transat A.T. inc.

ANNUAL INFORMATION FORM

PERIOD ENDED ON OCTOBER 31, 1998

March 15, 1999

TRANSAT A.T. INC.

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ITEM 1. INCORPORATION

1.1 TRANSAT A.T. INC.

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

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

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

The principal place of business of the Corporation is located at 300 Léo-Pariseau, Suite 600, Montreal, Quebec, H2W 2P6.

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

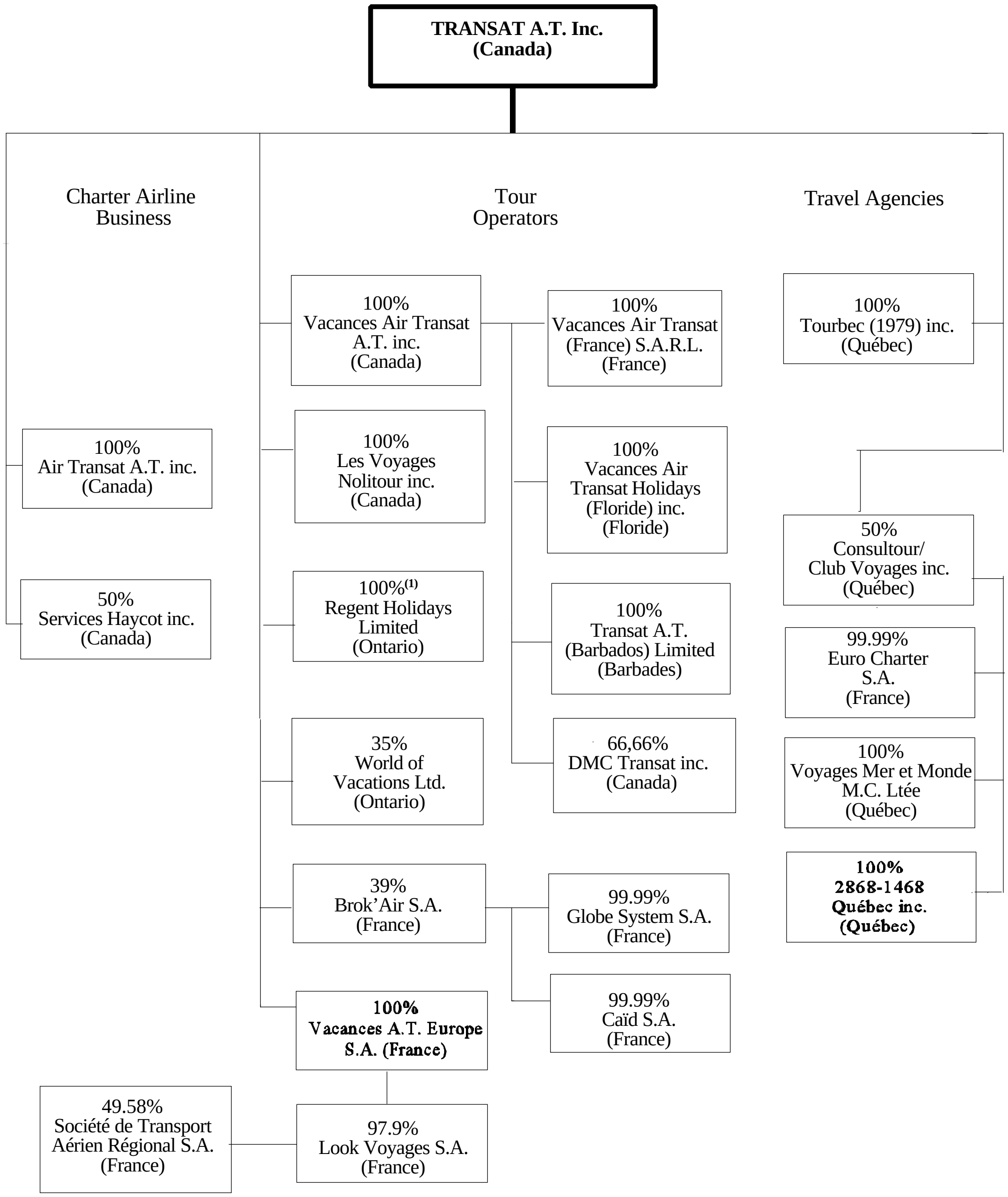
1.2 CORPORATE STRUCTURE AS AT OCTOBER 31, 1998

Transat has six principal wholly-owned subsidiaries, Air Transat A.T. Inc. ("Air Transat"), Vacances Air Transat A.T. Inc./Air Transat Holidays A.T. Inc. ("Air Transat Holidays"), Tourbec (1979) Inc. ("Tourbec"), Les Voyages Nolitour Inc. ("Nolitour"), Regent Holidays Limited ("Regent") and Vacances A.T. Europe S.A. ("A.T. Europe").

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

The Corporation also holds a 97.9% interest in Look Voyages S.A. ("Look") through A.T. Europe, a 50% interest in Consultour/Club Voyages Inc. ("Consultour"), a 50% interest in Haycot Services Inc. ("Haycot"), a 35% interest in World of Vacations Ltd and a 39% interest in Brok'Air S.A. ("Brok'Air"). Consultour holds a 100% interest in both Voyages Mer et Monde M.C. Ltée and 2868-1468 Quebec Inc. Consultour holds also a 99.9% interest in Euro Charter S.A ("Euro Charter"), whereas Look holds a 49.58% interest in STAR Airlines ("STAR"). Brok'Air holds a 99.99% interest in each of Globe System S.A., Caïd S.A. and Daily Planet Multimédia S.A.R.L.

The following organization chart sets out the corporate structure of the Corporation as at October 31, 1998, the jurisdiction of incorporation and the percentage of voting and participating shares held in each of the companies included therein:



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

ITEM 2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 BUSINESS OF THE CORPORATION

2.1.1 Overview

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

2.1.2 Business Strategy

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

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

2.1.3 General Development of the Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 1996, the Corporation first acquired a 33.7% interest in Look, which interest was increased to 68% in October 1996. On June 2, 1997, following a takeover bid at a price of 8 FF per share (approximately $2), the Corporation increased this interest to 84.4%. Transat also loaned an approximate amount or $27.2 million to Look through its subsidiaries. This amount was financed in part through working capital and in part through a bank loan bearing interest at the bankers' acceptances rate plus 1% per annum. This loan was repaid on September 24, 1997 out of the proceeds of financing obtained pursuant to a new banking arrangement entered into during the same month.

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

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

Finally, on February 26, 1998, the Board of Directors of Look accepted the subscription received and agreed to the compensation of most of the amount owed by Look to A.T. Europe, allocated the subscribed shares amongst the subscribers and evidenced the achievement of the increase in capital. It also reduced the par value of Look's shares from 10 FF to 0.20 FF. On October 31, 1998, Transat transfered its interest in Look to A.T. Europe. Taking into account these transactions, the indirect interest of Transat in Look is now approximately 98% of its capital.

In December 1995, Look participated in the establishment of an air carrier, STAR. Look holds 49.58% of STAR's capital. STAR now operates five aircraft and primarily services the Mediterranean region. The Corporation also acquired in 1996 a 34.4% interest in Brok'Air. In December 1996, the Corporation increased said interest from 34.4% to 39%.

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

In September 1997, Transat, Air Transat and Air Transat Holidays entered into an arrangement with a banking syndicate pertaining to a revolving term loan in an amount of $55 million and special revolving credit in an amount of $27 million, increased to $35 million in October 1998. Pursuant to the banking arrangement, Transat, as well as its subsidiaries Air Transat and Air Transat Holidays, granted their bankers movable hypothecs on the universality of their movable property. In addition, Transat granted a movable hypothec on the shares of the subsidiaries it owns and Air Transat granted an immovable hypothec on the hangar and administrative building located at the Montreal International Airport in Mirabel, Quebec.

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

2.2 Overview of the Industry

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

2.2.1 Tour Operators

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

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

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

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

2.2.2 Travel Agents

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

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

2.2.3 Charter Air Carriers

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

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

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

2.2.4 Factors Affecting Demand

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

2.2.5 Trends

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

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

ITEM 3. DESCRIPTION OF THE BUSINESS

Certain of the following data on competitive positioning and market share of the Transat's group of companies has been estimated by Management, based on it's knowledge of the relevant industry segments.

3.1 TOUR OPERATOR ACTIVITIES

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

3.1.1 Products of Air Transat Holidays

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

For travel to Europe, travellers may also make reservations for short hotel stays, car rentals or train tickets. To France, Air Transat flies mainly to Paris, Nice, Bordeaux, Marseilles, Lyons, Basel-Mulhouse, Toulouse and Nantes, and to the United Kingdom and Ireland mainly to London, Manchester, Glasgow, Newcastle, Birmingham, Edimburgh, Belfast and Dublin. Air Transat also flies to Brussels, Frankfurt, Amsterdam, Rome and Athens. Flights to London and Paris are offered year round, but fewer flights are available from November to March. French destinations are primarily sold out of the Montreal and Quebec City offices, whereas United Kingdom and Ireland destinations are primarily sold out of the Toronto and Vancouver offices. Air Transat Holidays also offers bus tours throughout Europe.

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

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

For the 12-month period ended October 31, 1998, approximately 626,000 travellers traveled with Air Transat Holidays.

3.1.2 Products of Nolitour

Nolitour offers to clients residing in the province of Quebec products which are similar to those of Air Transat Holidays. It specializes in southern destination and sells packages to clients seeking value and comfort. For the 12-month period ended on October 31, 1998, approximately 79,000 travellers traveled with Nolitour. During the 1997 fiscal year, Nolitour undertook to develop new products in order to balance its revenues from one season to the next. Hence, in the spring of 1997, it acquired Auratours, a specialist in travel products to Italy. Furthermore, during the summer 1998 season, Nolitour started to market Air Transat flights to Greece.

3.1.3 Products of VAT France

The main objective of VAT France is the distribution of holiday packages to Canada through French travel agencies. VAT France also offers its French clientele various destinations in the Caribbean, such as Martinique, Guadeloupe, the Dominican Republic, Cuba and Mexico, and to the United States. For the 12-month period ended October 31, 1998, approximately 90,000 travellers traveled with VAT France.

3.1.4 Products of Regent

Regent has built an enviable reputation in the Ontario market for cruises in the Caribbean in the winter and in the Mediterranean during the summer, and also offers packages to Venezuela, Colombia, Panama, and Greece. In the fall of 1998, Regent joined forces with EnRoute Holidays, a Florida specialist on the Ontario market, in order to offer a wider range of products to this important destination while continuing to market other sunshine destinations such as the Dominican Republic, Cuba, and Mexico. For the 12-month period ended October 31, 1998, approximately 136,000 travellers traveled through Regent.

3.1.5 Products of World of Vacations Ltd.

World of Vacations Ltd. operates in the markets of Ontario, the Atlantic Provinces, the Prairies and Western Canada and offers a broad range of products for destinations in the United States, the Bahamas, the Caribbean, Mexico and South America, and also offers ski packages in Canada. In the summer, World of Vacations Ltd. adds major European destinations to its product line. For the 12-month period ended October 31, 1998, approximately 262,000 travellers traveled with World of Vacations Ltd.

3.1.6 Products of Look

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

For the 12-month period ended October 31, 1998, approximately 1,239,000 travellers traveled with Look.

3.1.7 Products of DMC

DMC provides VAT France with a complete range of competitively priced Canadian tourism products, for both groups and individual travellers. In addition, DMC offers two major types of products, the organization of leisure trips (traditional, discovery and adventure tourism) and business trips (incentive trips, meetings, conferences) which it markets mostly in Europe and in the United States. DMC, which served 43,000 travellers during the 12-month period ended October 31, 1998 is one of the largest incoming tour operators in Canada.

3.1.8 Products of Brok'Air

Brok'Air is a French company active in two major fields of the holiday travel industry. First, it is a consolidator for charter flights, and also enables travel agencies to access air fares negotiated with scheduled airlines. In France, the company is the leading consolidator for scheduled airlines. Second, under its Any Way trademark, it operates a telephone call centre and computerized communications (Minitel and Internet) which markets tourist products for individuals or groups.

3.1.9 Market Share and Competition

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

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

In the fall of 1998, Signature Vacations Inc. acquired Royal Vacations, the tour operator subsidiary of Royal Aviation Inc., pursuant to a strategic alliance between the airline carrier and Signature Vacations Inc.. A few months prior to the announcement of such alliance, the airline carrier Canada 3000 (which had been the principal provider of Signature Vacations Inc. airline capacity) launched its own tour operator, Canada 3000 Holidays. The Management of Transat believes that these changes will have an impact on the Canadian market, the nature or depth of which remain uncertain.

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

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

3.2 TRAVEL AGENT BUSINESS

The Corporation has access to a network of 206 travel agencies in Eastern Canada which do business under the following four banners: Club Voyages, Voyages en Liberté, Inter Voyages and Vacances Tourbec. Consultour is the leading travel agency franchisor in Quebec. These travel agencies sell a wide variety of products including those offered by the Corporation. Under the terms of the franchises, travel agencies are required to pay fees based on their revenues and to devote a certain percentage of their sales to the Corporation. Consultour, through Euro Charter, owns and operates 50 travel agencies throughout France. For the year ended October 31, 1998, these agencies had revenues of approximately 145 million dollars.

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

3.2.1 Market Share and Competition

According to industry sources, there are more than 5,000 travel agents in Canada (including approximately 1,100 in Quebec), 5,000 in France and 7,000 in the United Kingdom. For the year ended October 31, 1998, the travel agencies related to Consultour recorded 439 million dollars in revenues, representing approximately 30% of the Quebec market.

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

3.3 CHARTER AIRLINE BUSINESS

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

Air Transat aims to offer a high quality service. It was awarded the "Air Carrier of the Year" award by The Association of Quebec Travel Agencies in 1989, 1990, 1991, 1993, 1995 and 1998.

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

Air Transat currently operates a fleet of ten Lockheed L-1011-150s with 362 seats each, four Lockheed L-1011-500s with 309 seats each (one of which is operated by STAR Airlines), five Boeing 757-200ERs with 228 seats each and two Boeing 737-400s with 170 seats each leased for three winter seasons starting in 1997-1998. Pursuant to the lease agreements for the five Boeing 757s, Air Transat has deposited amounts totaling $5,804,000, to be applied against the last rental payments at the expiry of the leases. Pursuant to the majority of the lease agreements, the Corporation must deposit with its lessors certain amounts calculated on the basis of the number of flight hours in order to provide for the overhaul costs of engines and airframes. Furthermore, pursuant to an operating lease agreement, Air Transat will take delivery of two Airbus A-330-200s with 362 seats each; the first is scheduled for delivery in February 1999 and the second for April of the same year. These long-haul widebody aircraft constitute the beginning of the fleet-renewal program that will span a few years.

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

The Corporation holds an 97.9% interest in the capital of Look. Look co-founded and holds a 49.58% interest in STAR, a French charter air transportation company. STAR operates four Airbus A-320 aircraft with 180 seats each (a fifth aircraft will be added to the fleet next April) and a Lockheed L-1011-500 with 309 seats on loan from Air Transat. The Airbus A-320 aircraft will service Look's and other tour operator's destinations in the Mediterranean region and in other regions, as required, and the Lockheed L-1011-500 will permit STAR to begin long-haul activities.

In 1998, 2,510,000 passengers travelled with Air Transat, divided amongst the following important destinations; international flights (70.3%) flights towards the United States (20.8%) and domestic flights (8.9%).

3.3.1 Distribution and Marketing

The marketing of charter air services for passenger transportation is effected on a seasonal basis, in large part by the Corporation's tour operators who organize package tours. In the winter season, most of the seats sold are to southern destinations whereas in the summer season seats are primarily sold to Europe. The selection of destinations is determined in close collaboration with tour operators, which enter into charter agreements with the air carrier six to eight months prior to the beginning of each season and undertake to effect payment thereto.

Tour operators owned by or affiliated with the Corporation provided approximately 63% of Air Transat's revenues for the 12-month period ended on October 31, 1998.

3.3.2 Maintenance

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

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

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

3.3.3 Insurance

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

3.3.4 Fuel Supply

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

3.3.5 Ground Handling and Airport Services

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

3.3.6 Market Share and Competition

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

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

Increase (Decrease) in Available Seats –
Canadian Charter Companies

1990	1991	1992	1993	1994	1995	1996	1997
(11 %)	(14 %)	7.2 %	(0.9 %)	9.5 %	3 %	(21%)[1]	15.9%[2]

(1) The significant decrease in 1996 is explained by the transfer from charter transborder operations to scheduled transborder operations.
(2) The significant decrease in 1997 is explained in part by the transfer of scheduled transborder operations to charter transborder operations following a change of control of an important tour operator.

Source: Statistics Canada

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

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

	1992	1993	1994	1995	1996	1997
Air Canada	13.6%	11.8%	8.6%	4.2%	0.5%[2]	0.4%
Air Club	—	—	2.2%	6.1%	7.7	—
Air Transat	20.1%	30.1%	27.8%	26.9%	39.2%	47.7%
Canada 3000	19.9%	21.4%	25.4%	28.7%	20.4%[2]	20.8%
Canadien	18.3%	18.0%	17.3%	10.9%	3.6%[2]	2.8%
Nationair	23.1%	8.3%[1]	—	—	—	—
Royal	1.6%	8.6%	16.7%	18.4%	21.9%	20.2%
Skyservice	—	—	0.7%	3.4 %	3.9%	7.3%
Autres	3.4%	1.8%	1.3%	1.4%	2.8%	0.8%
	100%	100%	100%	100%	100%	100%

Source: Statistics Canada

(1) In April 1993, Nationair declared bankruptcy and most tour operators doing business with Nationair made arrangements for Air Transat to replace Nationair for the 1993 summer season.
(2) The significant decreases in the number of passengers for Air Canada, Canadian et Canada 3000 are attributable to the transfer of their charter transborder operations to their scheduled transborder operations.

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

Market Share – International Charter Flights (excluding United States)

	1992	1993	1994	1995	1996	1997
Air Canada	2.5 %	2.9 %	1.3%	0.7 %	0.3 %	0.3 %
Air Club	—	—	3.6%	8.1 %	8.4 %	1.1 %
Air Transat	32.5 %	43.5 %	39.9 %	35.3 %	38.1 %	45.3 %
Canada 3000	18.5 %	20.0 %	23.0 %	21.5 %	24.9 %	26.0 %
Canadien	7.6 %	9.2 %	8.0 %	6.4 %	4.0 %	—
Nationair	36.0 %	12.6 %[1]	—	—	—	—
Royal	1.1%	10.7%	22.2 %	21.9 %	18.6 %	18.9 %
Skyservice	—	—	1.3 %	5.2 %	4.2 %	7.9 %
Autres	1.8 %	1.1 %	0.7 %	0.9 %	1.5 %	0.5 %
	100 %	100 %	100 %	100 %	100 %	100 %

Source: Statistics Canada

(1) See preceeding note 1

The Competition between charter air carriers is essentially based on price, which is mainly a function of the level of seat capacity. Prices therefore vary significantly in accordance with seasonal variations in demand and price wars are often triggered whenever carrier capacity exceeds demand or a competitor seeks to increase its market share. Recent developments in Canada concerning competitors of Transat has brought on capacity which exceeds demand, generating a certain duplication of seats offered by different charter air carriers. Furthermore, the large number of charter air carriers and scheduled airlines flying to U.S. destinations combined with the weakness of the Canadian dollar versus the U.S. dollar has resulted in heavy competition and lower profit margins on flights to these destinations.

3.4 REGULATORY ENVIRONMENT

3.4.1 Tour Operators and Travel Agents

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

Certain legislation also provides that a bond is required as a condition to receiving a travel agent permit. To ensure compliance with applicable legislation, control and inspection mechanisms have been put in place. In addition, in some jurisdictions travel agents must contribute to compensation funds used to protect against fraud and bankruptcies.

The Corporation believes it holds all necessary permits and is in compliance with the requirements of applicable legislation.

3.4.2 Charter Air Carriers

International Regulation

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

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

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

Canadian Legislation

The operation of a commercial airline in Canada is regulated by the *Aeronautics Act* and the *Canada Transportation Act*. Such operation is subject to the delivery of the required licences, to the issuance of an operating certificate certifying that the aircraft complies with Canadian standards, and to the delivery of the required liability insurance.

In the case of charter flights, permits are required for each proposed flight or series of flights. Licences and charter permits are issued by the National Transportation Agency (the "Agency"), and the operating certificate is issued by Transport Canada. This certificate certifies that the air carrier is adequately equipped and able to conduct its business in compliance with the *Canadian Aviation Regulations* and the *Air Transportation Regulations*. Such a certificate was issued to Air Transat on November 13, 1987, and was subsequently modified to reflect the Corporation's changing operating conditions.

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

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

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

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

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

Pursuant to the *Canada Transportation Act*, Air Transat must establish, at all times, that it is a "Canadian" within the meaning of such act in order to hold the appropriate licence to operate an air service. As Air Transat is wholly-owned by Transat, the Corporation must, in order that Air Transat may qualify as a "Canadian" itself qualify as a "Canadian", which means it must ensure that no more than 25% of its outstanding voting shares are held, directly or indirectly, by "non-Canadians" within the meaning of such act. To the best of the Corporation's knowledge, approximately six percent of the voting shares of the Corporation's share capital was owned by "non-Canadians" within the meaning of such act as at December 31, 1998.

Foreign Legislation

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

3.5 EMPLOYEES

As at October 31, 1998, the Corporation and its wholly-owned subsidiaries had 2,764 full-time employees and its affiliates had 1,384 full-time employees, for a total of 4,148 employees, as follows:

Air Transat	1 627	Haycot	600	Transat	15
Vacances Air Transat	437	Look	340	VAT France	115
Brok'Air	59	Nolitour	65	World of Vacations Ltd.	235
Consultour	82	Regent	99	ATH Floride	20
DMC	26	STAR	233		
Euro Charter	175	Tourbec	20		

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

Some of Air Transat's employees are organized into four employee associations, with which Air Transat has negotiated a series of working conditions. Pilots, flight attendants, crew scheduling personnel and mechanics have all been grouped into accredited bargaining units. Pilots are represented by the Technical Flight Personal Association of Air Transat while the flight attendants are affiliated with the Canadian Union of Public Employees and the crew scheduling personnel and mechanics with the International Association of Machinists and Aerospace Workers. A collective agreement has been entered into with the mechanics for a period commencing on November 1, 1995, and ending October 31, 1999. All other agreements have a three-year term which expired on October 31, 1998. Air Transat has recently agreed to the renewal of the collective agreement of the crew scheduling personnel for a period ending on October 31, 2000. As for the pilots and flight attendants, Air Transat is presently negociating renewal terms with each employee association. In the interim, the parties have the obligation to abide by the terms and conditions of each expired collective agreement.

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

3.6 GEOGRAPHIC BUSINESS SEGMENTS

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

	Canada		**France**		**Total**	
	1998 $	**1997 $**	**1998 $**	**1997 $**	**1998 $**	**1997 $**
Revenues from third parties	**931 982**	816 955	**489 472**	499 785	**1 421 454**	1 316 740
Geographic intersegment sales	**42 031**	68 242	**—**	—	**—**	—
Total revenues	**974 013**	885 197	**489 472**	499 785	**1 421 454**	1 316 740
Amortization	**29 966**	22 524	**3 240**	2 991	**33 206**	25 515
Assets by segment	**378 848**	359 862	**117 719**	107 614	**496 567**	467 476
Capital asset additions	**21 946**	45 356	**2 210**	996	**24 156**	46 352

3.7 PREMISES

The Corporation owns the building situated at 11,600 Cargo A-1 Street, Montreal International Airport in Mirabel, Quebec, which is the head office and the principal maintenance base of Air Transat. This property, which has an area of 15,302 m^2, is mortgaged in favour of the Corporation's bankers.

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

Name	Address	Description	Area
Transat	300 Léo-Pariseau Street Suite 600 Montreal, Quebec	Head office	4,560 m^2
Air Transat	12655 Commerce A-4 Montreal International Airport Mirabel, Quebec	Offices	1,200 m^2
	19555 Cargo A-6 D Building Montreal International Airport Mirabel, Quebec	Warehouse	4,638 m^2
Air Transat Holidays	300 Léo-Pariseau Street Suite 400 Montreal, Quebec	Head office	4,082 m^2
	5915 Airport Road Suite 1000 Mississauga, Ontario	Offices	1,100 m^2
	505 Burrard Street Suite 620 Vancouver, British Columbia	Offices	800 m^2
Nolitour	300 Léo-Pariseau Street 5th Floor Montreal, Quebec	Head office	849 m^2
VAT France	43 Diderot Blvd. 75012 Paris France	Head office	1,650 m^2
DMC Transat	300 Leo-Pariseau Street 24th Floor Montreal, Quebec	Head office	710 m^2
Regent	6205 Airport Road Mississauga, Ontario	Head office	1,397 m^2
Look	12 Truillot Street Ivry-sur-Seine France	Head office	4,082 m^2
ATH Floride	140, South Federal Highway 2nd Floor Dania, Floride 33004	Head office	1,520 m^2

In addition, Air Transat leases several ticket counters and maintenance, catering and warehousing facilities in Montreal, Quebec City, Toronto and Vancouver, as well as a flight-simulator facility in Toronto. Air Transat Holidays still has unused office space under lease in Quebec City and leases several ticket counters in the above four cities and warehousing facilities in Montreal and Toronto.

3.8 ENVIRONMENT

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

ITEM 4. SELECTED CONSOLIDATED FINANCIAL INFORMATION

4.1 ANNUAL

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

	Fiscal Years Ended October 31				
	1998	**1997**	**1996**	**1995**	**1994**
	(in thousands of dollars, except amounts per share)				
Revenues	1,421,454 $	1,316,740 $	779,157 $	551,766 $	522,177 $
Operating income before amortization	72,279	72,457	60,179	47,506	32,781
Operating income	39,073	46,942	42,826	29,261	16,003
Net income	19,731	25,364	22,202	16,910	5,568
Operating cash flow	50,338	46,117	37,742	33,178	21,417
Capital assets (including rotable aircraft spare parts)	129,311	130,083	95,710	79,944	90,363
Total assets	496,567	467,476	308,927	171,773	176,500
Long-term debt and obligations under capital leases (including current portion)	109,376	115,760	44,533	45,816	55,429
Debenture	10,000	10,000	10,000	2,500	2,500
Shareholders' equity	182,668	164,420	52,995	25,824	39,222
Earnings per share	0.58	0.78	0.98	0.45	0.13
Diluted earnings per share	0.56	0.74	0.86	0.41	0.13

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

4.2 STATISTICS OF THE LAST EIGHT QUARTERS

Selected Consolidated Quarterly Financial Data

(in thousands of dollars except date per share)

Year ended October 31, 1998	1st quarter	2nd quarter	3rd quarter	4th quarter
Total revenues	300,246	368,747	364,954	387,507
Income (loss) before income taxes	(7,499)	11,406	10,400	22,085
Net income (net loss)	(4,861)	6,111	6,330	12,151
Earnings (loss) per share	(0.14)	0.18	0.18	0.36
Diluted earnings (loss) per share	(0.14)	0.18	0.18	0.34

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

4.3 DIVIDENDS

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

4.4 AUDITORS

Ernst & Young, LLP, have been the Corporation’s auditors since its incorporation.

ITEM 5. MANAGEMENT’S DISCUSSION OF OPERATING RESULTS

5.1 FISCAL 1998 COMPARED TO FISCAL 1997

For the year ended October 31, 1998, the Corporation generated total revenues of over $1.4 billion compared with $1.3 billion in 1997, up $104.7 million or 8%. This increase is explained by the internal growth of its operations in the Canadian market which, in turn, is the result of higher prices and volumes that reflects its excellent market positioning.

Income before amortization, interest, share of net income of companies subject to significant influence and income taxes amounted to $72.3 million, which is similar to the $72.5 million reported last year, despite the negative impact that certain factors related to our business sector had on operations.

In 1998, the Corporation posted net income of $19.7 million, or $0.58 per share ($0.56 per share on a fully diluted basis), a decrease of $5.7 million, when compared with net income of $25.4 million, or $0.78 per share ($0.74 per share on a fully diluted basis), reported in 1997.

This decrease is mainly due to fluctuations in the value of the Canadian dollar, particularly when compared with the U.S. dollar and the French franc. Other factors with an impact on profitability were: greater competition in Canada during the summer season, particularly in Ontario and western Canada, and in the cruise market in the winter; a slight drop in demand in several European markets for Canadian destinations; and finally the Quebec ice storm in January 1998.

5.1.1 Revenues

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

The Corporation's revenues for the winter season rose by approximately $41 million, or 6.5%, from $628 million in 1996-1997 to $669 million in 1997-1998. This performance is due to the higher sales volume in several markets and price increases sparked by substantially higher costs as a result, among other things, of the weak Canadian dollar.

During the 1997-1998 winter season, several of our Canadian tour operators increased their revenues by more than 20%, with the most noticeable increases in Ontario and western Canada. In the latter market, they were up by over 40%. This performance is even more striking in view of the fact that one of the Corporation's important markets - Quebec - was crippled during the first six months of the year by the memorable ice storm in early January 1998.

In France, Vacances Air Transat (France), which is continuing to develop its sunshine destination market, mainly in the Caribbean, and Brok'Air both reported growth of over 27%, while Look Voyages's revenues were down by approximately 17%. This decrease was in line with Management's objective to reposition this subsidiary in the French market. It is also partly attributable to the drop in value of the French franc in relation to the Canadian dollar during the first six months of 1998.

Similarly, Air Transat's revenues, including business activities within the group, rose by approximately 20%, mainly as a result of greater demand from the group's tour operators. In order to sustain this growth, Air Transat added another aircraft to its fleet. Air Transat operated ten Lockheed L-1011-150s, three Lockheed L-1011-500s, five Boeing 757s and, temporarily, two Boeing 737-400s during the 1997-1998 winter season.

Revenues for the summer season rose from $688.8 million in the second half of 1997 to $752.5 million in the summer of 1998, up $63.7 million, or 9.2%. For the last six months of 1998, revenues of our Canadian outgoing tour operators were an average of 13% higher than the same period last year. In the Canadian market, outgoing tour operators' revenues were affected by increased competition for departures from Toronto and Vancouver to European destinations. On the other hand, their revenues benefited from the higher prices for departures from Quebec to Europe.

In France, Brok'Air's revenues rose by 22%, while those of Vacances Air Transat (France) dropped 11% due to a slow period in the leisure travel sector caused, among other things, by the World Cup soccer tournament. Vacances Air Transat (France) therefore experienced a slight drop in the demand for Canadian destinations in the French market. This situation also had a negative impact on DMC Transat, our incoming tour operator, whose activity originates primarily in France. The lower demand for Canadian destinations was partially offset by more travel activity to the United States and the Caribbean.

Look Voyages's sales volume decreased and its selling prices were down slightly in the summer season. However, this decrease was offset by the recovery of the French franc against the Canadian dollar, which resulted in slightly higher total sales for the summer season.

Finally, Air Transat's sales, including business activities within the group, increased by approximately $22 million, or 9%. As at October 31, 1998, its fleet of aicraft included ten Lockheed L-1011-150s, three Lockheed L-1011-500s, and five Boeing 757s. Air Transat will soon embark on a fleet renewal program with the delivery of two Airbus A330-200s early in 1999.

Overall, three main factors were responsible for the growth of consolidated revenues during the summer of 1998 over the previous summer: first, increased sales volume due to the tour operators' solid positioning in their respective markets; second, significantly higher costs caused mainly by the weak Canadian dollar compared with the U.S. currency as well as general price increases which led to higher selling prices and, in turn, to higher sales; and finally, a stronger French franc against the Canadian dollar which resulted in increased revenues in francs (essentially for Look Voyages) converted into Canadian dollars. Given the currency hedging policy through the use of foreign exchange forward contracts and the fluctuation in the conversion rates for transactions in French francs, income before income taxes decreased by approximately $6.8 million in 1998 over 1997 as a result of fluctuations in the value of the French franc against the Canadian dollar.

5.1.2 Operating expenses and profitability

For operating expenses, the drop in value of the Canadian dollar in relation to the U.S. dollar undoubtedly had the largest impact on the results for the year. It should be remembered that a large portion of the Corporation's expenses are incurred in U.S. dollars, including the leasing of aicraft, fuel, a portion of maintenance and airport costs and most hotel rooms at sunshine destinations.

In 1997-1998, the value of the Canadian dollar dropped significantly compared with the U.S. dollar, going from $0.71 on October 31, 1997 to $0.70 on April 30, 1998, then down to $0.67 on July 31, 1998, and finally plunging to $0.65 on October 31, 1998. Although the Corporation maintains a currency hedging policy through the use of foreign exchange forward contracts, it suffered seriously from the drop which was not anticipated in the financial markets and hit hardest during the summer. For the whole year, the tumbling Canadian dollar had an impact of over $18 million on the gross margin realized. Of course, rising costs led to higher prices for products sold to customers; nevertheless, they had a significant net impact on profitability for the year. Two other factors contributed to the substantial decline in profitability, mostly in the 1997-1998 winter season: overcapacity in the cruise market, particularly in Ontario, and the effects of the Quebec ice storm mentioned above.

For all operating expenses, the combination of higher volumes in 1998 compared with 1997 and higher purchase prices charged by suppliers resulted in increased expenses, despite the Corporation's efforts to control costs.

For the airline, aircraft maintenance costs continued to grow. The Corporation is diligently controlling these costs, given the mix of aircraft in its fleet. However, fuel prices in 1998 were more favourable than in 1997 when the fuel price increase was such that a market-wide surcharge was imposed on customers to offset the excess costs incurred during the winter of 1996-1997. Given the level of world fuel prices and fuel purchasing contracts, the Corporation achieved savings in terms of fuel expenses in the current year compared with last year.

Amortization expenses for the year increased by about $7.7 million compared with 1997. Air Transat was mainly responsible for this increase, following acquisitions and improvements to various aircraft in its fleet. Last year's amortization had also been affected by the refinancing of certain aircraft.

The inclusion of Look Voyages's results and the Corporation's share of World of Vacations' results had a negative impact on income in 1998. Look Voyages's sales for the year were down by approximately 4% compared with last year; however, its results improved substantially and Look Voyages reported a loss before income taxes (including companies subject to significant influence) of $1.2 million for the current year compared with a loss before income taxes of $9.0 million a year ago. This improvement is primarily explained by higher selling prices, and a higher load factor for air-only and vacation packages.

Management is still working to improve the product line offered and achieve better positioning in the travel-agency networks. A new general manager, who is well acquainted with the French market, joined Look Voyages at the beginning of July 1998. Given Look Voyages's progress in 1998 over 1997, this subsidiary is expected to become profitable in 1999.

World of Vacations posted a loss for the year ended October 31, 1998. An initial step was taken to streamline costs by transferring several business functions previously carred on at the Vancouver office to Toronto. Management is still working to reduce overall operating costs and position the company in its markets.

5.1.3 Interest

In total, financing costs (interest on short-term and long-term debt and financial expenses) increased slightly in 1998 compared with last year, due to the financing activities conducted and the interest rates paid on indebtedness. Interest income was up significantly, by approximately $2.1 million, as a result of the availability of funds invested at more favourable interest rates.

5.1.4 Companies subject to significant influence

Services Haycot and Consultour/Club Voyages, two companies in which the Corporation has a 50% interest, were mainly responsible for the decrease in net income of companies subject to significant influence. Both companies had achieved excellent results in 1997.

5.1.5 Financial position

The Corporation's cash position as at October 31, 1998 was $155.7 million (including $22.3 million in trust) compared with $141.3 million (including $17.3 million in trust) last year. During the year, operating activities generated cash of approximately $35.8 million while financing activities provided $10.3 million. These amounts were reduced by $31.7 million used in investing activities, thus providing a net increase in cash of $14.4 million for the year.

Net cash flow provided by operating activities is largely due to a substantial operating cash flow which, as in past years, was generated by the Corporation and amounted to $50.3 million ($1.47 per share or $1.42 on a fully diluted basis) this year, compared with $46.1 million ($1.41 per share or $1.34 on a fully diluted basis) in 1997. However, a significant cash amount of about $14.3 million was invested in working capital, which is similar to the $13.8 million invested last year.

The Corporation used $31.7 million for investing activities during the year ended October 31, 1998, of which $24.2 million and $4.5 million were additions to capital assets and deposits, respectively. Additions to capital assets, which were primarily made by Air Transat, include another Lockheed L-1011-500 and a spare engine for the airline's fleet. Air Transat's capital assets also increased as a result of certain aircraft refinancing transactions and modifications to capital lease contracts.

Finally, during the year, net cash flow of approximately $10 million was provided by financing activities. The increase in indebtedness of about $22 million is mainly explained by the financing of the above-mentioned additions to capital assets and by fluctuations in the conversion rates of certain debts owed in foreign currencies. The Corporation also recovered over $15 million on deposits made for engine and airframe overhauls. However, the repayment of long-term debt and obligations under capital leases combined with the net impact of refinancing certain aircraft used over $27 million of cash, providing net cash of about $10 million from financing activities during the year.

5.1.6 Risk management, fuel and foreign currency

As part of its operations, Transat spends significant amounts on fuel for its aicraft. It uses fuel purchasing contracts of less than one year to protect against unstable fuel prices.

Management considers that the currency environment is risky, mainly because of the high exchange rate of the U.S. dollar against the Canadian dollar. In order to manage foreign exchange risk, the Corporation enters into foreign exchange forward contracts. Information relating to fuel purchasing contracts and foreign exchange forward contracts is presented in note 18 to the consolidated financial statements. Given the major fluctuations of the Canadian dollar against the U.S. dollar in the fall of 1998 and in order to minimize their negative impact on results, a surcharge was imposed at the beginning of fiscal 1999 to cover part of the excess costs for the 1998-1999 winter season.

5.1.7 The Year 2000

Since our information systems are an essential component for the development and delivery of our products and services, the Year 2000 issue represents a risk for the Corporation. Thus, Management has made it a priority to ensure that its information systems are Year 2000 compliant and the integrity and continuity of its operations can be maintained before, during and after the Year 2000. The Year 2000 issue could have serious consequences on the Corporation's operations if its systems do not comply. The Year 2000 compliance project is the responsibility of our Information Systems Group which is working directly with all the group's operational units. The Corporation is using internal resources as well as consultants and temporary personnel for this project. Developments are being closely monitored on an ongoing basis with regular reports to the Board of Directors.

In the fall of 1997, Management implemented a company-wide multifaceted approach to ensure that the information systems and related equipment continue to operate on the day of December 31, 1999. It involves using a proven methodology for the planning, conversion, testing and rollout of the systems and equipment.

In 1998, the compliance of the various computer-related components was analyzed and most of them were converted, compliance testing was performed and all our major business partners were asked to inform us of their plans for the Year 2000. The Corporation is also participating in ATAC's (Air Transport Association of Canada) Year 2000 project which involves monitoring the Year 2000 compliance of airports, air carriers and their suppliers. Our participation keeps us informed of the status of the Year 2000 projects of all the major players in the air transportation industry in Canada, the U.S. and around the world since ATAC has an agreement to share information with ATA (Air Transport Association) in the United States and IATA (International Air Transport Association) which have similar projects under way.

Plans for 1999 include making the last computer-related components compliant, completing their compliance testing and monitoring developments in our business partners' plans. All the changes will be closely scrutinized to ensure that the computer-related systems are Year 2000 compliant. A contingency plan will also be developed to try and prepare for any eventuality.

Management's goal is to complete the essential part of the implementation phase of the final components and the compliance tests by the spring of 1999. The monitoring of our business partners' plans and development of our contingency plan will continue throughout the year. The Corporation believes that it has taken all the necessary and appropriate measures to deal with the millennium bug. However, it is not possible, given the very nature of this risk, to provide assurance that all aspects of the Year 2000 issue which could have an impact on operations, including those involving our customers, suppliers and other third parties, will be completely resolved by the required deadline.

To date, the Corporation has charged direct costs of approximately $1.4 million against its results for the Year 2000 project. It does not anticipate that the project's costs will have a material impact on its operating results. The estimated total cost of the project is approximately $2.5 million, which will mainly be charged against the results or capitalized as improvements if they prolong the useful life of the underlying assets, in accordance with generally accepted accounting principles. This amount does not include the cost of replacing certain systems which, following a financial analysis, will be replaced sooner than planned, rather than converted for the Year 2000, because their replacement was already planned as part of the normal course of the Corporation's activities. The costs and deadline for the project are Management's estimates based on certain assumptions; it is not sure they will materialize without significant variances.

5.2 FISCAL 1997 COMPARED TO FISCAL 1996

For the year ended on October 31, 1998 the Corporation's revenues exceeded the $1 billion mark, climbing from $779.2 million in 1996 to over $1.3 billion in 1997, an increase of $537.6 million or 69%. Of this increase, $342.3 million resulted from its interest in Look (33.7% interest acquired in April 1996 which rose to 68% in October 1996, and to 84.4% in June 1997), Brok'Air (34.4% interest acquired in July 1996 which rose to 39% in December 1996) and World of Vacations Ltd. (35% interest acquired in August 1996). The other subsidiaries experienced growth of $195.3 million, or 29% compared with last year's results.

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

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

5.2.1 Revenues

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

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

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

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

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

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

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

5.2.2 Expenses and Interest Income

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

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

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

Amortization expenses rose substantially in 1997 compared with 1996, due to acquisitions and improvements to various aircraft in the fleet carried out over the past two years. The goodwill related to the companies acquired in 1996, which is amortized for the whole fiscal 1997, accounted for higher amortization expenses. The drop in value of the French franc against the Canadian dollar had a negative impact of some $7.1 million. However, an appreciation of the Canadian dollar against the U.S. dollar lowered expenses and improved results by approximately $1.3 million during fiscal 1997.

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

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

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

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

5.2.3 Companies Subject to Significant Influence

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

5.2.4 Financial Position

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

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

Transat used $64.5 million for investing activities during the year ended October 31, 1997. Some $46.4 million were used for capital expenditures and $9.1 million for the purchase of 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.

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

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

ITEM 6. SHARE CAPITAL OF THE CORPORATION, MARKET FOR THE NEGOTIATION OF SECURITIES AND PRIOR DISTRIBUTIONS

6.1 CAPITAL STRUCTURE

The share capital of the Corporation consists of an unlimited number of common shares and an unlimited number of Preferred Shares issuable in series, of which 34,525,257 common shares and 123,800 Preferred Shares Series 3 were issued and outstanding as at March 15, 1999. Only the common shares of the Corporation are voting shares, each common share carrying one vote.

To the knowledge of Transat, the only person or entity holding 10% or more of the voting shares of the share capital of the Corporation is Fonds de solidarité des travailleurs du Québec (FTQ), which, as at March 15, 1999, held 3,868,001 of the issued and outstanding common shares of the Corporation's capital, namely 11.2% of the issued and outstanding common shares of the Corporation.

6.2 MARKET FOR THE NEGOTIATION OF SECURITIES

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

	The Montreal Exchange			The Toronto Stock Exchange		
	Price Range			Price Range		
Period	High	Low	Trading Volume	High	Low	Trading Volume
1998						
1st quarter	$13.60	$10.30	4,742,659	$13.45	$10.30	1,702,474
2nd quarter	$12.00	$9.00	2,309,020	$12.00	$9.10	649,930
3rd quarter	$9.75	$4.75	2,347,565	$9.75	$4.50	1,214,677
4th quarter*	$7.40	$4.25	3,381,737	$7.15	$4.50	340,973
1997						
1st quarter	$13.40	$7.80	8,500,972	$13.20	$8.25	2,975,209
2nd quarter	$10.75	$8.00	3,475,745	$10.50	$8.25	1,196,935
3rd quarter	$11.85	$8.75	6,163,405	$11.70	$8.55	1,156,236
4th quarter	$13.00	$10.55	2,667,038	$12.90	$10.50	700,446

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

6.3 PRIOR DISTRIBUTIONS

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

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

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

ITEM 7. DIRECTORS AND EXECUTIVE OFFICERS

7.1 DIRECTORS

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

Pursuant to a commercial agreement entered into on August 24, 1988 (which was amended on August 31, 1988, April 28, 1993 and August 19, 1998), the Corporation undertook to ensure that two representatives of Consultour/Club Voyages Inc., namely the Chief Executive Officer and any other person agreed to by the parties, would be elected to the Corporation's Board of Directors and be kept thereon. This agreement will remain in effect until March 31, 1999.

The following table sets forth, for each director, the name, municipality of residence, principal occupation, period since which each director holds its office of director and the number of common shares of Transat over which it exercises control or direction. Each of these directors shall hold office until the next annual meeting of Transat or until his or her replacement is elected. Mr. Roger Giraldeau resigned from the Board of Directors during the month of June 1998 and was replaced by Mrs. Sylvie Jacques. Pursuant to a resolution of the Board of Directors of Transat, the number of directors of the Corporation for the next annual general meeting of its shareholders, has been established at 13 directors.

Name of Director	Principal Occupation	Director Since	Common Shares Owned or Controlled or Directed
Jean-Marc Eustache(1) Outremont, Quebec	Chairman of the Board, President and Chief Executive Officer of the Corporation and President of Look Voyages S.A. (tour operator)	February 1987	795,597
Jean-Paul Bellon(1) Montreal, Quebec	Chairman of the Board, President and Chief Executive Officer, Consultour / Club Voyages Inc. (travel-agency franchisor) and President, Euro Charter S.A. (chain of travel agencies)	January 1989	5,000
André Bisson O.C.(2)(4) Baie d'Urfé, Quebec	Director of Corporations	April 1995	12,000
Lina De Cesare(1) Montreal, Quebec	President and Chief Executive Officer of Air Transat Holidays A.T. Inc. (tour operator) and President of Tourbec (1979) Inc. (travel agency franchisor)	May 1989	187,494
Benoît Deschamps(1)(4) Dorval, Quebec	Vice-President, Financial Planning and Treasurer, Le Groupe Vidéotron Ltée (telecommunications)	April 1997	1,700
Yves Graton(1)(3) Montreal, Quebec	Director of Corporations	April 1991	1,000
Jean Guertin(1)(3) Montreal, Quebec	Chief Executive Officer of Société Gasbeau (holding company), Chairman of the Board, Telemedia Inc. (communications) and Professor at the École des Hautes Études Commerciales (university)	April 1995	3,000
Sylvie Jacques(1)(2) Laval, Quebec	Director, Investments, Recreation - Tourism Fund, Fonds de solidarité des travailleurs du Québec (FTQ) (institutional investor)	June 1998	-
Michel Lessard(4) Sorel, Quebec	President, Club Voyages Air-Mer Inc. (travel agencies)	April 1998	4,000
Philippe Lortie Saint-Laurent, Quebec	Captain, Air Transat A.T. Inc. (airline company)	April 1997	51,975
Philippe Sureau(1) Outremont, Quebec	Executive Vice President of the Corporation, President and Chief Executive Officer, Air Transat A.T. Inc. (airline company) and President, DMC Transat Inc. (tour operator)	February 1987	612,026
John D. Thompson(2)(3) Mont-Royal, Quebec	Deputy Chairman of the Board, Montreal Trust Company (trust company)	April 1995	5,000

(1) Current member of the Executive Committee
(2) Current member of the Audit Committee
(3) Current member of the Human Resources and Compensation Committee
(4) Current member of the Corporate Governance Commitee

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

Before joining Fonds de solidarité des travailleurs du Québec (FTQ), Mrs. Sylvie Jacques was principal portfolio manager at Investments Quebec. In November 1995, Mrs. Jacques joined Fonds de solidarité des travailleurs du Québec (FTQ) as advisor, investments, and was promoted to director, investments, recreation - tourism fund, in April 1997.

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

7.2 OFFICERS

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

Name and Municipality of Residence	First Year of Service with the Corporation	Position Held with the Corporation
Jean-Marc Eustache Outremont, Quebec	1987	Chairman of the Board, President and Chief Executive Officer of the Corporation
Philippe Sureau Outremont, Quebec	1987	Executive Vice-President of the Corporation
Lorraine Maheu Brossard, Quebec	1997	Vice-President, Finance and Administration and Chief Financial Officer of the Corporation
Jean-Marc Bélisle **Montreal, Quebec**	1997	Vice-President, Information Systems of the Corporation

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

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

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

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

ITEM 8. ADDITIONAL INFORMATION

(1) Additional financial data may be found in the Corporation's comparative financial statements as of October 31, 1998. Additional information including directors' and officers' remuneration, principal holders of Transat securities, options to purchase securities, is contained in the Corporation's 1999 Management Proxy Circular.

(2) Transat shall provide to any person or company, upon request to the Corporate Secretary at 300 Leo-Pariseau Street, 6th Floor, Montreal, Quebec, H2W 2P6:

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

(i) one copy of this annual information form of Transat together with one copy of any document, or the pertinent pages of any document, incorporated by reference therein,

(ii) one copy of the comparative financial statements of Transat for its most recently completed fiscal year together with the accompanying auditors' report thereon which are included in the 1998 Annual Report and one copy of any quarterly financial statements of Transat subsequent to the financial statements for its most recently completed fiscal year,

(iii) one copy of the Management Proxy Circular of Transat and of the notice of annual meeting of Transat for 1999; and

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

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