transat A.T. inc.

third quarterly report
period ended July 31, 2001

Transat A.T. Inc.

TRAVEL AGENCIES

- CONSULTOUR – *CLUB VOYAGES, VOYAGES EN LIBERTÉ, INTER VOYAGE*
- TRAVEL PLUS
- VACANCES TOURBEC
- EXIT TRAVEL
- ANYWAY
- CLUB VOYAGES (FRANCE)

OUTGOING TOUR OPERATORS

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

INCOMING TOUR OPERATORS

- DMC TRANSAT (71.51% interest)
- JONVIEW (35.76% interest)
- VACANCES AIR TRANSAT HOLIDAYS (FLORIDA)
- TOURGREECE (40% interest held by Look Voyages)

HOTEL MANAGEMENT

- CAMELEON

AIR CARRIERS

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

IN CANADA

IN 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 Canada and Europe. Transat is also involved in air transportation, hotel management and value-added services offered at travel destinations. Finally, Transat has developed a dynamic presence in distribution through both travel agency networks and e-commerce initiatives. Transat and its subsidiaries have one ambition: to offer quality holiday travel at affordable prices to an extensive clientele. This ambition comprises two objectives: namely, to maintain Transat's position as the leader in Canada and to become a major player in the holiday travel industry in North America and Europe.

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TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada

STOCK EXCHANGE

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

www.transat.com

MESSAGE TO SHAREHOLDERS

Third Quarter of 2001

For the quarter ended July 31, 2001, the revenues of Transat A.T. Inc. (the "Corporation") reached $521.2 million compared with $463.3 million for the same period last year, an increase of 12.5%. Net income decreased $3.9 million, to $5.9 million or $0.18 per share, compared with $9.8 million or $0.31 per share, for the third quarter of 2000. Results per share are calculated based on a weighted average number of shares outstanding of 32,278,841 for the quarter and of 31,863,327 for the same quarter last year.

The increase in revenues is due on the one hand to acquisitions made during the first nine months of 2001, namely Jonview and Rêvatours, as well as to the increase in interest in World of Vacations from 35% to 100%; on the other hand, it is due to the overall increase in selling prices in both Canada and in France. The weakness of the euro put downward pressure on revenues generated in France, when these are translated into Canadian currency. With regard to net income, fierce market competition reduced our margins; and this, combined with an increase in operating costs and interest expense as well as the strength of the U.S. dollar and the weakness of the euro, all contributed to a drop in net income for the quarter. Profitability, however, was higher for Look Voyages, an increase due to higher load factors.

The Nine Months Ended July 31, 2001

Revenues increased 18.2% to $1.720 billion for the nine-month period ended July 31, 2001 compared with $1.455 billion for the same period the preceding year, while the Corporation posted a $0.8 million decrease in net income from $22.6 million or $0.70 a share, to $21.7 million, or $0.67 per share.

The overall increase in sales volumes and the firmness of selling prices during the winter season had a positive impact on results, this despite the major increase in fuel costs, the strength of the U.S. dollar, and the increase in certain operating expenses. For the nine-month period, the increase in prices was not sufficient to completely offset the increase in costs and the weakness of the Canadian dollar against the U.S. dollar. The decrease in profitability can also be explained by the increase of $9.4 million in amortization expense and the increase of $2.3 million in interest on long-term debt along with other financial expenses. The increase in amortization expense is attributable to the introduction of two Lockheed L-1011-500s at the beginning of 2001, to the amortization of deferred charges incurred during Anyway's pre-operating period, and to the effect of our acquisitions.

Financial Position

Despite a summer 2001 season that is more difficult than anticipated, Transat continues to benefit from a strong financial position. The Corporation's cash and cash equivalents, excluding in-trust amounts, totalled $115.3 million as at July 31, 2001, compared with $105.1 million as at October 31, 2000. The Corporation continues to have a largely positive operating cash flow of $21.6 million for the quarter ended July 31, 2001, while cash flows from operating activities exceeded $41 million. The Corporation spent $18.4 million on investing activities, mostly for the acquisition of capital assets and rotable aircraft spare parts, and it spent $15.9 million on its financing activities primarily to repay its revolving credit and for obligations under capital leases.

For the first nine months ended July 31, 2001, the Corporation generated $79.8 million from operations, after using $14.3 million for engine and airframe overhauls. For the same period, the Corporation spent $61.5 million on investing activities, primarily the business acquisitions, capital assets, rotable aircraft spare parts, and other assets. Financing activities used $8.1 million.

Accounts receivable increased from $67.6 million as at October 31, 2000, to $105.9 million as at July 31, 2001. Accounts receivable were mostly from French tour operators. In France, customers (travel agencies) usually pay for trips after the date of departure, in contrast to Canada where customers pay for trips before the date of departure. As July 31 is in the middle of the summer season, sales volumes are very high. The increase in accounts receivable is also attributable to incoming tour operators, for whom the summer season is heavily travelled.

Prepaid expenses increased by $11.8 million or 48.1%. This increase is related to seasonality, tour operators being required to pay suppliers before the departure of passengers.

Deposits and other expenses totalled $97.9 million as at July 31, 2001, compared with $86 million as at October 31, 2000. The increase of $11.9 million is mainly attributable to engine and airframe overhaul expenses, which will be amortized based on utilisation.

Future income tax assets net of future income tax liabilities increased $8.1 million due to the acquisition of the balance of the shares of World of Vacations in May.

Rotable aircraft spare parts increased $7.4 million compared with October 31, 2000, due primarily to changes in the fleet of the Corporation's subsidiary, Air Transat.

Capital assets totalled $182.2 million as at July 31, 2001 compared with $166.9 million as at October 31, 2000, an increase of 9.2% attributable mainly to assets acquired during the year 2001, including improvements to the Airbus A310-308s introduced during the nine-month period ended July 31, 2001.

Goodwill as at July 31, 2001 were $68.4 million, compared with $49.1 million as at October 31, 2000. This increase is the result of acquiring Jonview, Rêvatours, World of Vacations, and travel agencies during the first nine months of 2001.

Accounts payable and accrued liabilities along with customer deposits and deferred income increased by $60.3 million and $51.5 million respectively compared with October 31, 2000. These increases are due on the one hand to increased activity and on the other hand to seasonality, given that Transat was in the midst of a very active summer period as at July 31.

Outlook

Both in Canada and in Europe, we expect the remainder of the summer season to be more difficult than originally anticipated. For the fourth quarter, the Corporation's revenues should continue the upward trend of the third quarter. While it is too early to draw any conclusions about the fourth quarter results, overcapacity in the industry has resulted in fierce pricing competition, which combined with high fuel costs and exchange rates will likely have a substantial impact on profitability, when compared with the fourth quarter last year.

Other Developments

During the past quarter, Air Transat took delivery of a fourth Airbus A310-308 which will be in operation in October. In addition, Consultour Club Voyages acquired the assets of Travel Plus, a travel agency franchisor in Canada, adding 83 points of sale outside Quebec. This acquisition will enable Transat to strengthen its presence in distribution in Canada, especially outside Quebec and adding to the acquisition earlier in 2001 of Rêvatours, Jonview, and Tourgreece.

Recent Event

At the beginning of the fourth quarter, an aircraft of the Corporation's subsidiary, Air Transat, was forced to make an emergency landing as a result of a fuel leak. The incident, the most serious in Air Transat's history, led Canada's Department of Transport to impose certain measures on Air Transat, as well as a $250,000 fine. At this stage, the Corporation believes (particularly due to its insurance coverage) that the direct costs resulting from this incident will not exceed $5,000,000.

Jean-Marc Eustache

Chairman of the Board and President and Chief Executive Officer
Montreal, September 11, 2001

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	As at July 31, 2001 (Unaudited)	As at October 31, 2000 (Audited)
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**115,299**	105,107
Cash in trust	**62,735**	42,294
Accounts receivable	**105,936**	67,564
Income taxes recoverable	**—**	2,737
Inventories	**7,741**	9,603
Deposits with suppliers	**44,362**	52,204
Future income tax assets	**12,932**	—
Prepaid expenses	**36,451**	24,611
Total current assets	**385,456**	304,120
Deposits and other expenses	**97,874**	85,991
Future income tax assets	**21,742**	17,442
Inventory of rotable aircraft spare parts	**21,065**	13,628
Investments	**8,101**	19,173
Capital assets	**182,156**	166,931
Goodwill	**68,476**	49,075
Other assets	**40,946**	27,759
	825,816	684,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	**1,665**	991
Accounts payable and accrued liabilities	**260,345**	200,039
Customer deposits and deferred income	**148,008**	96,490
Income taxes recoverable	**1,123**	—
Current portion of long-term debt and obligations under capital leases	**26,425**	19,999
Total current liabilities	**437,566**	317,519
Long-term debt	**68,641**	66,652
Obligations under capital leases	**47,682**	57,484
Future income tax liabilities	**9,178**	—
Debenture	**10,000**	10,000
	573,067	451,655
Shareholders' equity		
Share capital *[note 2]*	**109,251**	108,154
Retained earnings	**146,592**	124,952
Deferred translation adjustments	**(3,094)**	(642)
	252,749	232,464
	825,816	684,119

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2001	2000	**2001**	2000
	$	$	$	$
Revenues	**521,197**	463,284	**1,720,540**	1,455,227
Operating expenses	**497,928**	435,862	**1,639,106**	1,383,219
Income before the following accounts	**23,269**	27,422	**81,434**	72,008
Amortization	**12,272**	9,020	**35,164**	25,803
Interest on long-term debt, obligations under capital leases and debenture	**3,071**	2,401	**8,930**	7,197
Other interest and financial expenses	**492**	695	**2,130**	1,538
Interest income	**(2,056)**	(2,428)	**(7,817)**	(7,628)
	13,779	9,688	**38,407**	26,910
Income before share of net income of companies subject to significant influence, income taxes and goodwill charges	**9,490**	17,734	**43,027**	45,098
Share of net income of companies subject to significant influence	**1,649**	566	**478**	312
Income taxes	**4,169**	7,678	**18,846**	20,774
Net income before goodwill charges	**6,970**	10,622	**24,659**	24,636
Goodwill charges	**1,094**	803	**2,910**	2,077
Net income for the period	**5,876**	9,819	**21,749**	22,559
Retained earnings, beginning of period			**124,952**	93,720
Modification of an accounting policy *[note 1]*			**(97)**	—
Premium paid on redemption of common shares			**(12)**	(5,408)
Retained earnings, end of period			**146,592**	110,871
Net earnings per share before goodwill charges				
Earnings per share	**0.22**	0.33	**0.77**	0.76
Diluted earnings per share *[note 1]*	**0.21**	0.33	**0.76**	0.76
Net earnings per share				
Earnings per share	**0.18**	0.31	**0.67**	0.70
Diluted earnings per share *[note 1]*	**0.18**	0.31	**0.67**	0.70

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars) (Unaudited)

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2001	2000	**2001**	2000
	$	$	$	$
OPERATING ACTIVITIES				
Net income for the period	**5,876**	9,819	**21,749**	22,559
Items not involving an outlay (receipt) of cash				
Amortization and goodwill charges	**13,366**	9,823	**38,074**	27,880
Share of net income of companies subject to significant influence	**(1,649)**	(566)	**(478)**	(312)
Future income taxes	**4,032**	2,057	**(2,438)**	(3,440)
Operating cash flow	**21,625**	21,133	**56,907**	46,687
Net change in non-cash working capital balances related to operations	**16,758**	(10,744)	**49,312**	54,379
Net change in cash in trust	**37**	(11,494)	**(12,107)**	(15,769)
Deposits for engine and airframe overhauls expenses	**3,151**	6,286	**(14,299)**	(29,527)
Cash flows from operating activities	**41,571**	5,181	**79,813**	55,770
INVESTING ACTIVITIES				
Cash and cash equivalents from acquired companies	**12,141**	–	**15,289**	6,510
Consideration in cash paid for companies acquired	**(1,886)**	–	**(20,714)**	(11,642)
Additions to capital assets	**(21,264)**	(8,866)	**(35,291)**	(42,995)
Other assets	**(6,989)**	(4,135)	**(16,035)**	(9,094)
Purchase of rotable aircraft spare parts	**(7,107)**	(147)	**(9,741)**	(2,796)
Deposits	**6,702**	551	**5,008**	3,131
Loan to a joint venture	**–**	–	**–**	(11,700)
Dividends from companies subject to significant influence	**–**	–	**–**	2,913
Cash flows from investing activities	**(18,403)**	(12,597)	**(61,484)**	(65,673)
FINANCING ACTIVITIES				
Long-term debt - revolving term loan	**(13,478)**	13,443	**(6,132)**	1,726
Increase in other long-term debt	**2,222**	15,002	**13,019**	15,002
Issue of common shares	**225**	14	**1,107**	1,962
Repayment of other long-term debt and obligations under capital leases	**(6,380)**	(4,570)	**(16,748)**	(14,301)
Bank loans	**1,559**	(3,888)	**638**	(2,067)
Repurchase of common shares	**–**	(567)	**(21)**	(10,288)
Cash flows from financing activities	**(15,852)**	19,434	**(8,137)**	(7,966)
Net change in cash and cash equivalents for the period	**7,316**	12,018	**10,192**	(17,869)
Cash and cash equivalents, beginning of period	**107,983**	105,448	**105,107**	135,335
Cash and cash equivalents, end of period	**115,299**	117,466	**115,299**	117,466

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Modification of an accounting policies

Income Taxes

On November 1, 2000, the Corporation retroactively adopted the new recommendations regarding income taxes without restating the figures of the comparative periods. The new income tax recommendations are based on the liability approach, which requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amount and their corresponding tax values. The future income tax assets and liabilities are evaluated using the enacted income tax rate in effect during that fiscal period when temporary differences should be settled or realized. Until October 31, 2000, the Corporation used the tax deferral method to record income taxes. The cumulative effect of the adoption of the new recommendations on opening retained earnings at November 1, 2000 and on the consolidated balance sheet, the consolidated statement of income and the consolidated statement of cash flows for the nine-month period ended July 31, 2001 is not material.

Earnings Per Share

Starting in the third quarter of 2001, the Corporation changed its calculation method for earnings per share from the imputed interest method to the treasury stock method as required by the Canadian Institute of Chartered Accountants' new Section 3500, *Earnings Per Share*. As prescribed by the new rules, all prior period earnings per share information presented has been restated to conform with the new Section.

This change has no effect on the earnings per share or on the earnings per share before goodwill charges. The effect on the diluted earnings per share and on the diluted earnings per share before goodwill charges for the three-and nine-month periods ended July 31, 2000 is as follows:

	Three months ended July 31, 2000	Nine months ended July 31, 2000
Diluted earnings per share		
Imputed interest method	$0.29	$0.67
Treasury stock method	$0.31	$0.70
Diluted earnings per share before goodwill charges		
Imputed interest method	$0.31	$0.73
Treasury stock method	$0.33	$0.76

Note 2 Share Capital

a) Share capital as at July 31, 2001

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 32,300,634 commons shares are issued and outstanding for a total of $109,251,000.

b) Options as at July 31, 2001

Issued and outstanding

Grant date	Exercise price ($)	Number
1997 and 1998	12.32 to 12.83	698,000
1999	6.45 to 7.05	703,472
2000	7.86 to 8.80	487,468
2001	8.93 to 10.25	517,621
		2,406,561

Exercisable

A total of 1,162,913 options are exercisable.

Note 3 Comparative Figures

Certain comparative figures were reclassified to conform with the presentation adopted in the current period.