period ended January 31, 2002

Transat
A.T. Inc.

1 quarterly report

Transat A.T. Inc.

Travel Agencies and Distribution

- CONSULTOUR
- EXIT TRAVEL
- VACANCES TOURBEC
- ANYWAY
- CLUB VOYAGES (FRANCE)

Outgoing Tour Operators

- AIR TRANSAT HOLIDAYS
- AMERICANADA
- KILOMÈTRE VOYAGES (a division of DMC Transat)
- RÊVATOURS
- WORLD OF VACATIONS/NOLITOUR
- BROK'AIR
- VACANCES AIR TRANSAT (FRANCE)
- LOOK VOYAGES (99.2% interest)

Incoming Tour Operators and Services at Travel Destinations

- AIR TRANSAT HOLIDAYS USA
- DMC TRANSAT (71.5% interest)
- JONVIEW CANADA (35.8% interest)
- TRAFIC TOURS (40% interest)
- TOURGREECE (40% interest held by Look Voyages)

Hoteliers

- CAMELEON
- THE LOOKÉA CLUBS

Air Transportation

- AIR TRANSAT
- HANDLEX
- STAR AIRLINES (44.3% interest held by Look Voyages)

North America

Europe

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

Transat and its subsidiaries have one ambition: to offer quality vacation travel to an extensive clientele at affordable prices. This goal takes the form of two objectives: to maintain its leadership in Canada and to become a major player in the holiday travel industry in North America and in Europe.

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Computershare Trust Company of Canada

Stock Exchange

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

www.transat.com

First Quarter Revenues and Results

During the quarter ended January 31, 2002, the revenues of Transat A.T. Inc. (the "Corporation") reached $442.2 million, compared with $509.6 million for the same quarter the preceding year, a decline of 13.2%. This decrease is mainly attributable to the sharp drop in sales volumes, especially in Canada for travel to most destinations (the direct impact of September 11). In France, the drop in volume was far less pronounced. The increase in revenues related to the companies acquired during fiscal 2001 only partly offsets the unprecedented drop in business activity. Indeed, for the first quarter of 2002, volume declined approximately 27% (in number of travellers) compared with the same quarter the preceding year, for all of the group's Canadian tour operators. Air Transat's activity declined by 25%.

For the same period, margins declined considerably as a result of several items. Despite the reduction in product offerings carried out by the companies of the Transat group (especially in Canada), which resulted in a reduction in the contribution margin, the Corporation also had to decrease selling prices in response to demand, which was characterized by more last-minute bookings. Compressions made with regard to direct costs, such as hotel rooms, were not sufficient to bring margins back in line. In addition, the Corporation's operating costs increased in several areas, among them, costs related to the strength of the U.S. dollar, partly offset by a decrease in the cost of fuel. These factors led to a sharp drop in profitability. The Corporation thus recorded a net loss of $17.5 million, or $0.54 per share for the first quarter of 2002, compared with a net loss of $0.6 million, or $0.02 per share for the same quarter the preceding year.

Among the other significant factors that contributed to the poor results of the first quarter of 2002 was the increase in the share of net loss of companies subject to significant influence in the amount of $0.9 million, mainly from Star Airlines S.A. There was also a $1.5 million drop in interest income due to a reduction in average cash and cash equivalents during the first quarter of 2002 compared with the same quarter last year and to the level of interest rates on the market.

Financial Position

Cash and cash equivalents, including cash held in trust, totalled $185.3 million as at January 31, 2002.

Operating activities generated $108.7 million, taking into account the positive net change in non-cash working capital balances of $124.2 million. This is mainly the result of cashing customer deposits and of the recovery of income taxes by the subsidiary Air Transat reduced by the change in prepaid expenses, a change that reflects the seasonality of operations. The Corporation used $7.4 million net for its investing activities, mostly for additions to capital assets and other assets. For the same quarter, financing activities used $0.6 million caused by cash inflows of $21.9 million related to the issuance of debentures in January 2002, and to cash outflows of $23.4 million for the reduction of the revolving term loan.

Income taxes recoverable as at January 31, 2002 were $4.7 million compared with $35.4 million as at October 31, 2001. This drop is mainly the result of the recovery of income taxes by the subsidiary Air Transat in the amount of $29.6 million during the first quarter of 2002.

Deposits with suppliers remained relatively stable at $36.1 million as at January 31, 2002 compared with $38.3 million as at October 31, 2001. Prepaid expenses rose $33.1 million, a substantial increase, to $62.2 million at the end of the first quarter, up from $29.1 million at the end of fiscal 2001, as a result of advance payment of outlays for travellers during the second half of the winter season when customer traffic is generally higher than during the first quarter.

Deposits and other expenses increased $6.2 million to $25.9 million as at January 31, 2002, from $19.7 million as at October 31, 2001. The increase is primarily the result of maintenance work at Air Transat, work usually carried out during the low season (November and the beginning of December). These expenses will be amortized based on utilization of the aircraft involved.

Future tax assets increased $5.4 million primarily due to the loss incurred by the Corporation's subsidiaries during the first quarter of 2002.

The decrease in investments from $8.4 million as at October 31, 2001 to $5.9 million as at January 31, 2002 is primarily connected to the losses incurred by companies subject to significant influence during the quarter.

Capital assets were $185.4 million as at October 31, 2001 and $180.8 million as at January 31, 2002. The decrease is attributable to amortization, offset to a certain extent by additions to capital assets.

Bank loans increased $7.7 due to an increased utilization of credit facilities by the French subsidiary Look Voyages, which was in its off-peak season.

Accounts payable and accrued liabilities remained stable at $231.8 million at the end of the quarter compared with $232.4 million at the end of fiscal 2001.

Customer deposits and deferred income rose $115.3 million, a significant increase, due to the fact that the Corporation is starting the second part of the winter season (February to April), which is far busier in terms of business activity than the first part of the winter season (November to January). In particular, these deposits include amounts received from customers for holidays to be taken during the school break.

The Corporation's long-term debt and obligations under capital leases declined $31.1 million from $147.5 million as at October 31, 2001, to $116.4 million at the end of the first quarter of 2002. This decrease is primarily attributable to the repayment of the revolving term loan during the quarter as well as to the repayment of debt in accordance with the terms and conditions of financing agreements.

Debentures increased from $10.9 million as at October 31, 2001 to $28.6 million as at January 31, 2002. This increase is the result of financing in the form of debentures carried out on January 10, 2002 (see below).

Outlook

Taking into account the results of the first part of the 2001-2002 winter season, we continue to anticipate that for the 2001-2002 winter season as a whole, the Corporation's sales volumes from Canadian operations will decrease 20% to 25% compared with the previous winter season. In addition, we believe that prices will continue to be subjected to substantial pressure for the rest of the winter season.

This summer, we believe that demand will continue to be affected by the events of September 11, but to a lesser degree than for the winter season as trends indicate a gradual return to normal. With regard to capacity on the Canadian market, we expect a market where supply and demand will be balanced or with overcapacity on certain flight segments.

Important and Subsequent Events to January 31, 2002

On January 10, 2002, the Corporation and Air Transat issued debentures for an amount of approximately $21,865,000 maturing in January 2009 and redeemable in advance as of January 2005 subject to certain conditions.

In the course of this financing, the Corporation also issued 1,421,225 warrants entitling the holders to subscribe to the same number of common shares of the Corporation at an exercise price of $6.75 each. These warrants expire on January 10, 2007.

On February 19, 2002, the Corporation issued $51,105,000 of convertible unsecured subordinated debentures bearing interest at 9% and maturing on March 1, 2007.

See note 4 of the accompanying notes to consolidated interim financial statements for a more detailed description of the terms and conditions of the financing agreements.

Jean -Marc Eustache

Chairman of the Board and President and Chief Executive Officer
Montreal, March 27, 2002

Consolidated Balance Sheets
(In thousands of dollars)

	As at January 31, 2002 (Unaudited) $	As at October 31, 2001 (Audited) $
Assets		
Current assets		
Cash and cash equivalents	185,274	84,619
Accounts receivable	79,021	85,529
Income taxes recoverable	4,730	35,375
Future income tax assets	15,817	8,283
Inventories	9,185	11,348
Deposits with suppliers	36,143	38,299
Prepaid expenses	62,162	29,077
Total current assets	392,332	292,530
Deposits and other expenses	25,917	19,731
Future income tax assets	15,794	17,891
Investments	5,851	8,389
Capital assets	180,800	185,403
Goodwill	68,569	68,617
Other assets	21,364	21,810
	710,627	614,371
Liabilities and shareholders' equity		
Current liabilities		
Bank loans	16,569	8,843
Accounts payable and accrued liabilities	231,793	232,378
Customer deposits and deferred income	182,254	66,960
Current portion of long-term debt, obligations under capital leases and debentures	24,047	21,965
Total current liabilities	454,663	330,146
Long-term debt	44,716	73,036
Obligations under capital leases	47,611	52,495
Debentures	28,645	10,894
Minority interest and other liabilities	11,988	11,933
	587,623	478,504
Shareholders' equity		
Share capital *[note 3]*	109,476	109,402
Warrants	4,122	—
Retained earnings	8,318	25,879
Deferred translation adjustments and equity component of a debenture	1,088	586
	123,004	135,867
	710,627	614,371

Consolidated Statements of Income and Retained Earnings

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

	Three (3) months ended January 31, 2002 $	Three (3) months ended January 31, 2001 $
Revenues	442,208	509,643
Operating expenses	452,145	494,548
	(9,937)	15,095
Amortization	9,518	10,333
Interest on debentures, long-term debt and obligations under capital leases	3,223	3,169
Other interest and financial expenses	706	400
Interest income	(1,033)	(2,484)
Share of net loss of companies subject to significant influence	2,175	1,244
	14,589	12,662
Income (loss) before the following items	(24,526)	2,433
Income taxes	(6,782)	2,245
Income (loss) before goodwill charges and minority interest in subsidiaries' results	(17,744)	188
Goodwill charges *[note 2]*	—	(837)
Minority interest in subsidiaries' results	209	—
Net loss for the period	(17,535)	(649)
Retained earnings, beginning of period	25,879	124,952
Change in accounting policies	—	(97)
Premium paid on redemption of common shares	—	(12)
Interest on a debenture – equity component	(26)	—
Retained earnings, end of period	8,318	124,194
Net earnings (net loss) per share before goodwill charges		
Earnings (loss) per share	(0.54)	0.01
Diluted earnings (loss) per share	(0.54)	0.01
Net loss per share		
Loss per share	(0.54)	(0.02)
Diluted loss per share	(0.54)	(0.02)

Consolidated Statements of Cash Flows

(In thousands of dollars) (Unaudited)

	Three (3) months ended January 31, 2002 $	Three (3) months ended January 31, 2001 $
Operating activities		
Net loss for the period	(17,535)	(649)
Items not involving an outlay (receipt) of cash		
Amortization and goodwill charges	9,518	11,170
Share of net loss of companies subject to significant influence	2,175	1,244
Future income taxes	(5,968)	(2,190)
Minority interest in subsidiaries' results	(209)	—
Operating cash flow	(12,019)	9,575
Net change in non-cash working capital balances related to operations	124,239	70,801
Deposits for engine and airframe overhaul expenses	(3,563)	(7,966)
Cash flows from operating activities	108,657	72,410
Investing activities		
Additions to capital assets	(4,019)	(8,790)
Other assets	(1,628)	(2,074)
Deposits	(1,767)	(1,402)
Acquisitions of investments	—	(9,721)
Cash flows from investing activities	(7,414)	(21,987)
Financing activities		
Bank loans	7,951	2,175
Long-term debt – revolving term loan	(23,441)	6,712
Increase in other long-term debt	—	5,674
Repayment of other long-term debt and obligations under capital leases	(7,302)	(6,102)
Issue of debentures	21,865	—
Issue of common shares	75	85
Repurchase of common shares	—	(21)
Other liabilities	264	—
Cash flows from financing activities	(588)	8,523
Net change in cash and cash equivalents for the period	100,655	58,946
Cash and cash equivalents, beginning of period	84,619	147,401
Cash and cash equivalents, end of period	185,274	206,347

Note 1 Consolidated interim financial statements

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the change in accounting policies described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the proportionate operating results for the full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's Annual Report for fiscal 2001.

Note 2 Change in accounting policies

Goodwill and Other Intangible Assets, and Business Combinations

In the first quarter of fiscal 2002, the Corporation adopted prospectively the new standards in Section 3062 "Goodwill and Other Intangible Assets" and in Section 1581 "Business Combinations" of the Canadian Institute of Chartered Accountants Handbook. Under the new standards, the pooling-of-interests method of accounting for business combinations cannot be used prospectively and goodwill and certain intangible assets with an indefinite useful life are no longer amortized but tested for impairment on an annual basis, and the excess of the carrying amount over the fair value of such assets is charged to earnings.

The following table reconciles the reported net loss and adjusted net income (loss) excluding goodwill charges:

(In thousands of dollars, except per share amounts)	2002	2001
Reported net loss	(17,535)	(649)
Goodwill charges	—	837
Adjusted net income (loss)	(17,535)	188
Adjusted earnings (loss) per share		
Basic	(0.54)	0.01
Fully diluted	(0.54)	0.01

Note 3 Share Capital

a) Share capital as at January 31, 2002

Authorized

An unlimited number of common shares.

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

Issued and outstanding

A total of 32,334,293 commons shares are issued and outstanding for a total of $109,476,000.

Note 3 Share Capital *[cont'd]*

b) Options and warrants as at January 31, 2002

Options issued and outstanding

Grant date	Range of exercise prices ($)	Number
1997 and 1998	12.32 to 12.83	685,000
1999	6.45 to 7.05	678,689
2000	7.86 to 8.80	457,957
2001	8.93 to 10.25	530,842
		2,352,488

Options exercisable

A total of 1,308,140 options are exercisable.

Warrants

A total of 1,421,225 warrants are outstanding and exercisable at an exercise price of $6,75 each.

c) Loss per share

The weighted average number of shares outstanding for the calculation of the loss per share and the diluted loss per share are 32,329,113 in 2002 and 32,151,113 in 2001.

Note 4 Important and subsequent events

On January 10, 2002, the Corporation and Air Transat A.T. Inc. issued debentures to certain shareholders and Management members of the Corporation for an amount of approximately $21,865,000, bearing interest at a rate of 6% and maturing in January 2009. The debentures are redeemable in advance as of January 2005 in return for payment of a penalty equal to three months' interest. The Corporation and Air Transat A.T. Inc. must also pay the holders a premium at maturity or when redeemed in advance, such that the holders earn a compound annual return of 15%, taking into consideration interest already paid at a rate of 6%.

In the course of this financing, the Corporation issued 1,421,225 warrants entitling the holders to subscribe to the same number of common shares of the Corporation at an exercise price of $6.75 each. These warrants expire on January 10, 2007.

On February 19, 2002, the Corporation issued $51,105,000 of convertible unsecured subordinated debentures maturing on March 1, 2007. The debentures bear interest at 9%, payable semi-annually in cash or in common shares of the Corporation at its option. The debentures are convertible in common shares of the Corporation, at a conversion price of $8.75 per share, at the option of holders at any time.

On and after March 1, 2005 and prior to March 1, 2006, the debentures could be redeemed at par by the Corporation provided its common shares were traded at a price of $10.94 or more for 20 consecutive trading days before the notice of redemption. After March 1, 2006, the debentures could be redeemed at par. The Corporation will have the option to repay the debentures, in whole or in part, in cash or by delivering a number of common shares obtained by dividing the principal amount of the debentures by 95% of the market price of the Corporation's shares at the redemption date or at maturity.