Transat A.T. Inc.

period ended April 30, 2002

2

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.

www.transat.com

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Transfer Agent and Registrar

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.

Message to Shareholders

Second Quarter Revenues and Results

For the quarter ended April 30, 2002, the revenues of Transat A.T. Inc. (the "Corporation") totalled $623.3 million, compared with $689.7 million for the same period the previous fiscal year, a decrease of 9.6%. As during the previous quarter, the decline in revenues is mainly attributable to a sharp decrease in sales volumes on the Canadian market, which is slowly recovering from the events of September 11, 2001. As for the French market, it also recorded a decline in sales volumes, although less pronounced than on the Canadian market. Overall, one can thus note that the percentage decline in revenues was not as large, down from 13.2% in the first quarter to 9.6% in the second quarter.

The Corporation recorded net income of $14.2 million in the second quarter of 2002, or $0.42 per share, compared with $16.5 million for the same quarter in fiscal 2001, or $0.51 per share. For the quarter, margins continued to be fragile, a normal consequence of demand that was still below 2001 levels and that was characterized by last-minute bookings – which put pressure on load factors. At the same time, the reduction in product offerings and the resulting drop in sales volumes led to a drop in the contribution margin in comparison with 2001. The Corporation's cost-management efforts enabled it to reach profitability of 6.4% (EBITDA/revenues), higher than the corresponding quarter in 2001, at 6.2%. This improvement is the result, among other things, of cuts to direct costs and a reduction in the cost of fuel.

For the six-month period ended April 30, 2002, the Corporation reported a net loss of $3.3 million, or $0.12 per share, compared with net income of $15.9 million, or $0.49 per share, for the same period last year. Revenues declined 11% from $1.2 billion in 2001 to $1.1 billion for the first six months of 2002.

Financial Position

Cash and cash equivalents, including cash held in trust, totalled $222.4 million as at April 30, 2002.

During the quarter, operating activities generated $16.4 million, from an operating cash flow of $34.9 million and a net change of $19.2 million from deposits for engine and airframe overhauls. On the other hand, the net change in non-cash working capital balances related to operations used $37.7 million in cash, primarily from the reduction of customer deposits and changes in accounts receivable, in prepaid expenses, and in accounts payable, these items varying due to the seasonal nature of operations.

The Corporation used $11.7 million net for its investing activities, mostly for additions to capital assets. Financing activities generated $32.4 million following net cash inflows of $49.1 million from the issuance of convertible debentures in February 2002 and cash outflows of $18.8 million for the reduction of the revolving term loan and for obligations under capital leases and other long-term debt.

During the first six months of 2002, operating activities generated $125.1 million, taking into account operating cash flows of $22.9 million, engine and airframe overhaul deposits and expenses totalling $15.6 million, and finally the positive net change in non-cash working capital balances of $86.5 million. This change is mainly the result of cashing customer deposits, the recovery of income taxes by the subsidiary Air Transat and the increase in accounts payable and accrued liabilities. Also during the first six months of 2002, investing activities used $19.1 million, essentially for additions to capital assets and other assets. Finally, financing activities generated $31.8 million, primarily from the issuance of two series of debentures for a total net amount of $71 million, reduced by debt repayments that included the revolving term loan.

Income taxes recoverable as at April 30, 2002 were $4.8 million compared with $35.4 million as at October 31, 2001. This drop is 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 declined by $13.4 million, from $38.3 million as at October 31, 2001 to $24.9 million as at April 30, 2002. This reduction is due to the seasonal nature of operations, deposits being higher as at October 31 in anticipation of the winter season.

Prepaid expenses increased $18.6 million to $47.7 million as at April 30, 2002, compared with $29.1 million as at October 31, 2001. These items consist mainly of outlays for customers travelling during the second half of the fiscal year.

Deposits and other expenses totalled $9.1 million as at April 30, 2002, compared with $19.7 million as at October 31, 2001. The decline of $10.6 million is attributable to Air Transat's engine and airframe overhaul expenses.

The $2.1 million decrease in investments from October 31, 2001 to $6.3 million as at April 30, 2002 is connected to the losses incurred by companies subject to significant influence during the first six months.

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

Customer deposits and deferred income increased by $51.1 million and reached $118.1 million as at April 30, 2002. This increase is mainly due to the fact that these deposits include amounts received from customers for travel during the summer season, which is the busiest season, unlike the first half of the winter season, which is the slowest.

The Corporation's long-term debt and obligations under capital leases declined $48.7 million, from $147.5 million as at October 31, 2001 to $98.8 million as at April 30, 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 $79.9 million as at April 30, 2002, a consequence of two financing transactions.

Outlook

We believe that demand will continue to be affected by the events of September 11, 2001, but to a lesser degree than the past winter season. We see encouraging signs with regard to demand, and we anticipate a gradual return to normal. With regard to capacity there remains a delicate balancing of supply and demand. As for our French operations, the market is showing certain signs of weakness, still as a reaction to September 11, 2001 as well as to political and sports events.

Jean-Marc Eustache

Chairman of the Board and President and Chief Executive Officer
Montreal, June 12, 2002

Consolidated Balance Sheets

(In thousands of dollars)

	As at April 30, 2002 (Unaudited) $	As at October 31, 2001 (Audited) $
Assets		
Current assets		
Cash and cash equivalents	222,368	84,619
Accounts receivable	97,826	85,529
Income taxes recoverable	4,752	35,375
Future income tax assets	16,629	8,283
Inventories	8,248	11,348
Deposits with suppliers	24,912	38,299
Prepaid expenses	47,705	29,077
Total current assets	422,440	292,530
Deposits and other expenses	9,111	19,731
Future income tax assets	6,692	17,891
Investments	6,288	8,389
Capital assets	181,912	185,403
Goodwill	68,751	68,617
Other assets	22,082	21,810
	717,276	614,371
Liabilities and shareholders' equity		
Current liabilities		
Bank loans	16,572	8,843
Accounts payable and accrued liabilities	251,595	232,378
Customer deposits and deferred income	118,073	66,960
Current portion of long-term debt, obligations under capital leases and debentures	20,635	21,965
Total current liabilities	406,875	330,146
Long-term debt	34,929	73,036
Obligations under capital leases	43,210	52,495
Debentures	28,844	10,894
Minority interest and other liabilities	17,195	11,933
	531,053	478,504
Shareholders' equity		
Share capital *[note 3]*	110,188	109,402
Convertible debentures	51,105	—
Warrants	4,122	—
Retained earnings	20,680	25,879
Deferred translation adjustments and equity component of a debenture	128	586
	186,223	135,867
	717,276	614,371

Consolidated Statements of Income and Retained Earnings

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

	Three (3) months ended April 30		Six (6) months ended April 30	
	2002 $	2001 $	2002 $	2001 $
Revenues	623,265	689,700	1,065,473	1,199,343
Operating expenses	583,372	646,630	1,035,517	1,141,178
	39,893	43,070	29,956	58,165
Amortization	12,117	12,559	21,635	22,892
Interest on debentures, long-term debt and obligations under capital leases	2,904	2,690	6,127	5,859
Other interest and financial expenses	1,658	1,238	2,364	1,638
Interest income	(1,105)	(3,277)	(2,138)	(5,761)
Share of (net income) net loss of companies subject to significant influence	(63)	(73)	2,112	1,171
	15,511	13,137	30,100	25,799
Income (loss) before the following items	24,382	29,933	(144)	32,366
Income taxes	10,358	12,432	3,576	14,677
Income (loss) before goodwill charges an minority interest in subsidiaries' results	14,024	17,501	(3,720)	17,689
Goodwill charges *[note 2]*	—	(979)	—	(1,816)
Minority interest in subsidiaries' results	210	—	419	—
Net income (loss) for the period	14,234	16,522	(3,301)	15,873
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 costs, net of related future income taxes of approximately $703,000			(1,280)	—
Interest on debentures – equity component			(618)	—
Retained earnings, end of period			20,680	140,716
Net earnings (loss) per share before goodwill charges				
Earnings (loss) per share	0.42	0.54	(0.12)	0.55
Diluted earnings (loss) per share	0.38	0.54	(0.12)	0.55
Net earnings (loss) per share				
Earnings (loss) per share	0.42	0.51	(0.12)	0.49
Diluted earnings (loss) per share	0.38	0.51	(0.12)	0.49

Consolidated Statements of Cash Flows

(In thousands of dollars) (Unaudited)

	Three (3) months ended April 30		Six (6) months ended April 30	
	2002	2001	2002	2001
	$	$	$	$
Operating activities				
Net income (loss) for the period	14,234	16,522	(3,301)	15,873
Items not involving an outlay (receipt) of cash				
Amortization and goodwill charges	12,117	13,538	21,635	24,708
Share of (net income) net loss of companies subject to significant influence	(63)	(73)	2,112	1,171
Future income taxes	8,833	(4,280)	2,865	(6,470)
Minority interest in subsidiaries' results	(210)	—	(419)	—
Operating cash flow	34,911	25,707	22,892	35,282
Net change in non-cash working capital balances related to operations	(37,690)	(38,247)	86,549	32,554
Deposits for engine and airframe overhaul expenses	19,178	(9,484)	15,615	(17,450)
Cash flows relating to operating activities	16,399	(22,024)	125,056	50,386
Investing activities				
Additions to capital assets	(11,849)	(7,871)	(15,868)	(16,661)
Other assets	(1,997)	(6,972)	(3,625)	(9,046)
Deposits	1,883	(292)	116	(1,694)
Dividends from companies subject to significant influence	300	—	300	—
Cash and cash equivalents from acquired companies	—	3,148	—	3,148
Consideration paid for acquired companies	—	(9,107)	—	(18,828)
Cash flows relating to investing activities	(11,663)	(21,094)	(19,077)	(43,081)
Financing activities				
Bank loans	(170)	(3,096)	7,781	(921)
Long-term debt – revolving term loan	(13,759)	634	(37,200)	7,346
Repayment of other long-term debt and obligations under capital leases	(5,020)	(4,266)	(12,322)	(10,368)
Convertible debentures issue costs	(1,983)	—	(1,983)	—
Other liabilities	(552)	—	(288)	—
Issue of convertible debentures	51,105	—	51,105	—
Increase in other long-term debt	2,027	5,123	2,027	10,797
Issue of common shares	710	797	785	882
Issue of debentures	—	—	21,865	—
Repurchase of common shares	—	—	—	(21)
Cash flows relating to financing activities	32,358	(808)	31,770	7,715
Net change in cash and cash equivalents for the period	37,094	(43,926)	137,749	15,020
Cash and cash equivalents, beginning of period	185,274	206,347	84,619	147,401
Cash and cash equivalents, end of period	222,368	162,421	222,368	162,421

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:

	Three (3) months ended April 30		Six (6) months ended April 30	
	2002	2001	2002	2001
(in thousands of dollars, except per share amounts)	$	$	$	$
Reported net income (loss)	14,234	16,522	(3,301)	15,873
Goodwill charges	—	979	—	1,816
Adjusted net income (loss)	14,234	17,501	(3,301)	17,689
Adjusted earnings (loss) per share				
Basic	0.42	0.54	(0.12)	0.55
Fully diluted	0.38	0.54	(0.12)	0.55

Note 3 Share Capital

a) Share capital as at April 30, 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 32,457,983 commons shares are issued and outstanding for a total of $110,188,000.

b) Options and Warrants as at April 30, 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	672,397
2000	7.86 to 8.80	449,476
2001	8.93 to 10.25	522,145
2002	6.99	464,266
		2,153,284

Options exercisable

A total of 951,855 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 six-month periods ended April 30, 2002 and 2001 were computed as follows:

	Three (3) months ended April 30		Six (6) months ended April 30	
(in thousands, except per share amounts)	2002	2001	2002	2001
Numerator				
Net income (loss)	$14,234	$16,522	$(3,301)	$15,873
Interest on convertible debentures	(577)	—	(577)	—
Income (loss) available to common shareholders	13,657	16,522	(3,878)	15,873
Interest on convertible debentures	577	—	577	—
Interest on debentures that may be settled in common shares	23	—	60	—
Adjusted income (loss) used in computing diluted earnings (loss) per share	$14,257	$16,522	$(3,241)	$15,873
Denominator				
Weighted average number of outstanding shares	32,425	32,151	32,389	32,196
Convertible debentures	4,594	—	2,259	—
Debentures that may be settled in common shares	368	—	345	—
Stock options	15	307	58	282
Warrants	10	—	22	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	37,412	32,458	35,073	32,478
Earnings (loss) per share	$0.42	$0.51	$(0.12)	$0.49
Diluted earnings (loss) per share	$0.38	$0.51	$(0.12)	$0.49

Securities considered dilutive were excluded from the computation of diluted loss per share for the six-month period ended April 30, 2002 as a result of their antidilutive effect.

In computing diluted earnings per share for the second quarter and the six-month period ended April 30, 2002, a total of 1,855,887 and 1,016,621 common stock options were respectively excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares. For the second quarter and the six-month period ended April 30, 2001, a total of 1,173,180 and 1,133,180 common stock options 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.