets market. In addition, an aggressive business approach has been undertaken towards travel-agency networks in order to obtain their support and develop sustainable and mutually advantageous business relations with them.

We expect that Look Voyages will end the fiscal year with a small loss, thus approaching financial break-even. We should stress that the business environment is in constant evolution, which could be to the advantage of Look Voyages. Some major tour operators have completely wound down operations, and the leading air carrier in the French market will shut down its charter flight operations. These two factors present interesting business opportunities for both Look Voyages and its affiliate, STAR Airlines. Moreover, the latter was very successful in its 1997 operations; its fleet consists of four Airbus A-320s and its customers include a growing number of charterers.

Corporate Affairs

In December 1996, the Corporation split its outstanding stock on a three-for-one basis. This transaction, carried out subsequent to a substantial increase in share price, brought the price of the shares to a level that allows the Corporation to maintain good liquidity on the stock market.

At the beginning of fiscal 1997, the Corporation issued 8,700,000 common shares. The net proceeds of this issue—in the amount of about $84 million—will serve to further the Corporation's development on European markets, while also giving it the means to proceed with an acquisition in either France or the United Kingdom.

On another front, Transat's management information systems department over the last few months evaluated our ability to meet the technological challenges of the new millennium. Our analysis revealed that we will be ready and able to maintain optimal operating conditions.

> "For the first time, the Transat group posted annual revenues that exceeded one billion dollars."

Protecting the environment is also among Transat's concerns, particularly in the air transportation sector. We have therefore implemented an entire series of programs and procedures to optimize fossil-fuel recovery, recycling, and management. Our employees are at the core of this initiative, as they are the ones who have in-depth knowledge on how we operate; it is their proven creativity that ensures our continued improvement in this area.

The people who work for Transat are among its greatest assets. In the sector where we operate, customer satisfaction and quality of service are inseparably linked. Of course, for a holiday to be successful, a certain reliance on infrastructures and means (hotels, airplanes, coaches, etc.) is required for us to live up to our promises and meet passengers' expectations. Thus, what sets us apart and ensures our success is, above all, the attitude and devotion of our employees. The employees of Transat and the group's companies have developed a tradition of service excellence, for which we thank them. The Management of Transat bases its actions on upholding this tradition. Consequently, labour relations remain very good. We furthermore encourage training and promotions so that each individual can experience career development within the organization.

As to reaching out to other individuals in the wider community, I am happy to remind you that each year Transat devotes part of its revenues to the betterment and development of our community, particularly in the areas of culture, post-secondary education, and social affairs. Whenever possible, employees participate actively, thus promoting close ties between the communities we are involved in and our Corporation.

Outlook 1998

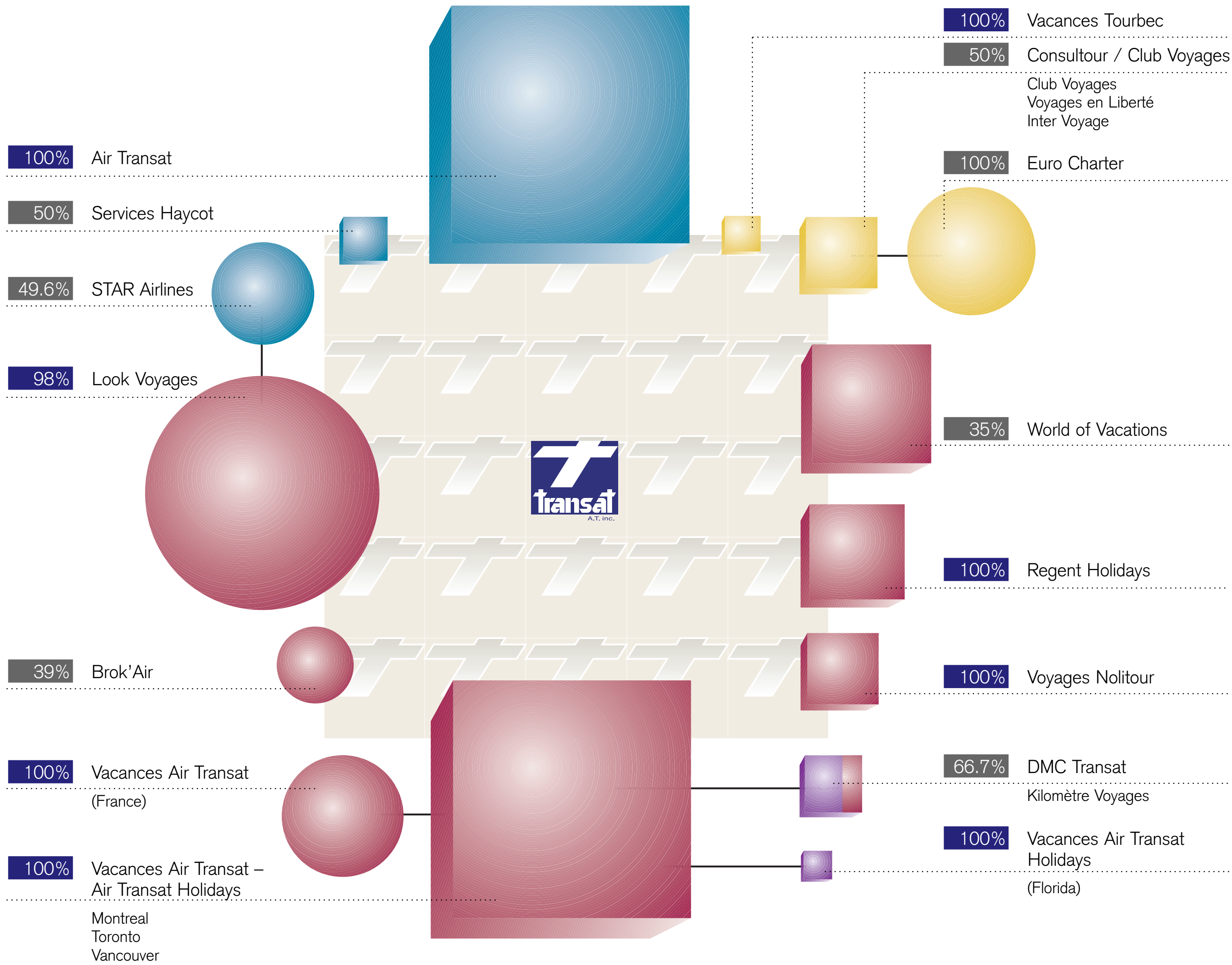
Transat enters 1998 with optimism. In every sector of activity, the Corporation is well positioned; compared to last year, its subsidiaries are expected to perform in a consistent manner. It is expected that the restructuring movement that has taken over the tourism and travel industry will continue at a sustained pace, both for organizations that are active in international markets and for those active in certain local markets. Transat should be in a position to benefit from the various business opportunities arising from this transformation. Armed with a solid financial position and able to rely on quality human resources, the Corporation has the necessary assets, while remaining vigilant with regard to costs, to continue developing its markets, particularly in the international arena, with an eye to increasing its profitability.

Finally, the past year marked the departure of certain members of the Board as well as the arrival of new ones. To those who left, I would like to express our gratitude for the work they have accomplished; to those joining us, welcome. I would like to thank the employees, managers and directors of the Corporation. They have worked energetically and rigorously throughout this tenth year of our existence. At the dawn of its second decade, Transat can contemplate the future with confidence.

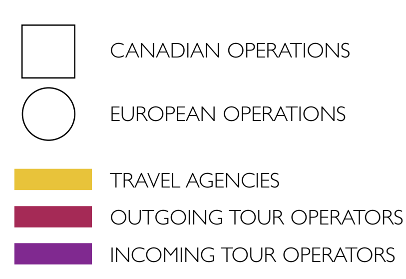
Jean-Marc Eustache

Chairman of the Board
President and Chief Executive Officer
March 16, 1998

SUBSIDIARIES AND AFFILIATED COMPANIES OF TRANSAT
(AS AT MARCH 16, 1998)



Organizational chart outlining sectors of activity, places of operation and percentages of shareholdings owned by the Corporation. Surfaces are illustrated proportionally to revenues.



Transat is an integrated company in the tourism industry. At every level, it is represented by subsidiaries or affiliated companies providing retail sales through travel agencies, creating and distributing packages through tour operators, and providing air transportation.

AFFILIATED COMPANIES

TRANSAT

In the holiday-travel industry, as in several other industries, the effectiveness of the distribution network constitutes a major factor of success. Travel agencies are the very base of this network; they sell products and services to consumers offered by tour operators, from airline tickets to holiday packages, including a wide spectrum of related services such as car rentals, hotel reservations, tours, and other products. In Canada, some 5,000 agencies act as intermediaries between travellers and tour operators. For the most part, these agencies belong to large chains, independent groups, or franchised networks.

With regard to retail sales, the primary mission of Transat is to develop and maintain business relations that promote the distribution of holiday packages and other products created by the group's tour operators. The Corporation does business with almost every travel agency.

Transat's relations with the various stakeholders in the distribution network, together with its interest in two franchisors, form the foundation of its vertical integration in the holiday-travel industry. Transat is the sole owner of the Tourbec travel-agency franchisor, and holds a 50% stake in Consultour / Club Voyages, a travel-agency franchise group. The latter is sole owner of Euro Charter, a French travel-agency chain.

Vacances Tourbec

Tourbec's distribution strategy primarily targets well-informed city dwellers with a taste for something new. The company owns and operates one agency, and has a franchise network of 26 outlets throughout Quebec.

Consultour / Club Voyages

Four banners form the core of the Consultour / Club Voyages group: Club Voyages, Voyages en Liberté, Inter Voyage, and Tourbec. Operating 206 travel agencies (including those of Tourbec) in eastern Canada, it is the foremost network of travel agencies in Quebec, with a 30% market share in the holiday-travel sector. Consultour / Club Voyages also acts as a consolidator, selling airplane tickets for scheduled flights at preferential fares.

Euro Charter

In the French market, Transat relies on Euro Charter for the implementation of its vertical integration strategy. The network consists of 48 travel agencies operated by the Consultour / Club Voyages group, with an outlet in almost every one of France's major cities; its largest network is in the metropolitan Paris area. A major restructuring process was undertaken in fiscal 1997, and significant improvements are already apparent. As part of the integration process with Consultour / Club Voyages, Euro Charter agencies will gradually pass over to the Club Voyages banner by the end of 1999. Euro Charter maintains and develops business relations with most French tour operators while at the same time being a major retailer of Look Voyages and Vacances Air Transat (France) products.

VACANCES TOURBEC	
NETWORK REVENUES (in millions of dollars)	38
COMPANY REVENUES (in millions of dollars)	7
NUMBER OF EMPLOYEES	16
NUMBER OF OUTLETS	[illegible]

CONSULTOUR / CLUB VOYAGES(1)	
NETWORK REVENUES (in millions of dollars)	388
COMPANY REVENUES (in millions of dollars)	82
NUMBER OF EMPLOYEES	70
NUMBER OF OUTLETS	[illegible]

(1) Excluding Tourbec and Euro Charter

EURO CHARTER	
COMPANY REVENUES (in millions of dollars)	140
NUMBER OF EMPLOYEES	175
NUMBER OF OUTLETS	48

Jean-Paul Bellon
President and Chief Executive Officer of Consultour / Club Voyages and President of Euro Charter

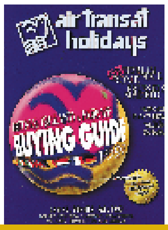
Outgoing tour operators—the next link in the vertical-integration chain—offer vacationers foreign travel destinations. "Holiday makers," they create packages adapted to vacationers' needs. To these packages, which usually include air transportation and accommodation, are added several other services such as meals, car rentals, tours, etc. Tour operators feature their products in brochures to promote them through travel agencies.

The Transat group's tour operators have a presence in almost every part of Canada. They have developed expertise in catering to the particular market segment of their respective geographic regions. Their products are attuned to the tastes of consumers who generally favour all-inclusive packages to sunshine destinations during the winter. From May to October, vacationers prefer European or Canadian destinations and often opt for *à la carte* arrangements.

In Canada, Transat is the sole owner of Vacances Air Transat – Air Transat Holidays (Montreal, Toronto, and Vancouver), Voyages Nolitour (Montreal), and Regent Holidays (Toronto). Transat also holds a 35% interest in World of Vacations of Toronto.

In France, Transat greatly broadened its market base in 1996 by acquiring a 68% stake in Look Voyages; that interest was further increased in May 1997 to 84.4%. The group owns 100% of Vacances Air Transat (France), and holds a 39% interest in Brok'Air.

In the United Kingdom, the Corporation is also well positioned due to a firm, exclusive agreement with The Globespan Group Plc, the largest British tour operator providing travel packages and services to Canada. The agreement, signed in 1993 for a five-year period and renewed in 1997 for another three years, provides for the distribution of Air Transat's services throughout the United Kingdom.



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Vacances Air Transat – Air Transat Holidays

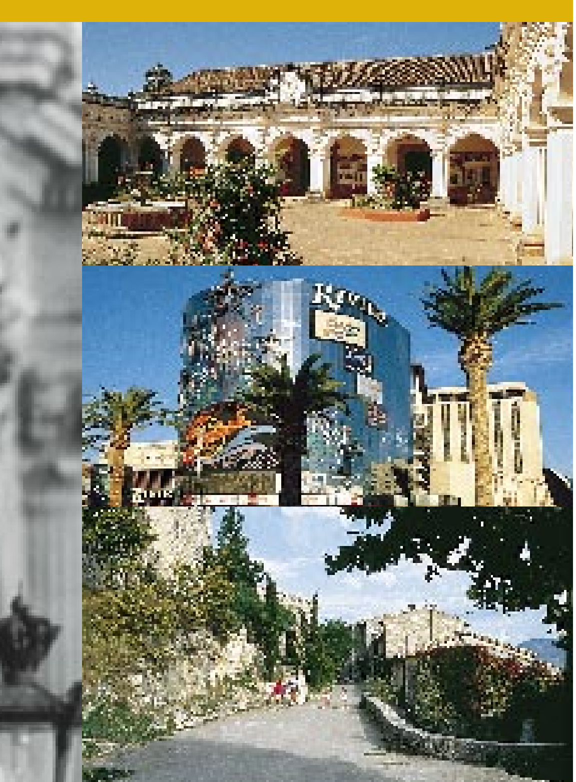
Vacances Air Transat – Air Transat Holidays is the only entirely Canadian-owned tour operator in Canada's major markets, with principal offices in Montreal, Toronto, and Vancouver, and regional offices in Quebec City, Halifax, and Calgary.

In **Quebec**, Vacances Air Transat is Montreal's leading general tour operator in terms of offering a complete range of services for travellers: flights, packages, car rentals, hotel reservations, coach tours, cruises, etc. Vacances Air Transat is active during both the winter season for travel to sunshine destinations and the summer season for travel to Europe.

In **Ontario**, Air Transat Holidays – Toronto is the market leader for summertime travel to European destinations—primarily the U.K.—and has an ever-growing share of the market for travel to sunshine destinations during the winter season. It also recorded sustained growth from the sale of domestic flights operated by Air Transat year-round, and is a leader in the sector of Las Vegas vacation packages. Furthermore, Air Transat Holidays develops markets in the **Atlantic Provinces** for travel from Gander, St. John's and Halifax.

In **British Columbia**, Air Transat Holidays – Vancouver has seen a significant increase in its market share over the past few years. This growth can be attributed to a step-up in demand for both Air Transat's domestic flights and its flights to Europe during the summer season. The increased frequency of flights to Europe was sustained through Air Transat's addition of two long-haul Lockheed L-1011-500s serving the European continent non-stop from Vancouver. Air Transat Holidays also continues to grow successfully since the winter 1995–1996 season (doubling its sales volume annually) and increasing its presence on the sunshine-destination circuit that includes Mexico, Cuba, and the Dominican Republic.

VACANCES AIR TRANSAT – AIR TRANSAT HOLIDAYS	
REVENUES (in million of dollars)	435
NUMBER OF EMPLOYEES	446
TRAVELLERS	632,000



Lina De Cesare
President and Chief Executive Officer of Vacances Air Transat – Air Transat Holidays and President of Vacances Tourbec

Voyages Nolitour

Nolitour holds an important position in the Quebec market. Until recently, this tour operator was primarily offering quality, affordable packages to sunshine destinations during the winter season. During the past year, Nolitour has embarked upon developing new products to balance its revenues from one season to the next. In the spring of 1997, it acquired Auratours, a specialist in travel products to Italy. In addition, during the summer of 1998, Nolitour will market and sell Air Transat flights and vacation packages to Greece from Montreal – Mirabel.

Sam Ghorayeb
President of Voyages Nolitour

	VOYAGES NOLITOUR
REVENUES (in millions of dollars)	65
NUMBER OF EMPLOYEES	65
TRAVELLERS	75,000

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Regent Holidays

Regent Holidays is among the leading tour operators in Ontario. It has developed solid expertise in the cruise sector and is consequently the leader in this market. During the winter, Regent Holidays offers Caribbean cruises and sunshine destinations that represent good value for the money. It offers European destinations during the summer, notably Greece and the Mediterranean region, where it has become the foremost tour operator and offers a variety of cruise programs. Recognizing this expertise, part of Nolitour's summer activities in Greece will be handled through Regent Holidays' agents.

World of Vacations

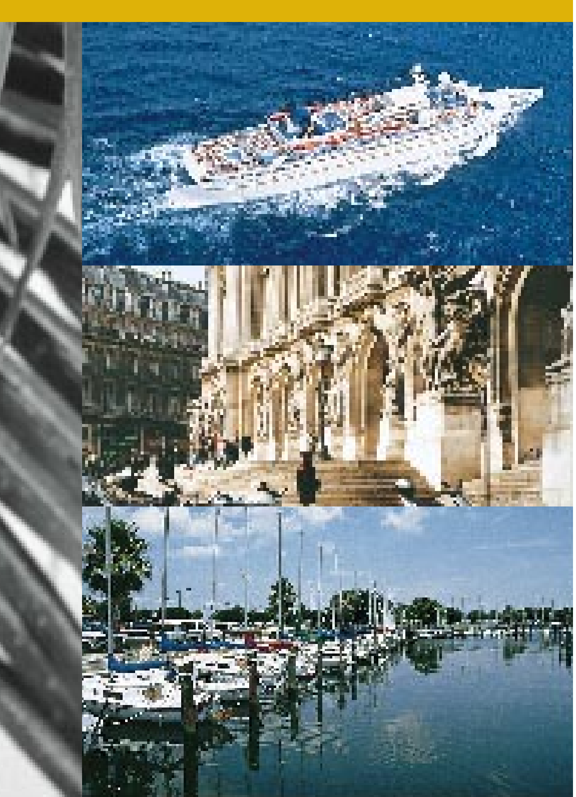
World of Vacations is a major Canadian tour operator that offers travel packages for departures from major Canadian cities outside Quebec, with an emphasis on the Ontario and western Canadian markets. With its sunshine destinations, the winter season is very important for World of Vacations, especially in Florida, where it is a key player. In the summer its chief destinations are Canada, Florida, and Las Vegas.

	REGENT HOLIDAYS
REVENUES (in millions of dollars)	108
NUMBER OF EMPLOYEES	99
TRAVELLERS	121,000

	WORLD OF VACATIONS
REVENUES (in millions of dollars)	210
NUMBER OF EMPLOYEES	300
TRAVELLERS	300,000

Peter Linnett
President of Regent Holidays

Errol Francis
President and Chief Executive Officer of World of Vacations



Vacances Air Transat (France)

Vacances Air Transat (France) has positioned itself in the French market as the largest tour operator for travel to Canada, primarily during the summer season; it accounts for over 15% of all French visitors to Canada. Vacances Air Transat (France) also markets other North American destinations, benefitting from the expertise of the Vacances Air Transat – Air Transat Holidays group to expand its range of products and services. Since winter 1995–1996, Vacances Air Transat (France) has been successfully developing the market for travel to sunshine destinations, in particular the French West Indies, Cuba, the Dominican Republic, and Mexico.

Brok'Air

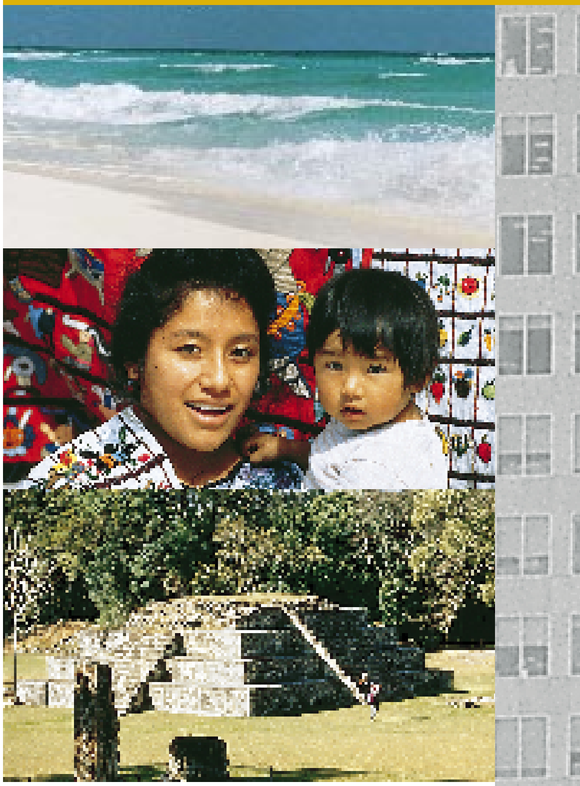
Brok'Air acts as a consolidator for scheduled and charter flights, using state-of-the-art marketing methods. In addition, Brok'Air is active in the tour-group sector, a major segment of the French market. The company also operates a travel agency under the Anyway banner.

VACANCES AIR TRANSAT (FRANCE)	
REVENUES (in millions of dollars)	129
NUMBER OF EMPLOYEES	105
TRAVELLERS	90,000

BROK'AIR	
REVENUES (in millions of dollars)	56
NUMBER OF EMPLOYEES	55

Jean-Marc Batta
General Manager of Vacances Air Transat (France)

Éric Eustache
President and Chief Executive Officer of Brok'Air and affiliates

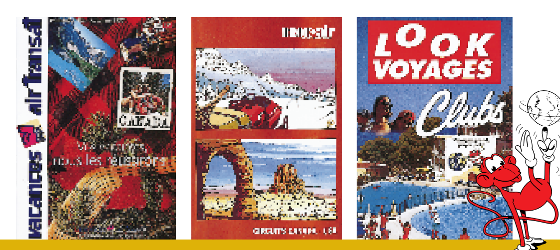


Look Voyages

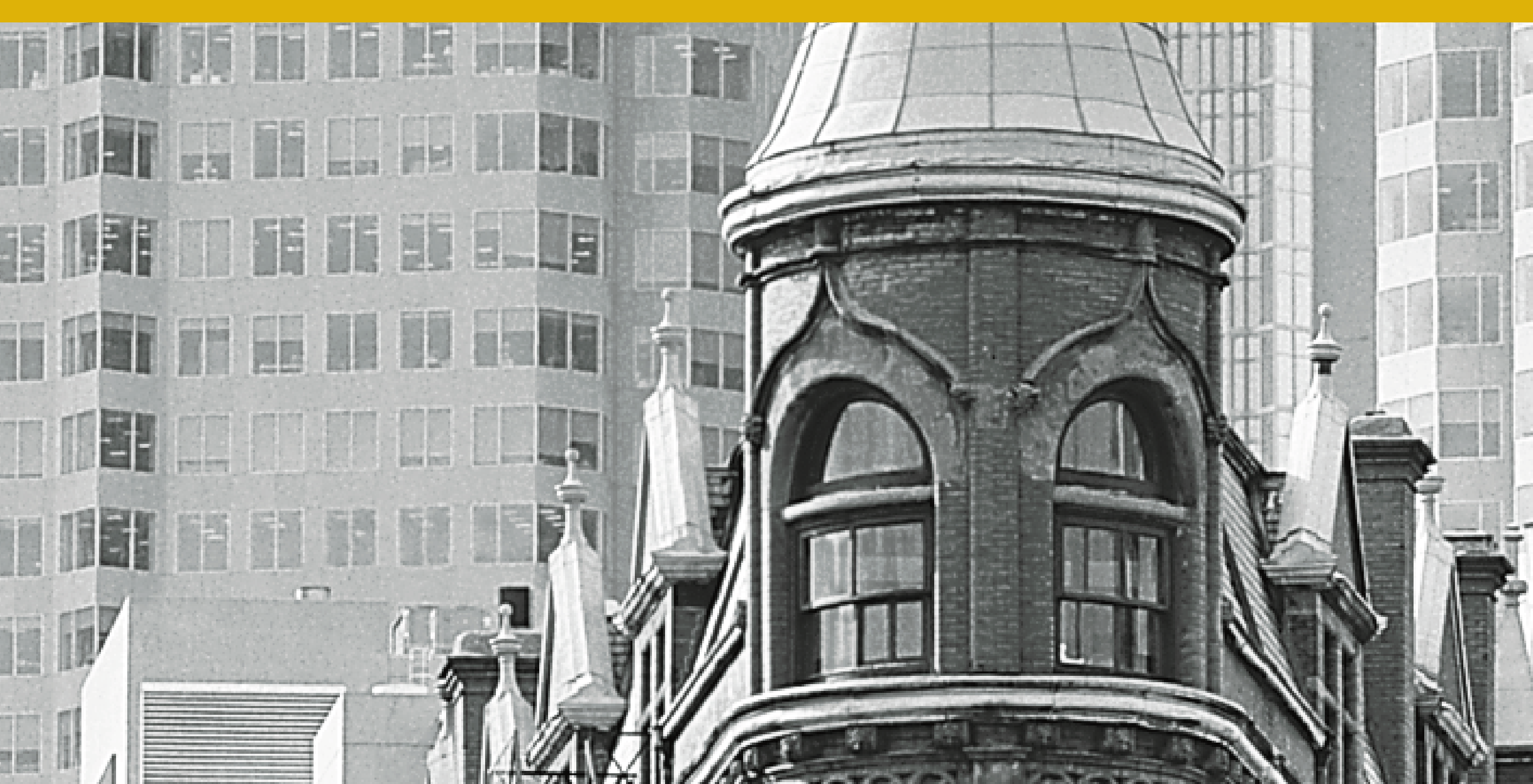
Look Voyages, a major French tour operator, is a recognized leader in the air-only flights market. It also offers exclusive products with added value in the form of holiday packages in Club hotels. Lookéa is the trademark used for these all-inclusive hotels, which include group animation and target a youthful, family-oriented clientele. The products of Look Voyages are sold year-round, but the summer period, spanning April to October in France, is by far its busiest. Its most popular destinations are in the Mediterranean region. The medium-term strategy of Look Voyages is to develop products with added value, targeting increased sales volume for holiday packages, while remaining a leader in the distribution of air-only tickets market.

	LOOK VOYAGES
REVENUES (in millions of dollars)	356
NUMBER OF EMPLOYEES	314
PASSENGERS	1,275,000

Jean-Marc Eustache
President and Chief Executive Officer of Look Voyages



NORTH AMERICA • FRENCH WEST INDIES • CUBA • MEXICO • LA RÉUNION • WESTERN AND EASTERN AFRICA • ASIA...



Incoming tour operators are also holiday makers. They offer products to incoming foreign tourists; they promote their country's tourist attractions for the benefit of foreign visitors. They negotiate rates with local suppliers, put together packages, and sell them to foreign tour operators. Leisure travel, conferences, and incentive trips are among their specialties.

Transat is also active in this industry segment through DMC Transat in Montreal, a subsidiary in which Vacances Air Transat holds a 66 2/3% interest, and through Vacances Air Transat Holidays in Florida.

DMC Transat

DMC Transat is one of the largest incoming tour operators in Canada. It also acts as an outgoing tour operator through its Kilomètre Voyages division, which was acquired in 1996. Its incoming activities include leisure travel (traditional, discovery, and adventure tourism) and business travel (incentive travel, meetings, and conferences) sold in Europe as well as in North America. DMC Transat has offices in Montreal, Toronto, Vancouver, and Paris.

The Kilomètre Voyages division provides packages for travel to Quebec, Ontario, western Canada, western United States, and New York. Its clientele primarily originates in Quebec, but also includes travellers who are passing through.

Vacances Air Transat Holidays (Florida)

The primary role of Vacances Air Transat Holidays in Florida is to offer representation services and tours to Vacances Air Transat customers during their stay. It also sells Air Transat flights to Canada. It maintains offices in Fort Lauderdale and Orlando.

	DMC TRANSAT
REVENUES (in millions of dollars)	34
NUMBER OF EMPLOYEES	30
TRAVELLERS	55,000

	VACANCES AIR TRANSAT HOLIDAYS (FLORIDA)
REVENUES (in millions of dollars)	2
NUMBER OF EMPLOYEES	13

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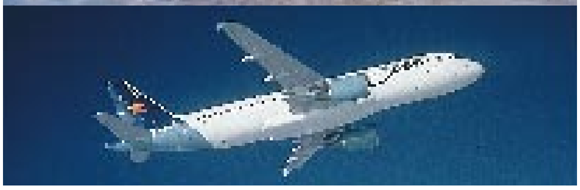
Transat's vertical-integration strategy also encompasses air transportation. Outgoing tour operators putting together vacation packages must be able to ensure that their passengers reach their destinations. In 1987, Transat created its own air carrier in order to secure the seat inventory required by its tour operators to meet the needs of their vacation travellers.

Transat is the sole owner of its subsidiary, Air Transat, a charter air carrier. The Corporation also holds, through another subsidiary, Look Voyages, a 49.6% interest in the carrier STAR Airlines (formerly STAR Europe), as well as a 50% interest in Services Haycot, which provides airport handling services.

In contrast to scheduled airlines, charter carriers sell their seats, in blocks, exclusively to tour operators. Generally speaking, charter air carriers specialize in the holiday-travel market, whereas scheduled services draw a major portion of their income from the so-called business-travel segment. Both types of carriers, however, compete in the "visiting friends and relatives" market.

LOCKHEED L-1011-150 • LOCKHEED L-1011-500 • BOEING 757-200 ER • BOEING 737-400 • AIRBUS A330-200 • AIRBUS A320-200



Air Transat

Air Transat operates charter flights mainly out of Montreal, Toronto, Vancouver, Quebec City, Calgary, and Halifax. Effective November 2, 1997, Air Transat is one of only two Canadian air carriers to operate scheduled flights between Canada and France, namely, between Montreal – Mirabel and Paris – Charles-de-Gaulle. This scheduled route is in addition to the one held by Air Transat between Canada and Cuba.

As at October 31, 1997, the Air Transat fleet consisted of ten 362-seat Lockheed L-1011-150s, five ultramodern 228-seat Boeing 757-200 ERs, and two 309-seat Lockheed L-1011-500s. Air Transat recently took delivery of a third Lockheed L-1011-500 and signed an operating lease for two 170-seat Boeing 737-400s for three winter seasons starting in 1997–1998.

On December 17, 1997, the company announced the leasing of two Airbus A330-200s, with delivery of the first one expected in February 1999, and the second in April of the same year. These long-haul wide-body aircraft are part of a fleet-renewal program that will span a few years.

Air Transat's main points of operation in the winter season are the sunshine destinations (the Caribbean, Mexico, the United States, including Hawaii, and Central and South America), while its summer activities are focussed on European and domestic Canadian destinations.

	AIR TRANSAT
REVENUES (in millions of dollars)	449
NUMBER OF EMPLOYEES	1,322
PASSENGERS CARRIED	2,450,000

Philippe Sureau
President and Chief Executive Officer of Air Transat
and President of DMC Transat

Air Transat's 1997 on-time performance represents the percentage of on-time departures with 15 minutes' tolerance, excluding delays due to force majeure (weather, air traffic control, etc.).

1997	Boeing 757	L-1011
January	99.1%	97.1%
February	98.6	99.0
March	99.8	98.6
April	98.8	97.0
May	98.8	98.6
June	99.4	98.5
July	98.9	98.3
August	98.3	97.6
September	99.4	98.0
October	97.8	99.5
November	99.8	98.6
December	98.6	99.0
Average 1997	98.9	98.3
Average 1996	98.8	97.4
Average 1995	98.9	96.8

STAR Airlines

During fiscal 1997, the air carrier changed its name from STAR Europe to STAR Airlines. A charter carrier based in France, its fleet consists of four 180-seat Airbus A320-200s. It operates flights to the Mediterranean region and to Africa for its principal customer, Look Voyages.

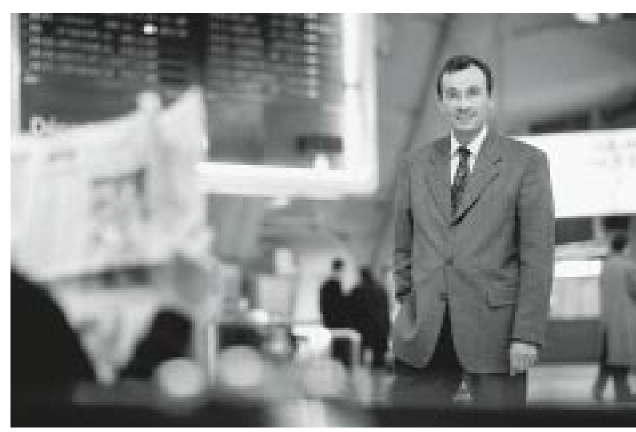
Services Haycot

Services Haycot operates at the Montreal (Mirabel and Dorval) airports and at Lester B. Pearson International Airport in Toronto. It specializes in airport representation, baggage handling, and aircraft cleaning services.

At Montreal – Mirabel, its principal customer is Air Transat. Since September 1997, following the transfer of some scheduled international flights from Montreal – Mirabel, Services Haycot has continued to serve Air France, Royal Air Maroc, and Air St-Pierre at Montreal – Dorval.

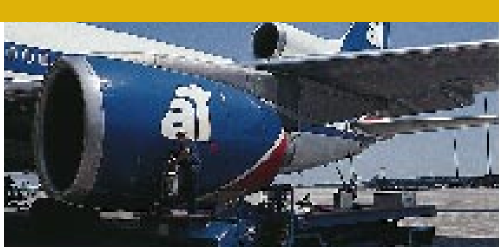
	STAR AIRLINES
REVENUES (in millions of dollars)	91
NUMBER OF EMPLOYEES	166
PASSENGERS	431,000

	SERVICES HAYCOT
REVENUES (in millions of dollars)	13
NUMBER OF EMPLOYEES	490



Cédric Pastour
President and Chief Executive Officer of STAR Airlines

Claude Racicot
President of Services Haycot



Barbados
Bridgetown

Cayman Islands
Grand Cayman

Colombia
Barranquilla
Cartagena
San Andrés

Costa Rica
San José

Cuba
Cayo Largo
Ciego de Ávila
Cienfuegos
Camagüey
Holguín
Havana
Santiago de Cuba
Varadero

Dominican Republic
Puerto Plata
Punta Cana
Santo Domingo

French West Indies
Fort-de-France
Saint Martin

Guatemala
Guatemala City

Jamaica
Montego Bay

Mexico
Acapulco
Cancún
Huatulco
Ixtapa
Manzanillo
Mazatlán
Puerto Vallarta
San José del Cabo

Nicaragua
Managua

Panama
Panama City

Puerto Rico
San Juan

Venezuela
Barcelona
Margarita

Belgium
Brussels

France
Bordeaux
Lyons
Marseilles
Mulhouse
Nantes
Nice
Paris
Toulouse

Germany
Berlin
Frankfurt

Greece
Athens

Ireland
Dublin
Shannon

Italy
Rome

Netherlands
Amsterdam

Portugal
Lisbon
Oporto
Ponta Delgada

Switzerland
Basel
Zurich

United Kingdom
Aberdeen
Belfast
Birmingham
Cardiff
Edinburgh
Exeter
Glasgow
Leeds Bradford
London
Manchester
Newcastle
Prestwick

Canada

ALBERTA
Calgary
Edmonton

BRITISH COLUMBIA
Vancouver

QUEBEC
Montreal
Quebec City

MARITIMES
Gander
Halifax
St. John's

ONTARIO
Toronto

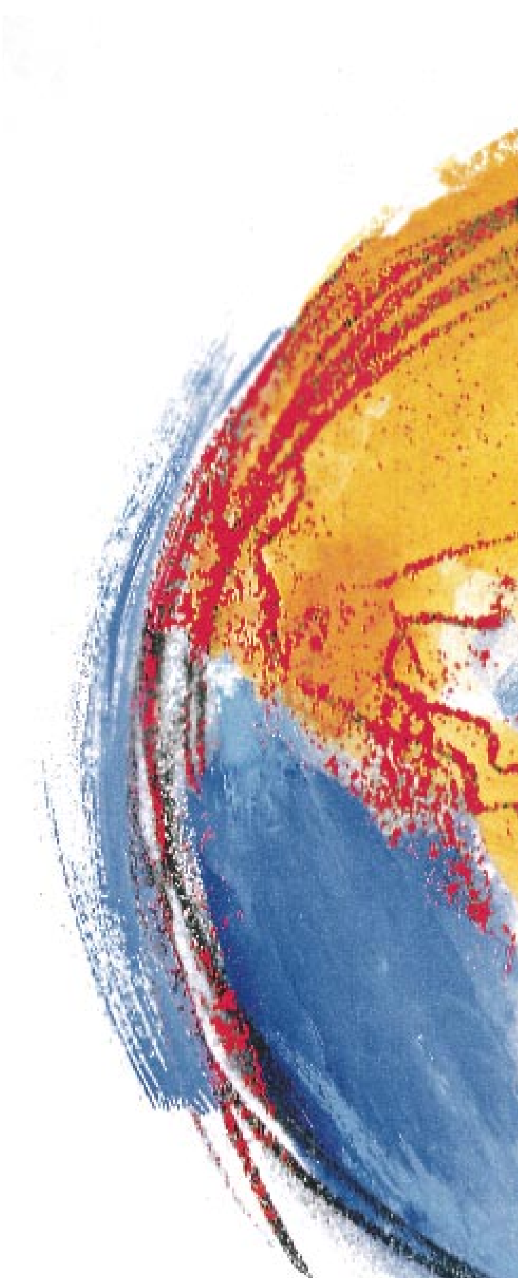
United States

FLORIDA
Fort Lauderdale
Fort Myers
Orlando
Saint Petersburg
Sarasota
West Palm Beach

HAWAII
Honolulu

NEVADA
Las Vegas



Egypt
- Luxor

Kenya
- Mombasa

Morocco
- Agadir
- Marrakech
- Tangier

Senegal
- Dakar

Tunisia
- Djerba
- Monastir
- Tabarka
- Tunis

Austria
- Salzburg

France
- Bastia
- Figari

Iceland
- Reykjavik

Ireland
- Cork

Italy
- Naples
- Palermo
- Rome
- Venice
- Verona

Greece
- Athens
- Corfu
- Iraklion
- Rhodes
- Santorini

Norway
- Oslo

Portugal
- Faro
- Lisbon
- Oporto

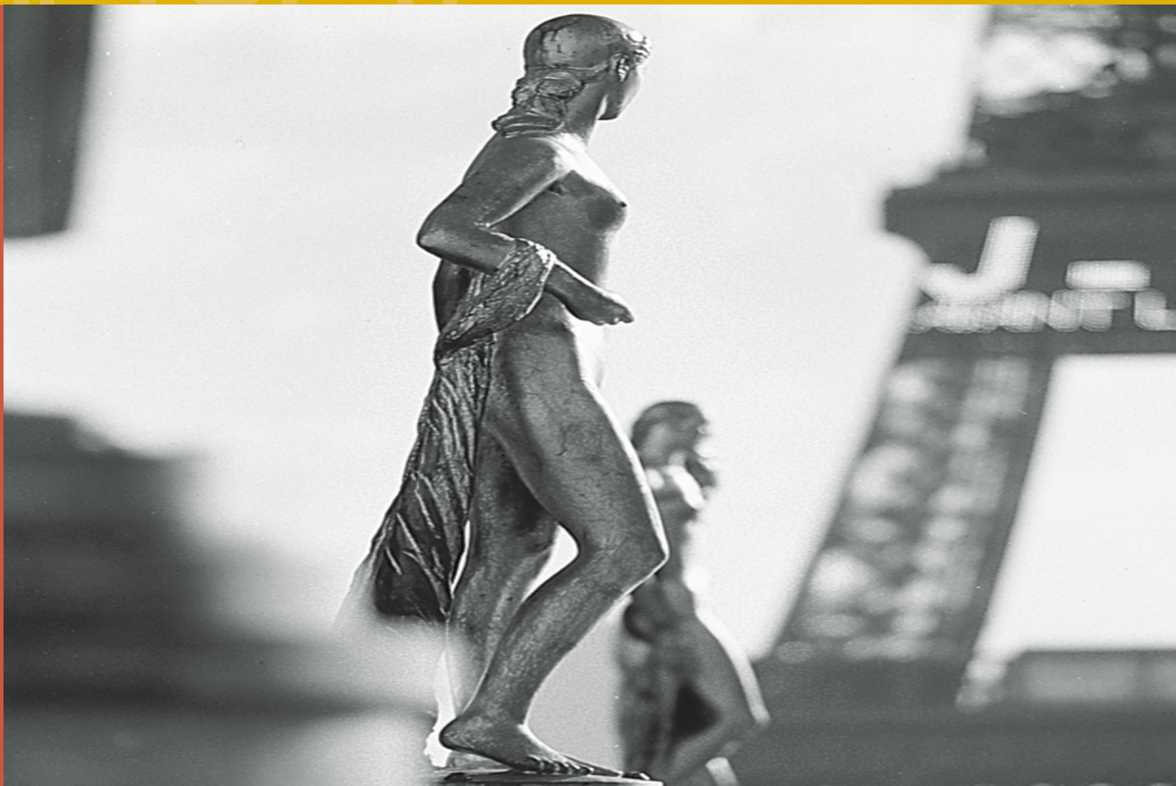
Spain
- Alicante
- Ibiza
- Málaga
- Palma
- Tenerife

Turkey
- Izmir

Transat is practicing a trade that is new: manufacturing holiday travel, which is why we describe our Corporation as a "holiday maker." The merit of the analogy with the manufacturing sector is that it demonstrates the importance of assembling our various product components: air transportation, transfers, hotel accommodations, activities, guided tours, meals, cruises, etc. The master craftsmen in this process are the tour operators; their activities are central to our Corporation.

THE HOLIDAY-TRAVEL INDUSTRY

TRANSAT



The Holiday-Travel Industry

The holiday-travel industry is in its youth. In Canada, while the occupation of travel agent has existed for a century, that of tour operator, someone who markets packages, is barely twenty-five years old. Furthermore, there has been consolidation in the industry, which initially consisted of many small businesses. Large groups now offer a wide range of products and services.

The industry consists of three principal sectors of activity. The first sector, dealing directly with consumers, is the retail or travel-agency network, that ensures distribution. Next come the travel organizers or tour operators, who put together packages by chartering airplanes and reserving blocks of hotel rooms; generally speaking, they are the product manufacturers. Finally, there are the service suppliers, including the charter-flight operators.

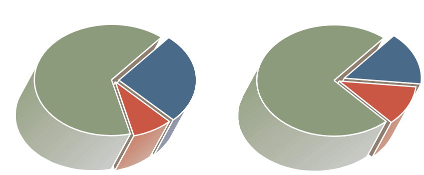
A structure with three levels of intervention—travel agencies, tour operators, and product and service providers—allows for a variety of combinations. Some companies operate on one level at a time, while others either operate on more than one level or are members of a group that enables them to develop their network at each level. Vertical integration implies that a company or group of companies has a presence at each level of the industry.

Characteristics of our Industry

In essence, the travel industry consists of two major product groups: business travel and leisure travel. Transat and its subsidiaries focus on the latter.

Leisure travel has several distinguishing characteristics, particularly:

- **Seasonality**
  Travel habits vary from season to season. There are major differences between peak seasons, school breaks, and shoulder seasons (fall and spring).
- **Preferred destinations**
  The destinations preferred by vacationers vary depending on the season, and of course, the originating markets. During the winter, Canadian travellers make their way to sunshine destinations such as Mexico and the Caribbean. In summertime, they opt for Europe. Europeans head for the ski slopes and to the sun-drenched tropics in the winter, and to the Mediterranean region in the summer.
- **Holiday budget**
  Another extremely important factor in the holiday-travel market is the source of income and the relative impact of this expenditure on consumers' budgets. Leisure travel is discretionary travel, meaning that travellers always have the option of finding other uses for their money. Unlike business travel, leisure travel can be postponed. Moreover, as it is a personal expenditure, the money budgeted for is in after-tax dollars. For the average household, funds set aside for holiday travel represent the single most important discretionary expenditure of the year (except for changing cars, or purchasing a home).
- **Travel arrangements**
  On holidays, people travel as a couple, with their families, or as part of a group. The marketing approach to selling leisure travel must necessarily take this aspect into consideration, especially in establishing the price-product ratio.



1996–1997	1995–1996	
26.5%	15.5%	United States
8.5%	11.6%	Domestic
65.0%	72.9%	International (except U.S.)

GRAPH 1
Geographic distribution of Air Transat's traffic from November 1 to October 31.

Vertical Integration

Vertical integration enables us to build upon synergies that may be developed through the joint efforts of several participants. A framework encompassing travel agencies, tour operators, and airlines is very much the trend on the European market. This formula enables tour operators to secure distribution loyalty from one end, and from the other end to better control their seat inventory to destinations where they have blocked hotel rooms.

On the whole, all large companies that operate in the leisure-travel sector have developed similar strategies. The degree of integration, however, may vary from one company to another. Some are totally integrated, right down to the travel-agency level, while others choose to focus on being tour operators and service providers.

In the final analysis, most companies have an open approach to integration, offering their products and services to all travel-agency networks. (One notable exception is the French company, Nouvelles Frontières, which supplies its own network exclusively.)

Integration offers many advantages, both quantitatively and qualitatively. On the one hand, it enables greater control over product quality; on the other, it ensures a presence in every link in the process which creates or adds value to the product.

Transat's Choice

Transat adopted a vertical-integration strategy ten years ago by creating its own air carrier (its subsidiary, Air Transat), thereby forging the link between tour operator and charter-flight operator. In 1988, by acquiring an interest in Consultour / Club Voyages, Transat gave new meaning to the principle of vertical integration: the group secured the loyalty of a major Quebec travel-agency network while maintaining good relations with the other major players in distribution, given that Consultour remained independent. This experience was repeated in France, within the framework of restructuring the distribution network of Look Voyages.

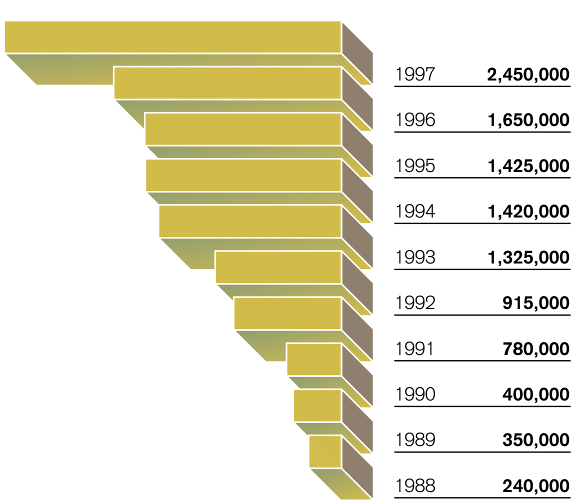
Transat targets a broad clientele and has consequently developed an industrial vision of travel in that this perspective is synonymous with high volume and tight product-quality control. In this context, vertical integration is an effective organizational approach, especially in defining the products offered.

Transat thus chooses to offer products of consistent quality, that meet the needs of a discriminating clientele, at affordable prices. Our objective of targeting the mass consumption of our products is dependent on their accessibility. Vertical integration plays an important role in this respect as it enables us to implement the mechanisms that make our products more accessible—especially in terms of price—while maintaining stringent quality control.

Distribution

Travel agencies provide access to the holiday-consumer market. Transat therefore maintains close ties with the major distribution networks. Today, while these networks have access to new electronic distribution techniques, travel agencies are maintaining their market share, in particular by taking advantage of the opportunities that such technological advances provide. While Transat intends to follow this trend and adapt to upcoming changes, its approach will favor its traditional partners.

GRAPH 2
Growth in the number of passengers carried by Air Transat, all destinations.



Markets Where we Have a Presence

Transat has greatly contributed to the rationalization and consolidation of the travel industry in Canada. Over the past few years, opportunities for consolidation in Canada have grown scarcer. While the Corporation intends to increase its presence in western Canada, it is international markets that offer the greatest potential. Transat's two major competitors in Canada are British companies who are themselves building on international-development strategies. This globalization of competition has acted as a catalyst for Transat; its investments in Europe are one result of these pressures.

Canada

In Canada, there are three groups on the national scene: Transat, Signature, and Sunquest. Signature is a subsidiary of First Choice, a British company that is the third-largest tour operator in the U.K. Signature coordinates its activities with those of Canada 3000, an airline that also operates some of its aircraft in cooperation with Air 2000, a subsidiary of First Choice. Together, Signature and Canada 3000 dominate the domestic charter-flights market in Canada, as well as the marketing of tour packages in western Canada. They are also among the three market leaders in Ontario. In Quebec, they occupy a position of less importance.

Through a North American subsidiary, Sunquest is owned by Airtours, the second leading tour operator in the U.K. (after Thompson, which is no longer present in Canada). Sunquest's airline partner is Skyservice, from which it charters almost all available capacity. Sunquest attempted to match the performance of Signature and Transat by stepping up its development in western Canada, and by making an acquisition in Ontario (Alba Tours in 1996). However, it is absent from the Quebec market.

Several other tour operators play significant roles in Canada, but are limited to specific products in local markets. One exception is Sunflight, a new company affiliated with the Spanish G.V.I. group, which is trying to penetrate several markets at once without being in a position to rely on an airline partner.

One other charter carrier plays an important role in the Canadian market. Royal Aviation fulfils Signature's remaining charter needs and also markets its seats through its own tour operator. It is, nevertheless, highly specialized in the air-only charter market, and has little presence in the package tour market. During the year, Royal Aviation acquired the assets of Canair, an airline that specializes in freight flights, and demonstrated an interest in becoming involved in the management of hotels in certain southern destinations.

It should be noted that foreign companies cannot own more than 25% of a Canadian airline's voting stock, which complicates matters for integrated non-Canadian companies.

In Canada, these foreign tour operators have access to a market which complements their European activities. The winter season is off peak in Europe, while it is a peak season in Canada. A presence in both markets offers synergies, both in terms of revenues, as well as for coordinating purchases and maximizing fleet utilization.

With regard to travel agencies, the trend towards consolidation has also led to the emergence of major players. Despite this, the market remains very fragmented; many regional chains and large independent networks continue to play a significant role.

In Quebec, Consultour / Club Voyages maintains its position as market leader in the leisure-travel market with 30% of sales and over 200 sales outlets. Through its tour operator subsidiaries, Transat is a regular, indeed, a privileged supplier of all the major national Canadian networks such as the CAA, Sears, Carlson WagonLit, American Express, Intra, Giants, and Thomas Cook.

France

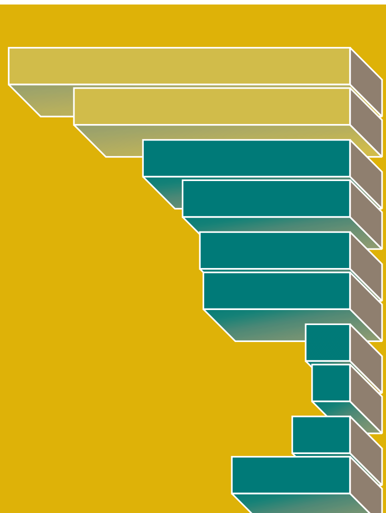
Transat's global strategy enabled the Corporation to significantly increase its presence in the French market. First, its subsidiary, Vacances Air Transat (France), began as a specialist for travel to Canada ten years ago. While maintaining its position as a leader in this market, Vacances Air Transat (France), proceeded to develop a line of complementary products. In particular, the company balances its activities on an annual basis with major programming to the French West Indies, Cuba, the Dominican Republic, and Mexico during the winter (the peak season to Canada being the summer).

The activities of Look Voyages represent true diversification for Transat. Look Voyages is a general tour operator for whom Canada is not a major destination.

The French market is in the midst of major restructuring. Nouvelles Frontières, the leading French tour operator, essentially operates in a vacuum, on the fringes of the rest of the industry as its vertical integration excludes the other players in the market. Jet Tours, Air France's tour operator subsidiary, which operated with major losses for several years, has just been sold, and is henceforth on its own. A second subsidiary of Air France, the carrier Air Charter International, announced the winding down of its activities for the end of 1998. Some tour operators have also closed their doors in recent months, unable to adapt to new market conditions. After several years of losses, Club Med, the vacation village operator, made public a revitalization plan that includes, in particular, the withdrawal of certain products from the market. These circumstances as a whole should benefit tour operators which offer substitute products, like Look Voyages and the market leader, tour operator FRAM based in Toulouse; the carrier STAR Airlines should also benefit.

GRAPH 3
International charter flights (outside of the United States), Canadian carriers from July 1 to June 30.

Source:
Statistics Canada



		Passengers	Market share
Air Transat	1996–1997	**1,385,000**	**42.5%**
	1995–1996	1,120,000	37.0%
Canada 3000	1996–1997	**840,000**	**26.0%**
	1995–1996	680,000	22.5%
Royal	1996–1997	**610,000**	**19.0%**
	1995–1996	595,000	20.0%
Skyservice	1996–1997	**180,000**	**5.5%**
	1995–1996	155,000	5.0%
Others	1996–1997	**235,000**	**7.0%**
	1995–1996	480,000	15.5%
TOTAL	1996–1997	**3,250,000**	**100.0%**
	1995–1996	3,030,000	100.0%

Transat in its Markets

During the year, the group's tour operators have demonstrated solid growth in Canadian markets. In the Atlantic Provinces, Air Transat Holidays sold three times more seats than the previous year. In Quebec, Nolitour increased its size by over a third with the acquisition of Auratours, thereby adding Italy to its destinations. In Ontario, Air Transat Holidays now ranks among the top three tour operators.

By combining the revenues of Regent Holidays and World of Vacations with those of Air Transat Holidays, Transat ranks first in Ontario. The synergy with respect to transatlantic flights provided by Transat's British partner, The Globespan Group Plc, allows the Corporation to maintain its rank as the leader in this market. In Alberta and British Columbia, Transat has edged closer to Signature, the regional leader.

Based on an analysis of the market statistics of charter flights in Canada, we can draw the following conclusions regarding Transat's position:

- **In 1997, Air Transat carried 2,450,000 passengers, broken down into three major geographic sectors: domestic flights (8.5%), transborder flights to the United States (26.5%), and international flights (65%).** (GRAPHS 1 & 2)
- **Air Transat dominates the leisure-travel sector at Montreal – Mirabel and Quebec City airports; in Toronto, it almost matches Canada 3000.**
- **Air Transat is the leading operator of charter flights to France, the U.K., Germany, Belgium, Greece, Italy, Portugal, and Switzerland, as well as to Cuba, Colombia, Costa Rica, Mexico, Nicaragua, Panama, the Dominican Republic, and Venezuela.**
- **In Canada, Air Transat ranks first among carriers offering international charter-flight services (excluding the United States) with 42.5% of the market.** (GRAPH 3)
- **Air Transat operates 52% of the charter flights to all transatlantic destinations combined, and is also the leading carrier to all combined sunshine destinations with 36.5% of the total market.**

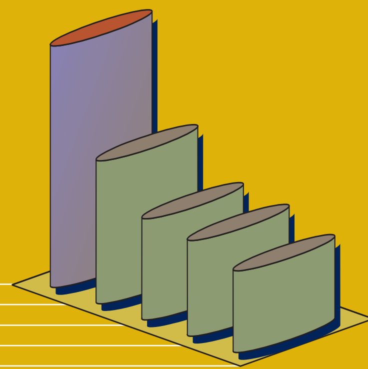
In conclusion, during the 1997 fiscal year, Transat was able to demonstrate the effectiveness of its strategy in both Canadian and European markets; this strategy was established in keeping with the Corporation's mission regarding the leisure-travel sector. Today, Transat has the critical mass required to evolve and adapt to new market conditions, both with regard to the making of products and to their distribution.

Philippe Sureau

Executive Vice-President of Transat
President and Chief Executive Officer of Air Transat
President of DMC Transat

"Vertical integration is an effective organizational approach."

1997	**1,316,740**
1996	**779,157**
1995	**551,766**
1994	**522,177**
1993	**445,700**



Revenues for the years ended October 31
(in thousands of dollars)

MANAGEMENT'S DISCUSSION OF OPERATING RESULTS

TRANSAT

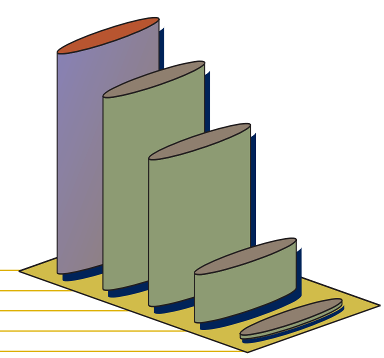
Management's Discussion of Operating Results

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 Voyages (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 (35% interest acquired in August 1996). Revenues for these subsidiaries were recorded for the whole fiscal year in 1997, taking into account the increased ownership interest, whereas in 1996 their contribution was only included for part of the year, according to the date each one had been acquired. The other subsidiaries experienced growth of $195.3 million, or 29% compared with last year's results.

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. The Corporation invested the proceeds in short-term instruments and plans to use these funds as part of its strategy for developing its international business.

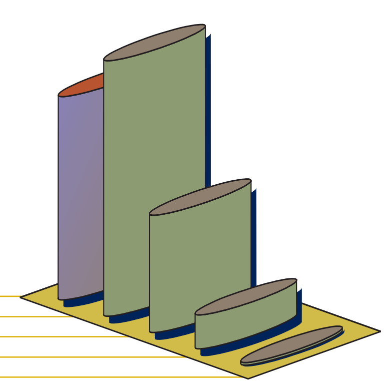
In 1997, the Corporation's results improved due mainly to its stronger market position that led to significant growth in volume particularly in Toronto, Vancouver, and France. As prices firmed up, this situation gave rise to an increase in gross margin contribution. However, the increase was partly offset 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 Voyages.

1997	**25,364**
1996	**22,202**
1995	**16,910**
1994	**5,568**
1993	**465**



Net income
for the years ended
October 31
(in thousands of dollars)

1997	**0.78**
1996	**0.98**
1995	**0.45**
1994	**0.13**
1993	**0.01**



Earnings per share
for the years ended
October 31
(in dollars)

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 travelling to Europe as well as Europeans travelling 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 Voyages contributed $142.1 million to Transat's consolidated revenues, while World of Vacations and Brok'Air added $62.9 million (Transat's portion only). The other subsidiaries' revenues rose by approximately $120.8 million, or 40%.

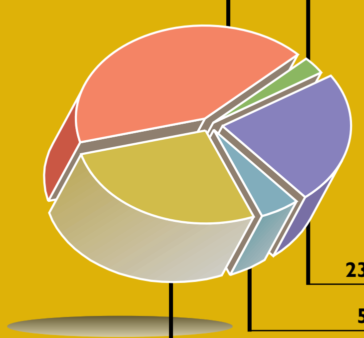
The remarkable performance from the other subsidiaries is essentially due to higher sales volume in their major markets and to a firming up of prices. Consequently, Air Transat Holidays' revenues increased by 31% in the first half of 1997 compared with the same period last year. Its most striking increases 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 Holidays (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, 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 per season
(in thousands of dollars)

	Winter season	Summer season	Total
1997	**627,982**	**688,758**	**1,316,740**
1996	302,174	476,983	779,157
Change			
in $	325,808	211,775	537,583
in %	+ 107.8	+ 44.4	+ 69.0

Sources of revenues for fiscal 1997



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 is related to the share of revenues from World of Vacations and Brok'Air, which were acquired in the summer of 1996, and nearly $115 million to the Corporation's interest in Look Voyages. It should be noted that this latter increase is not the result of increased business at Look Voyages 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 Voyages's results consolidated proportionately (33.7% share) as part of Transat's results up to October 15, 1996, have now 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 Vacances Air Transat (France), 10% at Regent Holidays, 116% at Nolitour (with the acquisition of Auratours) and 8% at the incoming tour operator, DMC Transat. 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. The Corporation continued its efforts to control costs, but higher sales activities in 1997 compared with 1996 caused expenses to rise.

World fuel prices, 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. Air Transat was responsible for most of this increase as a result of 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.

As mentioned earlier, 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.

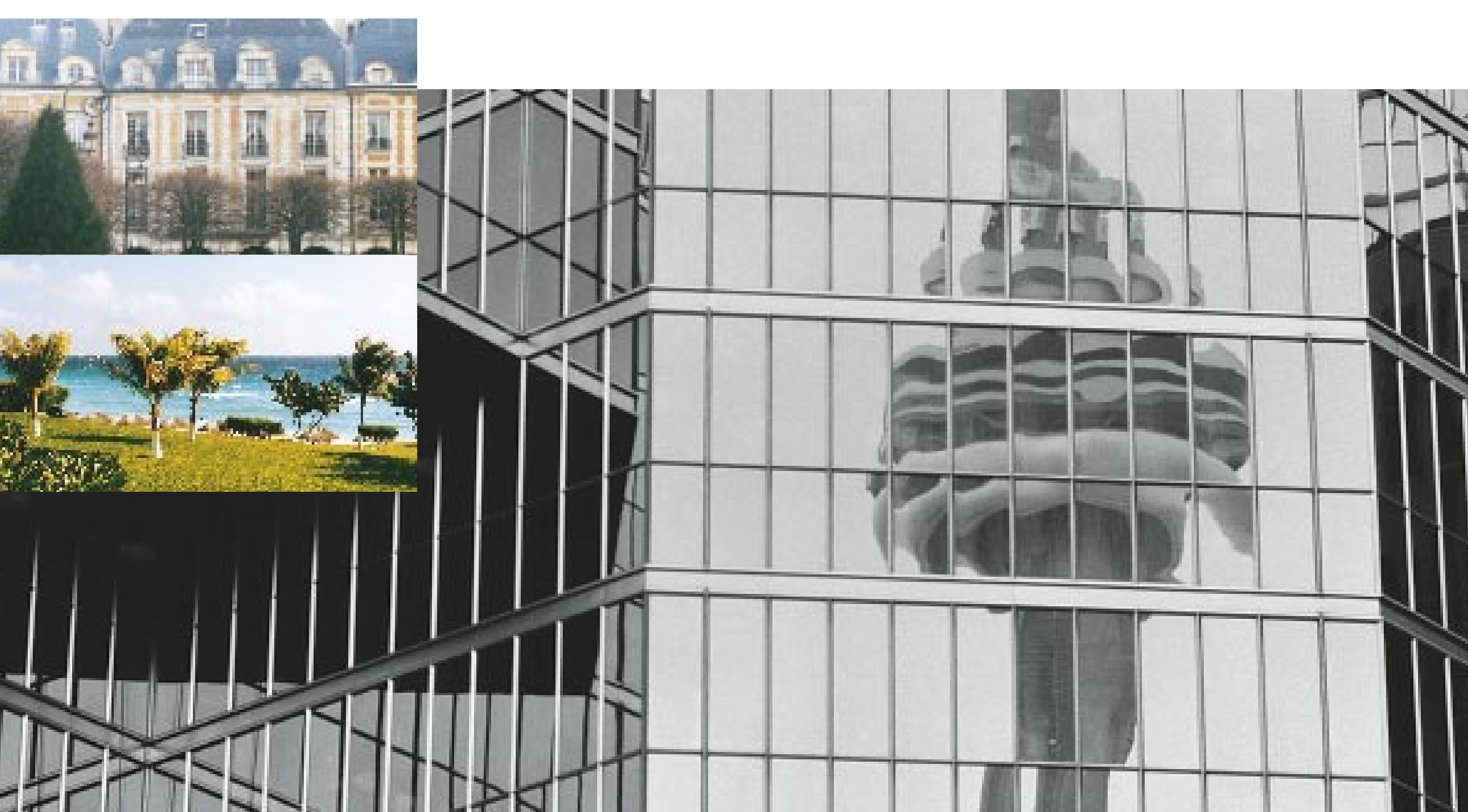
Despite items that caused a decrease in profitability, higher sales volume and the firming up of prices improved the gross margin and operating income.

The inclusion of Look Voyages's results and the Corporation's share of World of Vacations had a negative impact on income in 1997. Look Voyages (excluding companies subject to significant influence) reported a loss before income taxes of $9.8 million in 1997. Since its acquisition in 1996, numerous measures have been taken to improve its profitability. Although still trying to streamline costs, Management is focusing mainly on regaining the confidence of the travel-agency networks and improving the range of products offered, two essential factors for expanding Look Voyages's sales and profitability. Considerable effort is being devoted to developing vacation packages, products which are of greater added-value and less vulnerable than air-only services to fare competition. Although there has been some improvement and Look Voyages reported income before income taxes of $3.8 million for the summer season, Look Voyages anticipates a loss for 1998, albeit coming closer to break-even point.

World of Vacations also posted a loss for the year ended October 31, 1997. Transat's share amounts to $2 million before income taxes. Management intends to assist World of Vacations in its recovery.

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, especially by Air Transat 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 Voyages with those of the Corporation resulted in an increase in interest expenses, since Look Voyages 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 Voyages'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, Services Haycot and Consultour / Club Voyages, both of which enjoyed excellent financial performance in 1997. The French air carrier, STAR Airlines, in which Look Voyages holds a 49.6% equity interest, also increased its contribution to Transat's results for 1997.

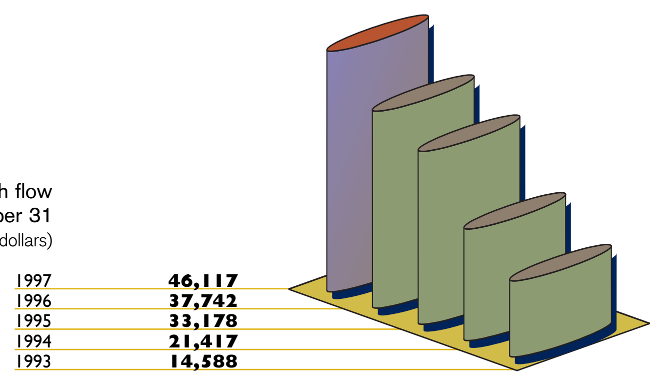
Financial Position

The Corporation'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 excellent operating cash flow which the Corporation has continued to generate, year after year. In fact, during 1997, **the Corporation's operating cash flow amounted 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 fully diluted basis), in 1996.

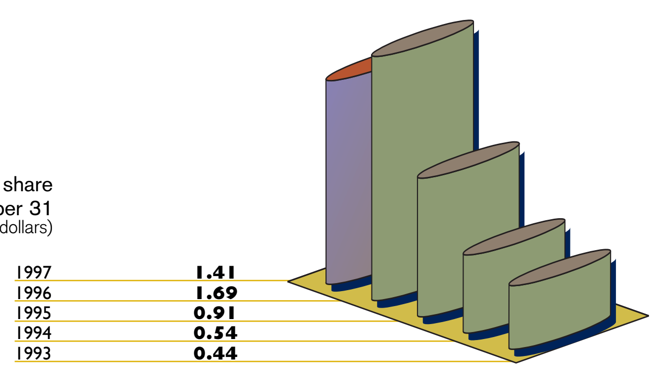
Moreover, cash amounting to $13.8 million was invested in working capital, including $5.6 million to increase deposits with various suppliers and $8.7 million to reduce the accounts payable and accrued liabilities, while customer deposits provided net cash of approximately $5 million during the year. 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.

The Corporation used $64.5 million for investing activities during the year ended October 31, 1997, an increase of almost 50% over the previous year. Some $46.4 million was used for capital expenditures and $9.1 million for the purchase of rotable 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.

Operating cash flow
for the years ended October 31
(in thousands of dollars)



Operating cash flow per share
for the years ended October 31
(in dollars)



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 a future acquisition. 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 Voyages'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).

Outlook

Ongoing matters

The Corporation anticipates that 1998 will be a pivotal year in its development. With respect to its Canadian operations, it plans to strengthen its leadership position in the vacation packages market. Transat will therefore pursue its growth strategy, particularly in the Toronto and Vancouver markets, while focusing more on improving the profitability of its operations in all the markets it serves. Tour operators will continue to offer better quality products (with greater added value) at competitive prices, while creating synergies with regard to supplies for the entire group.

With respect to Air Transat, the challenge will be to maintain a low cost structure while offering a quality product that is constantly improving. In light of the major additions made by Air Transat to its fleet of aircraft during the past two years, the acquisition of a third Lockheed L-1011-500 in December 1997 and the leasing of two Boeing 737-400s for three winter seasons, the group has the equipment it needs to meet demand and better serve its markets, particularly in western Canada in order to increase its presence on this market. Air Transat does not expect to make any major additions to its fleet in 1998. However, to meet future requirements, Air Transat has undertaken to renew its fleet with the addition of two custom-designed Airbus A330-200s scheduled for delivery in February and April 1999.

The foreign currency environment is expected to be risky. Indeed, the drop in value of the Canadian dollar against the U.S. dollar in early 1998 could, if maintained, have a negative impact on the 1998 results, since major expenses such as fuel, aircraft leases and the rental of hotel rooms abroad are paid in U.S. dollars. Due to the magnitude of the drop in value of the currency, the group's tour operators (as well as their competitors) imposed a surcharge effective January 1998 to cover these additional expenses, thereby reducing the impact on the financial results.

With respect to Look Voyages, the Corporation proceeded with a takeover bid, increasing its interest from 68% to 84.4% in 1997. As part of the capital restructuring proposed after the end of 1997 which included, in particular, the issue of common shares by Look Voyages, the Corporation increased its interest to approximately 98% in compensation for almost all the approximately $27-million advances outstanding.

In 1998, Look Voyages will continue with the restructuring of its operating activities. Its 1997 summer season results are encouraging. In 1998, Management plans to consolidate the situation and improve profitability, focusing primarily on improving its range of products and its positioning with travel-agency networks. The emphasis will be on the development of packages, products with greater added value. Management expects that Look Voyages's results will improve substantially but anticipates a loss for the subsidiary at the end of 1998, although it is expected to come closer to the break-even point.

"The Corporation anticipates that 1998 will be a pivotal year in its development."

The year 2000

Management is constantly preoccupied by the Corporation's stability and its ability to continue its operations. Our information systems represent an essential component for supporting the development and delivery of our vacation products. The inadequacies of some of our information system components will be corrected to ensure that they are able to function at the turn of the century.

In the fall of 1997, Management implemented a company-wide multifaceted approach to ensure that the information systems and related equipment continue to operate the day after December 31, 1999, as well as serve the Corporation's commercial operations with a high level of effectiveness and reliability. A specialized firm has been retained to provide us with a proven methodology for the planning, conversion, testing, and rollout of systems and equipment.

The planning and development stages of the project's operating structure were realized in 1997. Agreements are being negotiated with the parties involved, in particular the software vendors, to ensure that they act in partnership with the Corporation. The analysis and definition stages of the conversion strategy are in progress. If necessary, the Corporation will have to draw on casual personnel to carry out the project according to the schedule and budget. Management does not anticipate any problems related to the availability of adequate resources and is confident in its ability to complete the project by the spring of 1999. Conservative estimates of project costs to date are approximately $3.5 million. Costs will mainly be charged to operating results as they are incurred.

Future developments

Finally, the Corporation will continue to focus on international development in the vacation packages market, while strengthening its current overall position. Close on the heels of the business combinations and acquisitions that took place in 1996, the consolidation of the travel industry at the international level continued in 1997. Management expects significant activities in business combinations and acquisitions at the international level for the next 12 to 18 months, and plans to take full advantage of these favourable conditions as part of its international development strategy.

With sales of over $1.3 billion ($800 million in Canada), the Corporation holds a leadership position in its major market. The Corporation enjoys a healthy financial position and, by continuing to focus on cost control, will be able **to achieve the group's primary objective of improving profitability.**

Lorraine Maheu

Lorraine Maheu

Vice-President, Finance and Administration
and Chief Financial Officer of Transat

The consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors. Management's responsibility in this respect includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with generally accepted accounting principles which are adequate in the circumstances. The financial information presented throughout this annual report is consistent with that appearing in the financial statements.

The Corporation and its affiliated companies have set up accounting and internal control systems designed to provide reasonable assurance that the Corporation's assets are safeguarded against loss or unauthorized use, and that its books of account may be relied upon for the preparation of financial statements.

The Board of Directors is responsible for the consolidated financial statements through its Audit Committee. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors of the accounting methods and policies used as well as of the internal control systems set up by the Corporation. These financial statements have been audited by Caron Bélanger Ernst & Young, the external auditors. Their report on the consolidated financial statements appears opposite.

Jean-Marc Eustache
Chairman of the Board and
President and Chief Executive Officer

Lorraine Maheu
Vice-President, Finance and Administration
and Chief Financial Officer

To the Shareholders of Transat A.T. Inc.

We have audited the consolidated balance sheets of Transat A.T. Inc. as at October 31, 1997 and 1996 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Caron Bélanger Ernst & Young
(signed)

Chartered Accountants
Montreal, Canada,
January 23, 1998.

CONSOLIDATED BALANCE SHEETS

As at October 31
[in thousands of dollars]

	1997 $	1996 $
ASSETS *[note 8]*		
Current assets		
Cash and cash equivalents *[note 3]*	**141,333**	46,897
Accounts receivable *[note 16]*	**39,225**	37,216
Inventories	**5,726**	3,944
Deposits with suppliers	**19,787**	14,190
Prepaid expenses	**20,801**	20,264
Total current assets	**226,872**	122,511
Deposits *[note 4]*	**26,102**	19,904
Tax benefits	**18,966**	16,893
Inventory of rotable aircraft spare parts	**12,064**	5,039
Investments in companies subject to significant influence	**14,057**	5,789
Capital assets *[note 5]*	**118,019**	90,671
Goodwill	**38,639**	39,667
Other assets *[note 6]*	**12,757**	8,453
	467,476	308,927
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans *[note 7]*	**10,318**	29,878
Accounts payable and accrued liabilities *[note 16]*	**102,571**	111,288
Customer deposits and deferred income	**56,031**	51,058
Income taxes payable	**5,908**	5,635
Current portion of long-term debt and obligations under capital leases *[notes 8 and 9]*	**18,765**	8,169
Total current liabilities	**193,593**	206,028
Long-term debt *[note 8]*	**47,170**	7,501
Obligations under capital leases *[note 9]*	**50,965**	28,863
Debenture *[note 10]*	**10,000**	10,000
Other long-term liabilities	**1,328**	3,540
	303,056	255,932
Shareholders' equity		
Share capital *[note 11]*	**114,995**	26,423
Retained earnings	**49,425**	26,572
	164,420	52,995
	467,476	308,927

On behalf of the Board:
Director, Jean-Marc Eustache
Director, André Bisson

Contingencies *[note 19]*
See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

Years ended October 31
[in thousands of dollars, except per share amounts]

	1997 $	1996 $
Revenues *[note 16]*	**1,316,740**	779,157
Expenses and other income		
Operating *[note 16]*	**1,244,283**	718,978
Amortization *[note 13]*	**25,515**	17,353
Interest on debenture, long-term debt and obligations under capital leases	**8,172**	6,556
Other interest and financial expenses	**4,443**	3,455
Interest income	**(6,652)**	(3,452)
	1,275,761	742,890
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest	**40,979**	36,267
Share of net income of companies subject to significant influence	**2,380**	1,233
Income taxes (recovered) *[note 15]*		
Current	**18,518**	14,030
Deferred	**(534)**	1,637
	17,984	15,667
Share of non-controlling interest in subsidiaries' results	**(11)**	369
Net income for the year	**25,364**	22,202
Earnings per share	**0.78**	0.98
Diluted earnings per share	**0.74**	0.86

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended October 31
[in thousands of dollars]

	1997 $	1996 $
Retained earnings, beginning of year	**26,572**	4,572
Net income for the year	**25,364**	22,202
Common share issue costs, net of related income taxes of $1,540	**(2,511)**	—
Dividends on first preferred shares, series 1	**—**	(202)
Retained earnings, end of year	**49,425**	26,572

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended October 31
[in thousands of dollars]

	1997 $	1996 $
OPERATING ACTIVITIES		
Net income for the year	**25,364**	22,202
Add items not involving an outlay (receipt) of funds		
Amortization *[note 13]*	**25,515**	17,353
Non-controlling interest	**11**	(369)
Deferred income taxes	**(534)**	1,637
Share of net income of companies subject to significant influence	**(2,380)**	(1,233)
Decrease in long-term deferred income	**(1,859)**	(1,848)
Operating cash flow	**46,117**	37,742
Net change in non-cash working capital balances related to operations	**(13,807)**	1,084
Deposits for engine and airframe overhauls	**(7,707)**	(11,426)
Cash provided by operating activities	**24,603**	27,400
INVESTING ACTIVITIES		
Deposits	**1,266**	(2,281)
Cash from acquired companies	**80**	4,287
Additions to capital assets	**(46,352)**	(23,286)
Purchase of rotable aircraft spare parts	**(9,133)**	(2,514)
Loan to a company subject to significant influence	**(6,410)**	—
Other assets	**(2,351)**	(4,368)
Consideration paid for companies acquired	**(1,159)**	(16,236)
Other	**(384)**	276
Cash used in investing activities	**(64,443)**	(44,122)
FINANCING ACTIVITIES		
Issue of common shares	**88,907**	5,071
Increase in long-term debt and obligations under capital leases	**85,559**	9,184
Increase in bank loans	**20,500**	22,378
Decrease in bank loans	**(40,060)**	—
Repayment of long-term debt and obligations under capital leases	**(16,244)**	(11,932)
Common share issue expenses	**(4,051)**	—
Redemption of preferred shares	**(335)**	(2,400)
Debenture	**—**	10,000
Reimbursement of deposits for engine and airframe overhauls	**—**	5,279
Balance of purchase price	**—**	1,140
Repurchase of common shares by Vacances Air Transat A.T. Inc.	**—**	(10,000)
Dividends paid on first preferred shares, series 1	**—**	(202)
Cash provided by financing activities	**134,276**	28,518
Net increase in cash for the year	**94,436**	11,796
Cash, beginning of year	**46,897**	35,101
Cash, end of year	**141,333**	46,897

Cash comprises cash and cash equivalents and includes cash amounts referred to in note 3.

See accompanying notes to consolidated financial statements

October 31, 1997 and 1996

[Tabular figures in thousands of dollars]

1 INCORPORATION AND NATURE OF BUSINESS

The Corporation, incorporated under the Canada Business Corporations Act, offers services as an outgoing and incoming tour operator and as a retail travel agent and also operates a commercial charter flight service. In addition, Consultour/Club Voyages Inc., a company subject to significant influence, acts as a franchisor in the travel industry and Haycot Services Inc., a company subject to significant influence, offers airport ground handling and representation services.

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by Management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in Management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and joint ventures as well as the investments in companies subject to significant influence, of which the major ones are:

Corporate entities	Interest held on October 31, 1997 *[See note 14]*	Accounting method
Air Transat A.T. Inc.	100%	Consolidated
Air Transat Holidays A.T. Inc.	100%	Consolidated
Look Voyages S.A.	84.4%	Consolidated
Vacances Air Transat (France) S.A.R.L.	100%	Consolidated
DMC Transat Inc.	66.7%	Proportionate consolidation
Tourbec (1979) Inc.	100%	Consolidated
Les Voyages Nolitour Inc.	100%	Consolidated
Regent Holidays Limited	100%	Consolidated
Consultour/Club Voyages Inc. and its subsidiary	50%	Equity method
Services Haycot Inc.	50%	Equity method
STAR Airlines S.A.	41.9%	Equity method
Brok'Air S.A. and its subsidiaries	39%	Proportionate consolidation
World of Vacations Ltd.	35%	Proportionate consolidation

Cash equivalents

The Corporation invests its cash overage primarily in commercial paper, term deposits and bankers' acceptances, and they are recorded at cost plus accrued interest. Their carrying values approximate their fair market values.

Inventories

Inventories are valued at the lower of cost determined according to the first-in, first-out method and market value. Market value, in the case of duty-free merchandise, is equal to net realizable value and for other inventories it is equal to replacement value. Inventories of rotable aircraft spare parts are valued at the lower of average cost and replacement value.

Capital leases

Capital leases which transfer substantially all the benefits and inherent risks related to the ownership of the property leased to the Corporation are capitalized by recording as assets and liabilities the present value of the payments under the leases. The property leased and recorded in this way is amortized over its estimated useful life. Rental payments are recorded partly against the amount of the obligation and partly as interest.

2 SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Capital assets

Capital assets are recorded at cost and are amortized, taking into account their residual value, on a straight-line basis [except for aircraft engines] over their estimated useful lives, as follows:

Aircraft and other property under capital leases	Lease term
Hangar and administrative building	35 years
Aircraft	Number of months to April 2003
Improvements to aircraft under operating leases	Lease term
Aircraft equipment	10% and 20%
Computer equipment, software and other	20%, 25%, 30% and 33 1/3%
Office furniture and equipment	10%, 20% and 25%
Leasehold improvements	Lease term
Automotive equipment	20% and 30%

Aircraft engines are amortized based on the number of cycles used.

Engine and airframe overhaul expenses and deposits for overhauls

Engine and airframe overhaul expenses are determined based on their estimated cost and are charged to income according to the number of flying hours recorded during the year.

Foreign currency translation

The financial statements of the integrated foreign operations Vacances Air Transat (France) S.A.R.L., Look Voyages S.A., Brok'Air S.A. and their subsidiaries and the foreign currency transactions of the Corporation and its Canadian subsidiaries are translated using the temporal method. Gains or losses related to foreign exchange are included in income for the year, except for those with respect to a monetary item with a fixed life extending beyond the end of the following year, in which case they are amortized over the remaining life of the asset or liability.

Revenue recognition

Revenue earned from passenger transportation is recorded upon each return flight. Revenue of tour operators and retail travel agents and the related costs are recorded in income at the time of the departure of the passengers. Amounts received for services not yet rendered are included in current liabilities as customer deposits and deferred income.

Goodwill

Goodwill is recorded at cost and is amortized on a straight-line basis over periods from ten to 20 years.

The Corporation evaluates the carrying value of goodwill each year to determine if there has been a decline in value based on estimates of current and expected undiscounted cash flows from operations of each underlying business taking into consideration operating trends and other relevant factors.

Derivative instruments

The Corporation uses foreign exchange forward contracts to hedge against currency exchange rate variations related to long-term debt and lease payments denominated in U.S. dollars, aircraft operating lease payments, receipt of revenue from some tour operators and disbursements pertaining to some operating expenses. The gains or losses resulting from exchange rate variations are recorded in income when the related hedging transactions are realized.

To protect itself against variations in fuel costs, the Corporation has entered into fuel hedging contracts. The resulting gains or losses are recorded in fuel costs as purchases of fuel are made.

3 CASH AND CASH EQUIVALENTS

As at October 31, 1997, cash balances amounting to $17,283,000 [$16,977,000 in 1996] were held in trust representing funds received from customers for services not yet rendered.

Further to the issuance of a letter of guarantee by its bankers, Air Transat A.T. Inc. is required to reserve a cash amount at least equal to the deposits received from tour operators for flights not made. As at October 31, 1997, an amount of $6,741,000 had been reserved for this purpose [$5,456,000 in 1996].

As at October 31, 1997, bank accounts and term deposits amounting to $9,502,000 [$7,660,000 in 1996] were pledged as collateral security against letters of guarantee issued by financial institutions.

4 DEPOSITS

	1997 $	1996 $
Long-term deposits for engine and airframe overhauls	**14,967**	8,382
Deposits on leased aircraft	**7,687**	6,681
Other deposits	**3,448**	4,841
	26,102	19,904

5 CAPITAL ASSETS

	1997		1996	
	Cost $	**Accumulated amortization** $	Cost $	Accumulated amortization $
Property under capital leases				
Aircraft	**128,469**	**46,644**	86,341	34,520
Others	**3,627**	**1,433**	1,592	1,274
	132,096	**48,077**	87,933	35,794
Owned assets				
Aircraft engines	**4,095**	**3,793**	4,095	3,756
Hangar and administrative building	**5,802**	**625**	5,750	455
Aircraft	**13,101**	**3,055**	20,856	1,742
Improvements to aircraft under operating leases	**1,346**	**692**	785	451
Aircraft equipment	**11,644**	**6,845**	8,433	5,587
Computer equipment, software and other	**16,878**	**8,998**	12,834	6,857
Office furniture and equipment	**7,517**	**4,946**	6,248	4,344
Leasehold improvements	**4,623**	**2,549**	4,467	2,045
Automotive equipment	**941**	**444**	687	386
	65,947	**31,947**	64,155	25,623
	198,043	**80,024**	152,088	61,417
Accumulated amortization	**80,024**		61,417	
Net book value	**118,019**		90,671	

6 OTHER ASSETS

	1997 $	1996 $
Deferred costs, unamortized balance		
Foreign exchange loss on long-term monetary items	**3,638**	1,795
Financing costs	**1,124**	1,037
Development costs and other	**2,424**	796
	7,186	3,628
Loan to a joint venture, net of the Corporation's interest therein *[See a]*	**2,167**	1,517
Non-controlling interest *[See note 14b]*	**—**	716
Miscellaneous	**3,404**	2,592
	12,757	8,453

[a] The loan bears an interest rate of 12%, is repayable in quarterly instalments and matures on July 31, 1999. The Corporation is currently renegotiating the terms of this agreement.

7 BANK LOANS

[a] In 1996, for the purpose of lending funds to Look Voyages S.A. and financing their operations, the Corporation, Air Transat A.T. Inc. and Air Transat Holidays A.T. Inc. entered into a $35,000,000 bank loan agreement at an interest rate based on the bankers' acceptance rate plus 1% (about 4.75% in 1997). On September 24, 1997, the bank loan which then totalled $35,000,000 was repaid through a new bank agreement described in note 8.

[b] As at October 31, 1996, an amount of $4,975,000 had been drawn on an operating line of credit. This operating line of credit was replaced under the terms of the new bank agreement described in note 8.

[c] Under operating lines of credit totalling FF 64,500,000, Look Voyages S.A. had drawn an amount of FF 42,320,000 [approximately $10,318,000] as at October 31, 1997. Accounts receivable of Look Voyages S.A. totalling FF 7,500,000 [approximately $1,829,000] were given as collateral. These operating lines of credit bear interest at an average rate of 4.4%.

8 LONG-TERM DEBT

	1997 $	1996 $
Transat A.T. Inc.		
Balance of purchase price *[See note 14a]*	**1,140**	1,140
Air Transat A.T. Inc.		
Loans and bankers' acceptances at rates ranging between 4.53% and 5.25% *[See a]*	**16,681**	—
Term loan of US $1,371,000 [US $2,526,000 in 1996], bearing interest at 8.77%, repayable in monthly principal and interest instalments of US $110,925 maturing in November 1998 and collateralized by a first rank movable hypothec on an aircraft	**1,931**	3,381
Term loan, bearing interest at 9.46%, repayable in monthly instalments of varying amounts maturing in July 2001 and collateralized by a first rank movable hypothec on an aircraft	**2,991**	3,737
Term loan of US $1,471,000, bearing interest at LIBOR plus 1 1/2 %, repayable in monthly principal instalments of US $58,824 maturing in November 2000 and collateralized by a first rank movable hypothec on an aircraft	**2,071**	—
Term loan, bearing interest at the prime rate plus 1 3/4%, repaid on September 24, 1997	**—**	1,750
Other term loans maturing at various dates until 1998	**152**	536
Air Transat Holidays A.T. Inc.		
Bankers' acceptances at rates ranging between 4.54% and 4.86% *[See a]*	**27,000**	—
Other subsidiaries		
Term loans maturing at various dates until 1999	**127**	269
	52,093	10,813
Less current portion	**4,923**	3,312
	47,170	7,501

Principal instalments payable during the next four years are as follows: 1998 — $4,923,000, 1999 — $1,972,000, 2000 — $44,575,000 and 2001 — $623,000.

8 LONG-TERM DEBT [Cont'd]

[a] **Revolving term loan and special revolving credit**

In September 1997, the Corporation, Air Transat A.T. Inc. and Air Transat Holidays A.T. Inc. entered into an agreement with a banking syndicate for a revolving term loan in the amount of $55,000,000 and a special revolving credit of $27,000,000 with respect to guarantee agreements related to the operations of Air Transat A.T. Inc.

Under the bank agreement, the Corporation and its subsidiaries, Air Transat A.T. Inc. and Air Transat Holidays A.T. Inc., granted their bankers movable hypothecs on all their movable property. In addition, the Corporation granted a movable hypothec in respect of the shares of its subsidiaries and Air Transat A.T. Inc. granted an immovable hypothec in respect of the hangar and administrative building.

The revolving term loan matures on February 29, 2000 and can be extended for two consecutive 12-month periods. Under this agreement, amounts can be drawn by way of bankers' acceptances or loans in Canadian or U.S. dollars. The interest rate is based on a rate scale which varies in accordance with the level of financial ratios calculated on a consolidated basis.

9 OBLIGATIONS UNDER CAPITAL LEASES

	1997 $	1996 $
Obligations totalling US $45,792,000 [US $24,821,000 in 1996] related to aircraft, maturing at various dates until 2003	**64,493**	33,218
Other obligations maturing at various dates until 2001	**314**	502
	64,807	33,720
Less current portion	**13,842**	4,857
	50,965	28,863

Obligations under capital leases related to aircraft were determined based on interest rates ranging between 8.8% and 11.9% [between 9.5% and 11.9% in 1996], and those related to other obligations were determined based on rates averaging 12% [12% in 1996].

Minimum instalments payable under these leases amount to approximately $80,261,000, $15,482,000 of which is interest, payable as follows for the next five years: 1998 — $19,359,000, 1999 — $18,348,000, 2000 — $14,922,000, 2001 — $12,598,000 and 2002 — $13,158,000.

10 DEBENTURE

The $10,000,000 debenture of Air Transat Holidays A.T. Inc. bears interest at 17.5% and matures on November 1, 2005. The debenture is repayable at Air Transat Holidays A.T. Inc.'s option at any time on or after November 1, 2000, subject to a ten-day prior notice. In the event the debenture is repaid, the redemption price will be such that the holder earns a compound annual return of 20.5% from its issuance on November 1, 1995 [taking into consideration annual interest already paid]. The debenture, if not repaid, is convertible into 25% of Air Transat Holidays A.T. Inc.'s common shares on or after November 1, 2000, subject to a 30-day prior notice.

The debenture is collateralized by certain intercorporate guarantees and by a second rank movable hypothec on the shares of certain of the Corporation's subsidiaries and on all of the tangible assets of Air Transat Holidays A.T. Inc. and of Air Transat A.T. Inc. Should the Corporation be subject to a takeover bid, the lender has the option to acquire all of the outstanding shares of Air Transat Holidays A.T. Inc. at a price to be determined under an agreed formula.

11 SHARE CAPITAL

Authorized

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

An unlimited number of common shares.

Issued and outstanding

		1997 $	1996 $
34,062,632	common shares [24,770,067 in 1996]	**114,450**	25,543
154,750	preferred shares, series 3 [250,000 in 1996] *[See note 14b]*	**545**	880
		114,995	26,423

Under a certificate of amendment issued on December 18, 1996, each common share was split into three common shares on December 31, 1996. Earnings per share shown in the financial statements and the number of shares and options in the notes to the consolidated financial statements have been retroactively restated to take this split into account.

On November 7, 1996, the Corporation issued 4,230,000 common shares for $42,652,500 and 4,470,000 warrants for $45,072,500. The warrants were exercised on January 29, 1997 and the Corporation issued 4,470,000 common shares.

In 1997, the Corporation issued 424,850 common shares [3,142,200 in 1996] for $743,000 [$4,950,000 in 1996] under its stock option plan and 36,979 common shares [18,975 in 1996] for $286,000 [$121,000 in 1996] in connection with a common share purchase plan for the employees of the Corporation and its subsidiaries.

On May 17, 1996, an unsecured debenture of $2,500,000 was converted into 1,250,001 common shares.

The preferred shares, series 3, are non-voting and are entitled to a dividend equal to any dividend declared on the common shares [before the stock split]. The Corporation and the holder of the shares have agreed that these shares will remain in escrow until December 31, 1999 at the latest. They are convertible at the rate of one preferred share, series 3, for three common shares, redeemable at any time at the Corporation's option and retractable at their issue price *[See note 14b]*.

During the year, 43,579 preferred shares, series 3, were converted into 130,736 common shares. Also, 51,671 series 3 preferred shares became the property of Regent Holidays Limited and are excluded from the number of issued and outstanding shares *[See note 14b]*.

The first preferred shares, series 1, were redeemed on July 15, 1996 for a cash consideration equal to their issue price of $2,400,000.

Options on common shares have been granted under a stock option plan for directors, management and employees. These options may be exercised during a five-year period after the grant date.

The number of options has varied as follows:

	1997	1996
Balance, beginning of year	**798,300**	2,889,000
Granted	**850,000**	1,051,500
Exercised and cancelled	**(493,850)**	(3,142,200)
Balance, end of year	**1,154,450**	798,300

The options granted and outstanding at year-end are as follows:

Grant date	Exercise price $	1997	1996
1993	1.76	**193,500**	415,500
1995	0.83	**51,000**	70,500
1996	1.83	**128,950**	312,300
1997	12.32	**781,000**	—
		1,154,450	798,300

12 JOINT VENTURES

The Corporation's share in the assets, liabilities, revenues, expenses, and changes in financial position of joint ventures is summarized as follows:

	1997 $	1996 $
Balance sheet		
Cash	**10,579**	16,795
Other current assets	**7,988**	5,359
Capital assets	**1,291**	1,170
Other long-term assets	**4,520**	3,729
	24,378	27,053
Current liabilities	**20,622**	21,326
Long-term liability	**—**	34
Shareholders' equity	**3,756**	5,693
	24,378	27,053
Statement of income		
Revenues	**117,918**	32,577
Expenses	**118,132**	32,064
Net (loss) income	**(214)**	513
Statement of changes in financial position		
Operating activities	**(8,472)**	(1,277)
Investing activities	**(542)**	(310)
Financing activities	**(85)**	(21)
Decrease in cash	**(9,099)**	(1,608)

Revenues include $18,778,000 in respect of sales to the Corporation for the year ended October 31, 1997 [$22,261,000 in 1996].

13 AMORTIZATION

	1997 $	1996 $
Capital assets	**19,030**	13,807
Goodwill	**2,713**	1,355
Rotable aircraft spare parts — utilization	**2,108**	1,233
Deferred costs and other assets	**1,378**	695
Deferred foreign exchange loss	**286**	263
	25,515	17,353

14 ACQUISITIONS

[a] **Look Voyages S.A.**

On April 19, 1996, the Corporation acquired, for a cash consideration of $12,196,000, 33.7% of the common shares of Look Voyages S.A., a French tour operator. On October 15, 1996, the interest in Look Voyages S.A. was increased to 68% following the acquisition of the shares held by a significant shareholder at a price of $1,140,000 payable on January 31, 1998. This acquisition was recorded under the purchase method. The results of Look Voyages S.A., which were proportionately consolidated from April 19 to October 15, 1996, have been consolidated since October 15, 1996.

[a] **Look Voyages S.A. [Cont'd]**

	$
Assets acquired and liabilities assumed in 1996 at their fair market value	
Bank overdraft	(2,681)
Non-cash working capital balances	(39,851)
	(42,532)
Capital assets	2,764
Deferred costs	973
Other assets	2,360
Tax benefits	14,996
Investment	2,031
Goodwill	33,010
Long-term debt	(265)
Non-controlling interest	(1)
Acquisition cost	13,336
Consideration	
Cash [including costs related to acquisition]	12,196
Balance of purchase price	1,140
	13,336

On June 2, 1997, the Corporation increased its interest in Look Voyages S.A. to 84.4% further to a takeover bid for the shares of Look Voyages S.A. at a price of FF 8 per share [approximately $2.00]. The cash consideration, including costs related to the acquisition, amounted to $653,000. This acquisition was recorded under the purchase method and the total consideration paid was included in goodwill.

[b] **Regent Holidays Limited**

On March 19, 1997, the Corporation acquired all of the shares held by a shareholder of Regent Holidays Limited, thereby increasing its interest from 50% to 69%. In exchange, the Corporation released from escrow 43,579 preferred shares, series 3 in favour of the selling shareholder while the balance of the preferred shares, series 3 held by this shareholder was transferred to Regent Holidays Limited. This acquisition was recorded under the purchase method.

On April 30, 1997, the Corporation acquired the balance of the participating shares of Regent Holidays Limited at a price which will be based on net income for the years from 1994 to 1999, thereby bringing its interest to 100% of the participating shares and 50% of the issued and outstanding voting shares. This acquisition was recorded under the purchase method and an amount corresponding to the debit balance of the non-controlling interests, totalling $706,000 at that date, was included in goodwill.

[c] **World of Vacations Ltd.**

On August 9, 1996, the Corporation acquired 35% of the shares of World of Vacations Ltd. for a consideration of $2,061,000. Between May 1, 1999 and April 30, 2001, the Corporation has the option to acquire the balance of the outstanding shares at a price based on the income of World of Vacations Ltd. This acquisition was recorded under the purchase method and the results of World of Vacations Ltd. have been proportionately consolidated since August 9, 1996.

	$
Share of the assets acquired and liabilities assumed in 1996 at their fair market value	
Cash	5,293
Non-cash working capital balances	(6,006)
	(713)
Capital assets	774
Deferred costs	27
Goodwill	1,973
Acquisition cost	2,061
Consideration	
Cash [including costs related to acquisition]	2,061

[d] **Other acquisition**

In December 1996, the Corporation increased its interest in Brok'Air S.A. from 34.4% to 39% for a consideration of $86,000. This transaction was recorded under the purchase method.

15 INCOME TAXES

Income tax expense as presented differs from the amount calculated by applying the statutory income tax rate to income before share of net income of companies subject to significant influence, income taxes, and non-controlling interest.

The reasons for this difference and the impact on income tax expense are as follows:

	1997 $	1996 $
Statutory income tax rate	**39.9%**	39.3%
Income tax expense at statutory rate	**16,350**	14,253
Income taxes related to:		
Non-deductible expenses and other permanent differences	**1,628**	1,002
Amortization of goodwill	**1,082**	606
Foreign exchange variance on translation of financial statements	**(1,076)**	(194)
	17,984	15,667

16 RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of its operations, the Corporation entered into the following transactions with related companies:

	1997 $	1996 $
Revenues from companies subject to significant influence	**32,250**	8,612
Purchases from companies subject to significant influence	**54,914**	20,823

The balances receivable from and payable to related companies included in the accounts receivable and accounts payable and accrued liabilities are as follows:

	1997 $	1996 $
Accounts receivable		
Amounts receivable from companies subject to significant influence	**438**	2,452
Accounts payable and accrued liabilities		
Amounts payable to companies subject to significant influence	**3,860**	6,527

17 COMMITMENTS

[a] As at October 31, 1997, the Corporation's commitments under operating leases relating to aircraft, land, automotive equipment, telephone systems, and office premises amounted to $20,689,000, US $103,392,000 and FF 65,223,000.

Annual instalments to be paid under these leases during the next five years are as follows:

	$
1998	44,610
1999	43,855
2000	35,146
2001	30,173
2002	20,546

17 COMMITMENTS [Cont'd]

[b] In 2001, the joint venturer in DMC Transat Inc. will have the option of selling to the Corporation and to Air Transat Holidays A.T. Inc. the shares of DMC Transat Inc. which it holds at a price equal to the greater of 7.5 times the average net income earned by DMC Transat Inc. during the two previous years and the investment of $2,500,000 plus the amount required to provide an annual return of 7% starting in May 1995.

[c] Look Voyages S.A. has guaranteed up to a maximum of FF 6,792,000 [approximately $1,656,000] certain obligations of Euro Charter S.A., a wholly owned subsidiary of Consultour/Club Voyages Inc., and up to FF 4,625,000 [approximately $1,128,000] for other companies.

[d] On October 31, 1997, Air Transat A.T. Inc. had a commitment to acquire one aircraft under a capital lease. The obligation under this lease maturing in 2003 will be approximately US $10,550,000 based on an interest rate of 9.45%.

18 FINANCIAL INSTRUMENTS AND OTHER DERIVATIVE INSTRUMENTS

In the normal course of its operations, the Corporation is exposed to risks related to exchange rate fluctuations for certain currencies and fuel cost variations. The Corporation manages these risks by entering into various derivative financial instruments. The Corporation's Management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to hedge existing commitments or obligations and not to realize a profit on trading operations.

Credit risk related to derivative instruments

The theoretical risk to which the Corporation is exposed related to derivative financial instruments is limited to the replacement cost of contracts at market rates in effect in the event of default by one of the parties. Management is of the opinion that the credit risk related to derivative instruments is well controlled because the Corporation only enters into agreements with solvent parties such as financial institutions and large multinational companies.

Management of foreign exchange risks

The Corporation has entered into foreign exchange forward contracts of less than one year for the purchase and sale of foreign currencies to manage foreign exchange risks. As at October 31, 1997, the face value of contracts to purchase and sell foreign currencies was estimated at $59,185,000 and $115,576,000, respectively [$171,035,000 and $50,658,000, respectively in 1996]. If the Corporation had cancelled these contracts on October 31, 1997, it would have received approximately $1,739,000 in respect to contracts to purchase foreign currencies and it would have had to pay approximately $3,997,000 in respect to contracts to sell foreign currencies.

Management of fuel price risks

The Corporation enters into contracts of less than one year to purchase fuel, for purposes of managing its exposure to unstable fuel prices. As at October 31, 1997 and 1996, the net position of these contracts was favourable for the Corporation.

Concentration of credit risk

The Corporation believes it is not exposed to a significant concentration of credit risk. Cash and cash equivalents are entrusted to large financial institutions. Accounts receivable generally arise from the sale of vacation packages to individuals through retail travel agencies and the sale of seats to tour operators which are dispersed over a wide geographic area.

Fair value of financial instruments

Due to their short-term nature, the carrying amount of short-term financial assets and liabilities reflected on the consolidated balance sheets approximates their fair value. Also, the carrying amount of deposits recorded in long-term assets approximates their fair value.

The fair value of long-term debt and obligations under capital leases, including the current portion, is based on the rates in effect for financial instruments with similar terms and maturities. As at October 31, 1997 and 1996, the carrying amount and fair value of long-term financial instruments is as follows:

	1997		1996	
	Carrying value $	**Fair value $**	Carrying value $	Fair value $
Long-term debt	**52,093**	**52,100**	10,813	10,800
Obligations under capital leases	**64,807**	**65,600**	33,720	34,300

The fair value of the debenture could not be determined with sufficient reliability due to its specific nature.

19 CONTINGENCIES

Prior to its acquisition, Look Voyages S.A. was involved in litigation with Air Liberté and also with Air Toulouse International, two French airlines.

In the case of the litigation with Air Liberté, Look Voyages S.A. is being sued for an amount of approximately FF 90,000,000 [approximately $22,000,000] with respect to the cancellation of commercial agreements. On November 4, 1996, the Tribunal de Commerce de Paris rendered a judgment in favour of Air Liberté and rejected Look Voyages S.A.'s claim without determining the amount of damages. On December 17, 1996, Look Voyages S.A. appealed this judgment. Legal counsel for Look Voyages S.A. are of the opinion that the judgment is not well founded in law and that Look Voyages S.A. has reasonable prospects of obtaining a more favourable judgment in appeal. On the basis of that legal opinion and the fact that the amount of damages has yet to be determined, the Corporation has not recorded a provision with regard to the litigation.

In the case of the litigation with Air Toulouse International, Look Voyages S.A. is being sued for approximately FF 8,000,000 [approximately $2,000,000] related to the cancellation of three chartering agreements. On the basis of the opinion of Look Voyages S.A.'s legal counsel, the Corporation is of the opinion that no provision is necessary with regard to this litigation.

20 SUBSEQUENT EVENTS

[a] In December 1997, Air Transat A.T. Inc. entered into an operating lease for two Airbus A330-200 aircraft. The delivery of the two aircraft is scheduled for February and April 1999. The obligation under these operating leases expiring in April and June 2009 is estimated at US $169,550,000.

[b] In December 1997, Look Voyages S.A. guaranteed the obligations of STAR Airlines S.A. respecting the operating lease for two aircraft. The guarantee is for a maximum amount of US $30,000,000 in 1998 and decreases to US $24,000,000 in 1999, US $18,000,000 in 2000 and US $12,000,000 in 2001.

21 COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the presentation adopted in 1997.

The Company carries out its operations in two geographic segments: Canada and France. Geographic intersegment sales are accounted for at prices that take into account market conditions and other considerations.

The Company's operations are interdependent and comprise only one industry segment.

	CANADA		FRANCE		ELIMINATING ENTRIES		TOTAL	
	1997	1996	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	**—**	—	**(68,242)**	(53,216)	**—**	—
Total revenues	**885,197**	629,835	**499,785**	202,538	**(68,242)**	(53,216)	**1,316,740**	779,157
Income by segment	**52,702**	41,433	**(5,760)**	1,393			**46,942**	42,826
Interest on debenture, long-term debt and obligations under capital leases							**(8,172)**	(6,556)
Other interest and financial expenses							**(4,443)**	(3,455)
Interest income							**6,652**	3,452
							(5,963)	(6,559)
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest							**40,979**	36,267
Share of net income of companies subject to significant influence							**2,380**	1,233
Income taxes							**17,984**	15,667
Share of non-controlling interest in subsidiaries' results							**(11)**	369
Net income for the year							**25,364**	22,202
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

[in thousands of dollars except per share amounts]

	1997	1996	1995	1994	1993
Consolidated statements of income					
Revenues	**1,316,740**	779,157	551,766	522,177	445,700
Expenses					
Operating	**1,244,283**	718,978	504,260	489,396	429,847
Amortization	**25,515**	17,353	18,245	16,778	12,741
Operating income	**46,942**	42,826	29,261	16,003	3,112
Expenses and other income					
Interest on debenture, long-term debt and obligations under capital leases	**8,172**	6,556	6,146	6,464	3,613
Other interest and financial expenses	**4,443**	3,455	472	1,214	758
Interest income	**(6,652)**	(3,452)	(3,248)	(1,800)	(2,243)
Gain on foreign currencies	**—**	—	—	—	(1,067)
Gain on transfer of incoming tour operator activities	**—**	—	(2,500)	—	—
	5,963	6,559	870	5,878	1,061
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest	**40,979**	36,267	28,391	10,125	2,051
Share of net income (net loss) of companies subject to significant influence	**2,380**	1,233	467	588	(984)
Income taxes	**17,984**	15,667	11,652	5,069	1,014
Share of non-controlling interest in subsidiaries' results	**(11)**	369	(296)	(76)	412
Net income for the year	**25,364**	22,202	16,910	5,568	465
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
Cash provided by (used in)					
Operating	**24,603**	27,400	35,142	18,019	21,248
Investing	**(64,443)**	(44,122)	(9,008)	(5,959)	(93,313)
Financing	**134,276**	28,518	(18,253)	(2,914)	76,465
Increase in cash	**94,436**	11,796	7,881	9,146	4,400
Cash, end of year	**141,333**	46,897	35,101	27,220	18,074
Operating cash flow	**46,117**	37,742	33,178	21,417	14,588
Operating cash flow per share	**1.41**	1.69	0.91	0.54	0.44
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
Non-controlling interest	**—**	—	10,058	—	—
Shareholders' equity	**164,420**	52,995	25,824	39,222	32,943
Debt ratio(1)	**0.65**	0.83	0.85	0.78	0.81
Book value per share	**4.81**	2.10	1.11	0.91	0.78
Return on weighted average shareholders' equity	**23.5%**	58.9%	56.8%	15.9%	1.0%
Shareholding statistics (in thousands)					
Common shares outstanding at year-end	**34,063**	24,770	20,358	39,411	39,237
Weighted average number of common shares outstanding (before dilution)	**32,705**	22,389	36,552	39,342	33,510
Weighted average number of common shares outstanding (after dilution)	**34,415**	26,067	41,700	43,152	34,839

The number of shares and per share data take into account the stock split which occurred in December

(1) Represents liabilities over liabilities plus shareholders' equity

QUARTERLY DATA

	1997				1996			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Revenues	**343,974**	**344,784**	**348,192**	**279,790**	242,797	234,186	163,563	138,611
Operating income (loss)	**25,483**	**20,741**	**6,912**	**(6,194)**	18,913	16,468	6,186	1,259
Net income (loss)	**14,178**	**12,803**	**3,335**	**(4,952)**	10,933	8,615	3,035	(381)
Earnings (loss) per share	**0.43**	**0.40**	**0.12**	**(0.17)**	0.47	0.39	0.14	(0.02)
Operating cash flow	**23,788**	**18,756**	**6,565**	**(2,992)**	16,855	11,475	5,895	3,517
Operating cash flow per share	**0.72**	**0.58**	**0.21**	**(0.10)**	0.72	0.51	0.28	0.18

TRANSAT

AIR TRANSAT

VACANCES AIR TRANSAT

• MONTREAL

AIR TRANSAT HOLIDAYS

• MONTREAL

• TORONTO

• VANCOUVER

VACANCES AIR TRANSAT (FRANCE)

VOYAGES NOLITOUR

REGENT HOLIDAYS

WORLD OF VACATIONS

SERVICES HAYCOT

VACANCES AIR TRANSAT HOLIDAYS (FLORIDA)

DMC TRANSAT

VACANCES TOURBEC

CONSULTOUR / CLUB VOYAGES

STAR AIRLINES

BROK'AIR

EURO CHARTER

LOOK VOYAGES

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André Bisson O.C.	Director of Corporations
Lina De Cesare	President and Chief Executive Officer, Air Transat Holidays A.T. Inc. and President, Tourbec (1979) Inc.
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Francine Nadeau	President and Chief Executive Officer Club Voyages Tournesol inc.
Philippe Sureau	Executive Vice-President, Transat A.T. Inc., President and Chief Executive Officer, Air Transat A.T. Inc., President, DMC Transat Inc.
John D. Thompson	Deputy Chairman of the Board, Montreal Trust

TRANSAT

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Marc Poirier	Director, Finance and Administration
Édith Nantel	Chief Accountant

AIR TRANSAT

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Claude Béland	Director, Line Servicing, Montreal, Quebec City, and Paris
Luc Boivin	Director, Engineering and Technical Purchasing
Jean Coté	Director, Organization and Special Projects
Michel Daoust	Director, Flight Operations
Luc Delisle	Director, Management Information Systems
Rashwan Domloge	Director, Line Servicing, Toronto, Vancouver, Calgary, and Halifax
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Marie Anne Juneau	Director, Customer Relations
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Maurice Montpetit	Director, Heavy Maintenance
George Petsikas	Director, Government and Industry Affairs
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Serge Bréard	Manager, Quality Assurance
Michel Defays	Station Manager, Toronto
Francine Desjardins-Lafond	Manager, Training and Quality, In-Flight Service
Sylvain Desmarteaux	Chief Flight Engineer
Robin Fleming	Manager, In-Flight Service, Vancouver
Alain Giraldeau	Chief Pilot, L-1011
Johanne Hotte-Hébert	Manager, Accounts Receivable
Kathleen Humphrey	Manager, Crew Scheduling
David Johnson	Manager, Duty-Free
Patricia Kinsley	Manager, Sales
Bertrand Lambert	Senior Counsellor, Human Resources
Suzanne Lapointe	Manager, Crew Planning
Johanne Lavoie	Controller, Finance
Simon Lavoie	Chief Pilot, Boeing 737 and Boeing 757
Francine Léona	Manager, Payroll Department
Joanne Lisabelle	Assistant Controller, Payroll Department
Louise Loubert	Manager, Purchasing
Dean McCunn	Station Manager, Vancouver
Loretta Palermo	Manager, Sales
Linda Phelps	Manager, Commissary
Claudette Plouffe	Station Manager, Montreal
Johanne Ross	Manager, In-Flight Service, Montreal
Mario Thiemens	Manager, Budgets
Chantal Wilson	Manager, In-Flight Service, Toronto

VACANCES AIR TRANSAT – AIR TRANSAT HOLIDAYS

Lina De Cesare	President and Chief Executive Officer
Daniel Godbout	Executive Vice-President
Anna Malito	Vice-President, Product Merchandising
Clauderic Saint-Amand	Vice-President, Sales and Marketing
François St-Jacques	Vice-President, European Tours
Isabelle Sparer	Vice-President, European Products
Daniel Tessier	Vice-President, Sunshine Products
Georges Vacher	Vice-President, Finance and Administration
Danièle Bergeron	Director, Human Resources
Simon Brochu	Director, Marketing
Jean-François Chartrand	Director, Cruise Services
Lucy De Cesare	Director, Operations
Éric Gagnon	Director, Creation Department
Andrée Gervais	Director, European Destinations, Payload Control
Marie Anne Juneau	Director, Customer Relations
Suzanne Marquis	Director, Budget and Analysis
Gisèle Poirier	Director, Finance
Martine Potvin	Director, Key Accounts
David Richardson	Director, Management Information Systems
Jeannine Auclair	Supervisor, Profitability Analysis
Louise Benoit	Supervisor, Payroll Department
Renée Boisvert	Supervisor, Operations
Lyne Leblanc	Supervisor, Costing

VACANCES AIR TRANSAT (Montreal)

Benoit Deshaies	General Manager
Michel Calabro	Director, Operations, Sunshine Destinations, Payload Control
Martine Dauvet	Director, Reservations
Jean Martel	Director, Sales – Eastern Quebec
Denise Toméo	Director, Sales and Marketing
Erasmo Ciccolella	Supervisor, Invoicing and Collection, Tour Operators
Lilianne Côté	Supervisor, Reservations
Lise Desroches	Supervisor, Accounts Payable
Susie Deveault	Supervisor, Reservations
Maryse De Sève	Supervisor, Administrative Payments
Chantale Dubois	Supervisor, Hotel Payments
Nathalie Dunn	Supervisor, Group Services
Diane Poulet	Supervisor, Ticketing Service
Caroline Roy	Supervisor, Air Cost Payables

AIR TRANSAT HOLIDAYS (Toronto)

Paul Foster	Executive Vice-President
Teresa Brady	Manager, Operations
Denise Heffron	Director, Marketing
Kristina Kinstler	Manager, Reservations
Dominic Mazzei	Director, Payload Control, Sunhine Destinations
Mark Melchior	Manager, Accounting
Diane Pothan	Director, Sales

AIR TRANSAT HOLIDAYS (Vancouver)

Vic Nakhleh	Executive Vice-President
Rita Barbeau	Manager, Operations
Sophie Brodeur	Manager, Payload Control
Shawn Edmonds	Director, Sales
Deborah Girard	Manager, Reservations
Thomas Klos	Manager, Creation
Jacqueline Leclerc	Manager, Marketing

AIR TRANSAT HOLIDAYS (Halifax)

Nicole Bursey	Manager, Sales

VACANCES AIR TRANSAT (France)

Jean-Marc Batta	General Manager
Patrice Caradec	Director, Commercial
Cédric Gest	Director, Operations
Gilles Martin	Director, Sales
Michel Quenot	Director, Technical and Operations
Leng Taing	Director, Finance
Patrick Alexandre	Supervisor, Reservations
Murielle Baleste	Supervisor, Marketing
Magaly Baverey	Supervisor, Production
Catherine Baverey	Supervisor, Ticketing
Manon Ducharme	Supervisor, Data Entry
Alain Gallant	Supervisor, Data Processing / Computing
Serge Martineau	Supervisor, Accounts Receivable
Didier Michelin	Supervisor, Payroll

VOYAGES NOLITOUR

Sam Ghorayeb	President
Robert Brouillard	Executive Vice-President
Paul Capaday	Vice-President, Finance
Charles Roy	Vice-President, Sales
Lyne Chayer	Director, Sales
Marie Andrée Demers	Director, Reservations
Joan Robitaille	Director, Hotel Operations

REGENT HOLIDAYS

Peter Linnett	President
Ian Rayment	Executive Vice-President
Phil Egan	Vice-President, Sales and Customer Service
Heather Qually	Vice-President, Marketing
Robert Sutherland	Vice-President, Product Development
Joanne Cothran	Director, Group Sales and Development
Debbie Hiscox	Director, Air Contracting and Payload
Sonny Lim	Director, Finance and Administration
Michelle Martin	Director, Cruise Division
Jennifer Perry	Director, Operations
Mark Salter	General Manager, Sales Division

WORLD OF VACATIONS

Errol Francis	President and Chief Executive Officer
Carl Dickinson	Vice-President, Operations
Dennis Lepholtz	Vice-President, Finance and Chief Financial Officer
Harry O'Hayon	Vice-President, Sales and Marketing, Western Canada

SERVICES HAYCOT

Claude Racicot	President
Caroline Arseneau	Director, Passenger Services
Jean-Pierre Marin	Director, Finance and Administration
Pierre Provost	Director, Operations
Micky Abbatemarco	Station Manager, Dorval
Derek Braithwaite	Station Manager, Toronto
Édith Bolduc	Ramp Manager, Mirabel
Steve Hoar	Ramp Manager, Toronto
André Piché	Manager, Ground Equipment Maintenance

VACANCES AIR TRANSAT HOLIDAYS (Florida)

Michel Boismenu	Vice-President
Nathalie Lamothe	Administrative Director

DMC TRANSAT

Phillippe Sureau	President
Brigitte Michaud	General Manager
Gérald Caron	Director, Finance
Jean-Michel Perron	Director, Marketing and Sales – North America
Alain Winter	Director, Marketing and Sales – International
Suzanne Chabot	Director, Operations – Leisure Travel
Monica Orr	Director, Sales Europe
Rosanna Grande	Product Manager, Eastern Canada
Régis Novi	Manager, Products and Market Development (Western Canada)
Janet Oakley	Corporate Accounts Executive
Claire Roberge	Chief Accountant
Grace Dufour	Supervisor, Operations – Kilomètre Voyages
Claire Mazurié	Supervisor, Group Operations, France

VACANCES TOURBEC

Lina De Cesare	President
Odette Thomas	General Manager
Chantal Barbeau	Director, Accounting
Patricia Corcos	Director, Sales

CONSULTOUR / CLUB VOYAGES

Jean-Paul Bellon	President and Chief Executive Officer
Odette Thomas	Executive Vice-President and Chief Operating Officer
Peter Ouellette	Vice-President, Sales and Services – Business Travel
Chantal Barbeau	General Manager
Patricia Corcos	Director, Marketing
Pierre Fortin	Director, Information Systems
Sylvie Lecouteur	Director, Operations
Guylaine L'Écuyer	Director, Accounting
Serge Marleau	Director, Quebec City Branch
Jocelyne St-Amour	Director, Corporate Affairs

STAR AIRLINES

Cédric Pastour	President and Chief Executive Officer
Daniel Chaubard	Vice-President, Technical
Jean-Louis Clauzier	Vice-President, Finance and Human Resources
Daniel Dupont	Vice-President, Flight Operations
Michel Madi	Vice-President, Administration, Fuel and Catering
Luc Preher	Vice-President, Planning and Stations
Patricia Lachaise	President's Assistant
Jim Dezetter	Manager, Operational Quality
Patrick Ligerot	Manager, Maintenance Quality
Alain Truffaut	Airbus A320 Sector Head
André Paul Berger	Chief Flight Attendant
Laurent Valet	Sales Manager
Olivia Bonnot	Manager, Crew Planning
Patrick Brunet	Manager, Operations
Corinne Cotereau-Preat	Manager, Legal Affairs
Lydia Josselin	Personnel Manager
Arnaud Pastour	Wages Manager
Monique Trillaud	Chief Accountant
Arnould Cottin	Manager, Budgets
Florence Cadoret	Manager, Purchasing and Administrative Services
Thierry Foison	Manager, Information Systems
Christian Queyssalier	Stations Manager
Catherine Roullin	Manager, Quality Passenger Services
Sabine Spieker	Catering Manager

BROK'AIR

Éric Eustache	President and Chief Executive Officer
Christian Diamante	Administrative and Financial Director
Jean Eustache	Department Director, Group Sales
Christian Gillet	Department Director, Anyway
Marieke Bruijns	Department Director, Globe System

EURO CHARTER

Jean-Paul Bellon	President
Odette Thomas	General Manager
Patricia Chastel	Assistant General Manager
France Dubois	Financial Director
Chantal Barbeau	Administrative Director
Sylvie Fournier	Director, Operations

LOOK VOYAGES

	EXECUTIVE COMMITTEE
Jean-Marc Eustache	President and Chief Executive Officer
Gérald Caron	Director, Finance and Administration
Jean-Luc Fabing	Director, Information Systems
Anne Héry	Director, Human Resources
Patrick Martinet	Director, Marketing and Sales
Michel Mordret	Director, Tour Operating Division
Bruno Rigal	Director, Legal Affairs
Christian Vanroy	Director, Transport
	ADMINISTRATION
Céline Caissie	Director, Budget and Analysis
Marie-Françoise Héry	Director, Accounting
Martine Quelennec	Director, Accounts Payable
Monique Graffin	Operating Representative
Yannick Houel	Supervisor, Training
Césaire Serreau	General Supervisor
	MARKETING AND SALES
Jacques Alonzeau	Director, Sales – F.W.I.
Jérome Angoin	Director, Marketing
Éric Batailley	Director, Sales
Didier Sanchez	Director, Reservations
Laurent Milleville	Supervisor, Group Sales
Agathe Pressoir	Supervisor, Quality Control
Marie-Johanne Cirodde	Supervisor, Public Relations and Communications
	TRANSPORT DIVISION
Marc Desnos	Supervisor, Payload Control, Mediterranean
Yannick Fauthier	Supervisor, Ticketing
Marine Laclavère	Supervisor, Technical, Scheduled Air-Only Flights
Claudine Lamaze	Supervisor, Group Sales
Alice Martin-Gros	Supervisor, Airport Services
Cecilia Minier	Supervisor, Payload Control, Mediterranean
Fabienne Poteloin	Supervisor, Payload Control, U.S.A./Canada
Ricarda Vernay	Supervisor, Payload Control, Caribbean
Cécile Collet	Supervisor, Air Negotiations, Scheduled Carriers
	TOUR OPERATING DIVISION
Bernard De Rozario	Director, Production
Blandine Stephanidis	Director, Operations
Thierry Tellier	Director, Club Operations
Cyrille Cord'homme	Supervisor, Technical Groups
Philippe Tabary	Supervisor, Technical Individual Travel
Gilles Bienfait	Supervisor, Product Planning
Victoria Chervier	Supervisor, Ticketing

April **1987**	The executive management of Trafic Voyages announces the creation of Groupe Transat and Air Transat.
June **1987**	Issuance by Groupe Transat of 2,750,000 common shares as an initial public offering for $8.25 million. Listing of the Corporation's common shares on The Montreal Exchange.
July **1987**	Acquisition of all outstanding shares of tour operator Multitour (Montreal).
November **1987**	First commercial flight operated by Air Transat.
August **1988**	Acquisition of 50% of the outstanding shares of Consultour / Club Voyages.
October **1988**	Creation of Services Haycot (airport handling services).
February **1989**	Acquisition of the Tourbec travel agency chain (Montreal).
November **1989**	Merger of tour operators Trafic Voyages and Multitour.
December **1989**	Acquisition of tour operator British Airways Holidays (Canada) which would eventually become known as Maximum Holidays, and thereafter Air Transat Holidays.
June **1990**	Acquisition of tour operator Vacances Fantasia (Quebec City and Montreal).
February **1991**	Trafic / Multitour begins doing business under the name Vacances Air Transat.
February **1992**	Maximum Holidays (Toronto) becomes Air Transat Holidays.
July **1992**	Acquisition of Toronto-based tour operator Regent Holidays.
March **1993**	Issuance of 4,350,000 common shares as a public offering for a total of $20.7 million. Listing of the Corporation's common shares on The Toronto Stock Exchange.
April **1993**	Corporation's name changed to Transat A.T. Inc.
July **1993**	Air Transat Holidays opens an office in Vancouver.
July **1993**	Acquisition of tour operator Les Voyages Nolitour (Montreal).
February **1994**	Air Transat purchases a hangar for the maintenance of its aircraft at Montreal International Airport (Mirabel).
June **1995**	Creation of incoming tour operator DMC Transat.
April **1996**	Acquisition of tour operator Kilomètre Voyages (Quebec City) by DMC Transat.
April to October **1996**	Acquisition of French tour operator Look Voyages. Consultour assumes management of Look Voyages's network of travel agencies, Euro Charter.
August **1996**	Transat purchases a 35% stake in tour operator World of Vacations (Canadian Holidays) based in Toronto and Vancouver.
December **1996**	Transat subdivides its common shares on a three-for-one basis.
November **1996** to January **1997**	Transat issues 8,700,000 million common shares for a total of $87.7 million.
October **1997**	Transat's revenues exceed the $1 billion mark.
December **1997**	Air Transat places an order for two Airbus A330-200s, for delivery in Spring of 1999.

ANNUAL MEETING

The annual meeting of the shareholders will be held on April 29, 1998, 10:00 a.m. at

**Salon du Parc II
Hôtel du Parc
3625 Park Avenue
Montreal, Quebec
H2X 3P8**

Head Office

Transat A.T. Inc.
300 Léo-Pariseau Street
Suite 400
Montreal, Quebec
H2W 2P6

Investor Information

For additional information on the Corporation, investors and analysts are invited to contact, in writing, the Director, Finance and Administration:

**Transat A.T. Inc
11600 Cargo A1
Montreal International
Airport (Mirabel)
Mirabel, Quebec
Canada J7N 1G9**

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Directeur, finances et administration
11600, rue Cargo A1
Aéroport international
de Montréal (Mirabel)
Mirabel (Québec)
Canada J7N 1G9**

Stock Exchange

The common shares of the Corporation are listed on The Montreal Exchange and on The Toronto Stock Exchange under the ticker symbol TRZ

Transfer Agent and Registrar

Montreal Trust Company
Place Montreal Trust
1800 McGill College Avenue
Montreal, Quebec H3A 3K9

Auditors

Caron Bélanger Ernst & Young
Montreal, Quebec

Counsel

Martineau, Walker
Montreal, Quebec

Bélanger, Sauvé
Montreal, Quebec

Gardiner Roberts
Toronto, Ontario

Winthrop, Stimson, Putnam & Roberts
Washington, D.C. (U.S.A.)

Insurance Brokers

Dulude Taylor Inc.
Montreal, Quebec

Willis Corroon Melling
Montreal, Quebec

Major Financial Institutions

National Bank of Canada
Montreal, Quebec

Scotiabank
Montreal, Quebec

Société Générale (Canada)
Montreal, Quebec

Fonds de solidarité des travailleurs du Québec (F.T.Q.)
Montreal, Quebec

Capital d'Amérique CDPQ Inc.
Montreal, Quebec

Royal Bank of Canada
Montreal, Quebec

General Electric Capital Corporation
Hunt Valley, Maryland (U.S.A.)

IAIV, Inc.
Las Vegas, Nevada (U.S.A.)

International Lease Finance Corporation
Los Angeles, California (U.S.A.)

Ansett Worldwide Aviation
Las Vegas, Nevada (U.S.A.)

Finova Capital Limited
London, England

NationsBanc Leasing Corporation
Tucker, Georgia (U.S.A.)

Newcourt Credit Group Inc.
Toronto, Ontario

Crédit Lyonnais/PK Airfinance
Senningberg, Luxembourg

CIBC Equipment Finance
Toronto, Ontario

Aerolease 9701, Ltd
Carson City, Nevada (U.S.A.)

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Claude Angers

Illustration:
Geneviève Côté

Officers' and Directors'
Photographs:
Pierre Charbonneau

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Pierre Charbonneau,
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Viateur Castonguay
and the marketing
departments of Transat's
affiliated companies

transat
A.T. inc.