period ended July 31, 2002

quarterly report

3

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

www.transat.com

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.

Third Quarter Revenues and Results

For the quarter ended July 31, 2002, the revenues of Transat A.T. Inc. (the "Corporation") reached $495.4 million compared with $521.2 million for the same period last year, a decrease of 5.0%. This is a clear improvement compared with decreases of 13.2% and 9.6% for the first and second quarter respectively.

During the third quarter of 2002, the Corporation's net income increased $0.4 million to $6.3 million, or $0.17 per share, compared with $5.9 million, or $0.18 per share for the quarter ended July 31, 2001. Profitability for the quarter was first affected by pressure on margins in France. In addition, the reduction in fuel costs and the Corporation's sustained efforts to keep margins at levels comparable to previous fiscal periods were unfortunately offset by the strength of the U.S. dollar, by lower load factors than the same period last year — especially in France — and by generally higher expenditures; in particular insurance and interest expenses.

For the nine-month period ended July 31, 2002, the Corporation reported net income of $3.0 million, or $0.05 per share, compared with net income of $21.7 million, or $0.67 per share, for the same period last year. Revenues reached $1.6 billion, down 9.3% from revenues of $1.7 billion for the first nine months of fiscal 2001.

Financial Position

Cash and cash equivalents, including $74 million held in trust, totalled $287.5 million as at July 31, 2002, compared with $178 million, including $63 million held in trust, as at the same date last year.

During the quarter, the Corporation's operating cash flow amounted to $12.0 million. The net change in non-cash working capital balances as well as deposits for engine and airframe overhauls generated $62.3 million in cash. The Corporation spent $8.0 million on investing activities and $1.2 million on financing activities.

For the nine months ended July 31, 2002, the Corporation generated $199.3 million from operations, primarily from the recovery of income taxes, from an increase in customer deposits as well as in accounts payable and accrued liabilities, and from deposits for engine and airframe overhauls. For the same period, the Corporation spent $27.0 million on investing activities, of which $21.5 million was for additions to capital assets. Financing activities generated $30.6 million primarily related to the issuance of two series of debentures for a total net amount of $71 million, offset by the repayment of debt including the revolving term loan.

Accounts receivable increased $14.1 million from $85.5 million as at October 31, 2001, to $99.6 million as at July 31, 2002. The increase is basically due to the seasonality of operations.

Income taxes recoverable as at July 31, 2002 were $0.06 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 due to the deferral of losses from fiscal 2001.

Bank loans increased $12.8 million essentially to finance the operations of certain French subsidiaries that only receive their revenues after travel departure dates and by lower operating performance.

Accounts payable and accrued liabilities along with customer deposits and deferred income increased by $95.8 million and $42.6 million respectively compared with October 31, 2001. These increases are due to the seasonal nature of the Corporation's operations, as the third quarter ends during a very busy period.

The Corporation's long-term debt and obligations under capital leases declined $55.7 million from $147.5 million to $91.8 million as at July 31, 2002. This decrease is primarily attributable to the repayment of the revolving term loan as well as to the repayment of debt in accordance with the terms and conditions of financing agreements.

Debentures and convertible debentures increased from $10.9 million as at October 31, 2001 to $80.1 million as at July 31, 2002 as a result of financing transactions carried out at the beginning of the fiscal period.

Outlook

In Canada and in Europe we expect performance for the rest of the summer to be similar to that of the third quarter. In Canada, in particular for southern destinations, pressures on sales volumes continue to be considerable, as is reflected in the margins. Even so, the demand for Canadian departures to European destinations continues to recover in markets where competition remains fierce, especially in Ontario. In France, we expect demand to remain weak and competition to remain fierce in the fourth quarter. Nevertheless, Management remains optimistic with regard to fourth quarter results.

Jean-Marc Eustache

Chairman of the Board and President and Chief Executive Officer
Montreal, September 11, 2002

Consolidated Balance Sheets
(In thousands of dollars)

	As at July 31, 2002 (Unaudited) $	As at October 31, 2001 (Audited) $
Assets		
Current assets		
Cash and cash equivalents	287,528	84,619
Accounts receivable	99,566	85,529
Income taxes recoverable	59	35,375
Future income tax assets	16,910	8,283
Inventories	7,898	11,348
Deposits with suppliers	32,765	38,299
Prepaid expenses	26,933	29,077
Total current assets	471,659	292,530
Deposits and other expenses	23,586	19,731
Future income tax assets	9,096	17,891
Investments	8,592	8,389
Capital assets	179,466	185,403
Goodwill	69,832	68,617
Other assets	22,424	21,810
	784,655	614,371
Liabilities and shareholders' equity		
Current liabilities		
Bank loans	21,659	8,843
Accounts payable and accrued liabilities	328,224	232,378
Customer deposits and deferred income	109,552	66,960
Current portion of long-term debt and obligations under capital leases	23,997	21,965
Total current liabilities	483,432	330,146
Long-term debt	28,190	73,036
Obligations under capital leases	39,607	52,495
Debentures	29,036	10,894
Minority interest and other liabilities	14,621	11,933
	594,886	478,504
Shareholders' equity		
Share capital *[note 3]*	110,200	109,402
Convertible debentures	51,105	—
Warrants	4,122	—
Retained earnings	26,232	25,879
Deferred translation adjustments and equity component of a debenture	(1,890)	586
	189,769	135,867
	784,655	614,371

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	
	2002 $	2001 $	2002 $	2001 $
Revenues	495,377	521,197	1,560,850	1,720,540
Operating expenses	477,687	497,928	1,513,204	1,639,106
	17,690	23,269	47,646	81,434
Amortization	10,052	12,272	31,687	35,164
Interest on debentures, long-term debt and obligations under capital leases	3,239	3,071	9,366	8,930
Other interest and financial expenses	1,543	492	3,907	2,130
Interest income	(1,260)	(2,056)	(3,398)	(7,817)
Share of (net income) net loss of companies subject to significant influence	(2,085)	(1,649)	27	(478)
	11,489	12,130	41,589	37,929
Income before the following items	6,201	11,139	6,057	43,505
Income taxes	(337)	4,169	3,239	18,846
Income before goodwill charges and minority interest in subsidiaries' results	6,538	6,970	2,818	24,659
Goodwill charges *[note 2]*	—	1,094	—	2,910
Minority interest in subsidiaries' results	(233)	—	186	—
Net income for the period	6,305	5,876	3,004	21,749
Retained earnings, beginning of period			25,879	124,952
Change in accounting policies			—	(97)
Premium paid on redemption of common shares			—	(12)
Convertible debentures issue cost, net of related future income taxes of approximately $703,000			(1,280)	—
Interest on debentures – equity component			(1,371)	—
Retained earnings, end of period			26,232	146,592
Net earnings per share before goodwill charges				
Earnings per share	0.17	0.22	0.05	0.77
Diluted earnings per share	0.16	0.21	0.05	0.76
Net earnings per share				
Earnings per share	0.17	0.18	0.05	0.67
Diluted earnings per share	0.16	0.18	0.05	0.67

Consolidated Statements of Cash Flows

(In thousands of dollars) (Unaudited)

	Three (3) months ended July 31 2002 $	Three (3) months ended July 31 2001 $	Nine (9) months ended July 31 2002 $	Nine (9) months ended July 31 2001 $
Operating activities				
Net income for the period	6,305	5,876	3,004	21,749
Items not involving an outlay (receipt) of cash				
Amortization and goodwill charges	10,052	13,366	31,687	38,074
Share of (net income) net loss of companies subject to significant influence	(2,085)	(1,649)	27	(478)
Future income taxes	(2,517)	4,032	348	(2,438)
Minority interest in subsidiaries' results	233	—	(186)	—
Operating cash flow	11,988	21,625	34,880	56,907
Net change in non-cash working capital balances related to operations	51,425	16,795	137,981	37,205
Deposits for engine and airframe overhaul expenses	10,866	3,151	26,481	(14,299)
Cash flows from operating activities	74,279	41,571	199,342	79,813
Investing activities				
Additions to capital assets	(5,632)	(28,371)	(21,500)	(45,032)
Other assets	(1,059)	(6,989)	(4,684)	(16,035)
Deposits	(1,260)	6,702	(1,144)	5,008
Dividends from companies subject to significant influence	—	—	293	—
Cash and cash equivalents from acquired companies	—	12,141	—	15,289
Consideration paid for acquired companies	—	(1,886)	—	(20,714)
Cash flows from investing activities	(7,951)	(18,403)	(27,035)	(61,484)
Financing activities				
Bank loans	3,853	1,559	11,634	638
Long-term debt – revolving term loan	(3,861)	(13,478)	(41,061)	(6,132)
Repayment of other long-term debt and obligations under capital leases	(4,745)	(6,380)	(17,067)	(16,748)
Convertible debentures issue costs	—	—	(1,983)	—
Issue of convertible debentures	—	—	51,105	—
Other liabilities	3,392	—	3,104	—
Increase in other long-term debt	160	—	2,187	—
Increase in obligations under capital leases	18	2,222	18	13,019
Issue of common shares	15	225	800	1,107
Issue of debentures	—	—	21,865	—
Repurchase of common shares	—	—	—	(21)
Cash flows from financing activities	(1,168)	(15,852)	30,602	(8,137)
Net change in cash and cash equivalents for the period	65,160	7,316	202,909	10,192
Cash and cash equivalents, beginning of period	222,368	107,983	84,619	105,107
Cash and cash equivalents, end of period	287,528	115,299	287,528	115,299

Notes to consolidated financial statements

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 income and adjusted net income excluding amortization of goodwill:

(in thousands of dollars, except per share amounts)	Three (3) months ended July 31 2002 $	Three (3) months ended July 31 2001 $	Nine (9) months ended July 31 2002 $	Nine (9) months ended July 31 2001 $
Reported net earnings	6,305	5,876	3,004	21,749
Goodwill charges	—	1,094	—	2,910
Adjusted net earnings	6,305	6,970	3,004	24,659
Adjusted earnings per share				
Basic	0.17	0.22	0.05	0.77
Fully diluted	0.16	0.21	0.05	0.76

Note 3 Share Capital

a) Share capital as at July 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 32,460,353 commons shares are issued and outstanding for a total of $110,200,000.

b) Options and Warrants as at July 31, 2002

Options issued and outstanding

Grant date	Range of exercise prices ($)	Number
1998	12.32 to 12.83	45,000
1999	6.45 to 7.05	668,869
2000	7.86 to 8.80	444,123
2001	8.93 to 10.25	512,672
2002	6.99	464,266
		2,134,930

Options exercisable

A total of 1,063,908 options are exercisable.

Warrants

A total of 1,421,225 warrants are outstanding and exercisable at an exercise price of $6.75 each.

Note 3 Share Capital *[cont'd]*

c) Earning per share

Earnings per share and fully diluted earnings per share for the three-month and nine-month periods ended July 31, 2002 and 2001 were computed as follows:

	Three (3) months ended July 31		Nine (9) months ended July 31	
(in thousands, except per share amounts)	2002	2001	2002	2001
Numerator				
Net income	$6,305	$5,876	$3,004	$21,749
Interest on convertible debentures	(753)	—	(1,330)	—
Income available to common shareholders	5,552	5,876	1,674	21,749
Interest on convertible debentures	753	—	—	—
Interest on debentures that may be settled in shares	23	—	83	—
Adjusted income used in computing diluted earnings per share	$6,328	$5,876	$1,757	$21,749
Denominator				
Weighted average number of outstanding shares	32,458	32,279	32,404	32,224
Convertible debentures	5,841	—	—	—
Debentures that may be settled in common shares	344	—	345	—
Stock options	62	458	60	332
Warrants	100	—	40	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	38,805	32,737	32,849	32,556
Earnings per share	$0.17	$0.18	$0.05	$0.67
Diluted earnings per share	$0.16	$0.18	$0.05	$0.67

Convertible debentures were excluded from the computation of earnings per share for the nine-month period ended July 31, 2002 as a result of their antidilutive effect.

In computing diluted earnings per share for the third quarter and the nine-month period ended July 31, 2002, a total of 1,001,795 common stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares. For the third quarter and the nine-month period ended July 31, 2001, a total of 1,145,621 and 698,000 common stock options respectively were excluded from the computation of diluted earnings per share.

Note 4 Important 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 1st, 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 into 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 1st, 2005 and prior to March 1st, 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 1st, 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.