TRANSAT A.T. INC.

1998 ANNUAL REPORT

DESTINATIONS OFFERED BY TOUR OPERATORS ON THE WINGS OF AIR TRANSAT

BARBADOS
BRIDGETOWN

CAYMAN ISLANDS
GRAND CAYMAN

COLOMBIA
BARRANQUILLA
CARTAGENA
SAN ANDRÉS

COSTA RICA
SAN JOSÉ

CUBA
CAYO LARGO
CIEGO DE ÁVILA
CIENFUEGOS
CAMAGÜEY
HAVANA
HOLGUÍN
SANTIAGO DE CUBA
VARADERO

DOMINICAN REPUBLIC
PUERTO PLATA
PUNTA CANA
SANTO DOMINGO

FRENCH WEST INDIES
FORT-DE-FRANCE
POINTE-À-PITRE

HAITI
PORT-AU-PRINCE

MEXICO
ACAPULCO
CANCÚN
HUATULCO
IXTAPA
MANZANILLO
MAZATLÁN
MERIDA
PUERTO VALLARTA
SAN JOSÉ DEL CABO

NICARAGUA
MANAGUA

PANAMA
PANAMA CITY

SAINT-MARTIN
PHILIPSBURG

TURKS AND CAICOS
PROVIDENCIALES

VENEZUELA
BARCELONA
MARGARITA

BELGIUM
BRUSSELS

FRANCE
BORDEAUX
LYONS
MARSEILLES
MULHOUSE
NANTES
NICE
PARIS
TOULOUSE

GERMANY
BERLIN
DÜSSELDORF
FRANKFURT

GREECE
ATHENS

IRELAND
DUBLIN
SHANNON

ITALY
ROME

NETHERLANDS
AMSTERDAM

PORTUGAL
FARO
LISBON
OPORTO
PONTA DELGADA

SWITZERLAND
BASEL

UNITED KINGDOM
ABERDEEN
BELFAST
BIRMINGHAM
CARDIFF
EDINBURGH
EXETER
GLASGOW
LEEDS BRADFORD
LONDON
MANCHESTER
NEWCASTLE

CANADA
CALGARY
EDMONTON
GANDER
HALIFAX
MONTREAL
QUEBEC CITY
ST. JOHN'S
TORONTO
VANCOUVER

UNITED STATES
JACKSONVILLE
FORT LAUDERDALE
FORT MYERS
LAS VEGAS
ORLANDO
SAINT PETERSBURG
SARASOTA
WEST PALM BEACH

transat A.T. inc.

HIGHLIGHTS

Results

Years ended October 31 (in thousands of dollars)

	1998	1997
Revenues	**1,421,454**	1,316,740
Operating income	**39,073**	46,942
Net income	**19,731**	25,364
Operating cash flow	**50,338**	46,117

Balance sheets

As at October 31 (in thousands of dollars)

	1998	1997
Cash	**155,720**	141,333
Total assets	**496,567**	467,476
Long-term debt, debenture and obligations under capital leases (including current portion)	**119,376**	125,760
Shareholders' equity	**182,668**	164,420

Per common share

Years ended October 31 (in dollars)

	1998	1997
Earnings	**0.58**	0.78
Diluted earnings	**0.56**	0.74
Operating cash flow	**1.47**	1.41

Transat A.T. Inc.

Transat A.T. Inc. is an integrated company in the tourism industry. Through its subsidiaries and affiliated companies it is active in every aspect of the organization and distribution of holiday travel. Companies belonging to the group represent each of three levels in the industry: providing retail sales through travel agencies, organizing and distributing vacation packages through tour operators, and providing air transportation.

COMPANY PROFILE

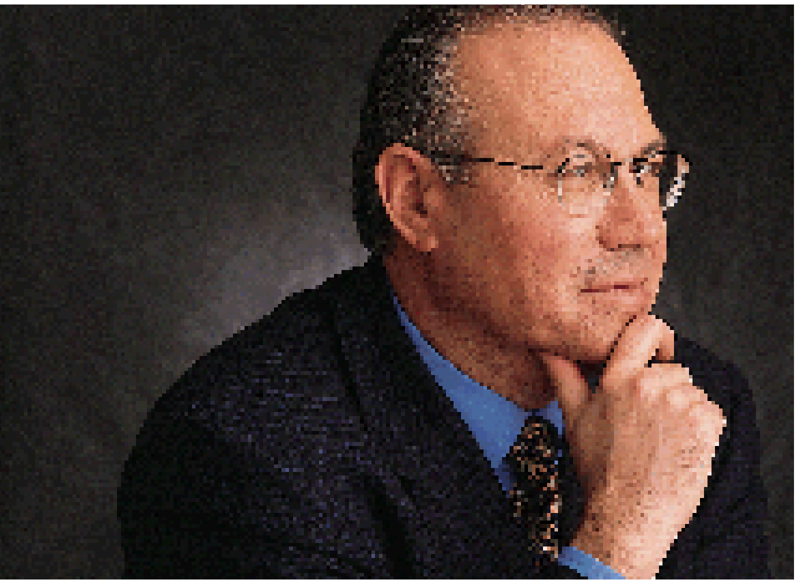
Each member company of Transat specializes in its respective field; together they form a large "holiday maker." Transat's objectives are to maintain its position of leadership in Canada and to become one of the leaders in the industry in Europe, offering quality vacation packages at affordable prices to a mass clientele.

MESSAGE FROM THE PRESIDENT

During 1998, sales at Transat rose 8% to reach $1.4 billion, compared with $1.3 billion in the previous year. This increase can be attributed to the solid performance of our Canadian tour operators and our Canadian airline.

While Transat's revenues increased for the fiscal year ended October 31, 1998, net income declined to $19.7 million compared with $25.4 million for the previous year, a drop that is primarily due to the decline in the value of the Canadian dollar against the American dollar; a major portion of Transat's expenses – including costs related to flying, such as aircraft leasing and maintenance, fuel and airport handling services – are paid in U.S. currency. With regard to tour operators, a major portion of hotel rooms is also paid for in American dollars. Among other factors which had an impact on the group's profitability in 1998 was the slight decrease in European market demand for Canadian destinations; increased competition during the summer, especially in Ontario and western Canada; and stronger competition in the winter cruise market. Finally, the ice storm that ravaged Quebec in January 1998 also had an impact on the profitability of the winter season in this province.

Overall, the situation was relatively unfavourable for our industry in 1998; consequently, the group's performance does not fully reflect the effort made by each subsidiary and affiliated company.



Jean-Marc Eustache

Chairman of the Board, President and Chief Executive Officer of Transat A.T. Inc., and President of Look Voyages S.A.

CANADIAN OPERATIONS

In Canada, revenues of the group's outgoing tour operators increased 13% overall. In 1998, sales of Air Transat Holidays increased almost 14%, with the sharpest increases in Ontario and western Canada, which posted growth rates of 12% and 27%, respectively.

In Toronto, the 25% increase in sales of Regent Holidays demonstrated its position as a leader in certain niches in the Ontario market.

For its part, Voyages Nolitour's sales in the Quebec market grew by close to 20%, and the subsidiary continues to diversify its revenues between seasons. In summer 1998, it added Greece to its program, which also includes Italy. Finally, at World of Vacations, work to reposition this company went forward and will continue throughout fiscal 1999.

In 1998, growth of the carrier Air Transat occurred at the same rate as that of the group's tour operators. In addition, the airline successfully developed its leasing of aircraft with crews to other carriers and customers during the slowest off-peak periods in spring and fall. The air carrier continues to adjust to market conditions and requirements, especially with regard to fleet renewal. The deliveries of two new, long-range, wide-bodied Airbus A330-200s are scheduled for February and April 1999; and another Lockheed L-1011-500 will join the fleet at the beginning of 1999. In addition, the operational synergy we have been seeking is indeed developing between Air Transat in Canada and STAR Airlines in France. Consequently, one of Air Transat's Lockheed L-1011-500s has been leased to STAR Airlines since December 1998, enabling this company to start up its long-range operations with the technical assistance of Air Transat.

On December 15, 1998, Air Transat unveiled a new colour scheme for its aircraft. While continuing to rely on the visual recognition that has developed over the past 11 years, the airline chose to mark its new aircraft with the sign of renewal at the dawn of the millennium.

In 1998, Services Haycot renewed its contracts to provide airport handling services to its principal customers outside of the group for several years. The company continues to pursue its plan to invest in equipment and machinery.

With regard to retail distribution, our affiliated company, Consultour/Club Voyages, equipped itself with an Intranet and Internet network during 1998. All travel consultants have thus acquired new technological tools that enable them to access more products from suppliers, and to directly serve many clients. Consultour/Club Voyages remains the foremost travel agency franchisor in Quebec.

EUROPEAN OPERATIONS

Vacances Air Transat (France) succeeded in diversifying its travel products. Last winter, its packages for Cuba, the Dominican Republic, and Mexico were well received by clients, thus ensuring a greater balance between summer and winter operations. The levelling off of demand for international tourist products in the summer of 1998 – for the most part due to the World Cup soccer tournament – translated into a slowing of sales for Canada. For Vacances Air Transat (France), this drop was partly compensated for by an increase in travel to the United States. In 1998, Canadian destinations accounted for 51% of the sales of Vacances Air Transat (France); it is, in fact, the leader in the French market for travel to Canada.

We are pleased to report that Look Voyages attained its 1998 objectives; it drastically cut losses, implemented an aggressive sales approach evidenced by the listing of its products with all the major distribution networks in France, deployed a strategy of creating original products tailored to customers' needs with the launch of the "Lookéa" Club, and ensured its continuing leadership in the air-only market. A new general manager joined the company in July 1998, and he should lead this tour operator into a profitable position in 1999.

Brok'Air and its subsidiary, Any Way, stabilized their positioning. Brok'Air is a consolidator for charter flights, and also provides effective computerized tools that enable travel agencies to access the available negotiated fares of scheduled airlines. Any Way is a multibrand call centre that specializes in marketing travel. These business fields are leading edge in our industry with regard to both technology and trends in distribution methods.

In 1998, STAR Airlines operated four 180-seat Airbus A320s. Look Voyages remains its major client, but STAR Airlines has diversified its customer base. In December 1998, in order to commence long-range operations, it began operating a Lockheed L-1011-500 leased from Air Transat. In April 1999, it will add a fifth Airbus A320 to its fleet. STAR Airlines will then be in a position to take up a major part of the gap left by the departure of Air Charter in France.

Holiday travel...

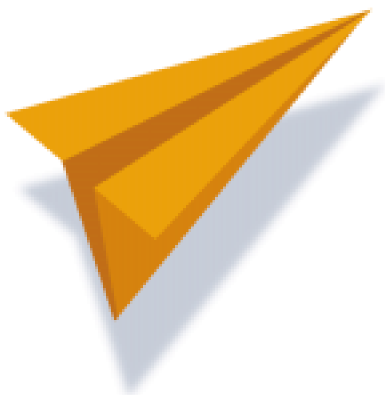
CORPORATE AFFAIRS

One of the major concerns at the end of this millennium is the ability of businesses to deal with the Year 2000 challenge facing some of their computer systems. In our case, an action plan was put together in the fall of 1997 by Transat's information systems group, and we are strictly adhering to the plan. We also take part in the initiatives of our professional associations, especially for the airline sector; we are actively involved in the steps being taken by the Air Transport Association of Canada.

With regard to the environment, Transat has implemented the necessary measures and programs, especially for air transport activity. The training and involvement of employees have already produced concrete results for aircraft de-icing and the conservation of fossil fuel.

I am pleased to note that each year, with the help of its employees, Transat contributes to the betterment and development of our community. Our Board of Directors has chosen to make contributions to the areas of social affairs, culture, and post-secondary education from the means at our disposal.

Transat is a service company. Our customers are holiday travellers who often have been looking forward with great anticipation to a brief period of relaxation. Their expectations are high, and we know that we can rely on the devoted, experienced employees and managers who give the very best of themselves in order to meet those expectations. I offer our employees my most sincere thanks. The climate of labour relations in our subsidiaries and affiliated companies – marked by a spirit of openness and healthy discussion – is supported by a willingness to maintain broad internal communications. We consequently believe that the collective agreements that are due for renewal at Air Transat will be negotiated successfully in the coming months.



OUTLOOK

The large sector marketing holiday travel continues to be very active in both Europe and North America, and the outlook for sales growth remains very encouraging. The trend towards greater market concentration has been confirmed in Europe, especially in the United Kingdom and Germany. In France, the market remains very open, and several participants, including Transat, are poised to assume a very prominent position in it. In Canada, a situation of overcapacity has resulted in a struggle between two of Transat's competitors outside Quebec. We believe, however, that Transat is in an excellent position to take advantage of these circumstances. Nevertheless, if the situation persists, it could affect margins and load factors during fiscal 1999.

Finally, I wish to sincerely thank the Board member whose mandate has ended for the excellent work accomplished, and to extend a warm welcome to those joining our ranks.

Jean-Marc Eustache (signed)

Chairman of the Board
President and Chief Executive Officer
Montreal, February 3, 1999

THE BOARD OF DIRECTORS

(From left to right)

Jean-Marc Eustache
Chairman of the Board
President and Chief Executive Officer
Transat A.T. Inc.
and President, Look Voyages S.A.

Jean-Paul Bellon
Chairman of the Board
and Chief Executive Officer
Consultour/Club Voyages Inc.
and President, Euro Charter S.A.

André Bisson, O.C.
Director of Corporations

Lina De Cesare
President and Chief Executive Officer
Air Transat Holidays A.T. Inc.
and President, Tourbec (1979) Inc.

Benoît Deschamps
Vice-President
Financial Planning and Treasurer
Le Groupe Vidéotron Ltée

Yves Graton
Director of Corporations

Jean Guertin
Chief Executive Officer
Société Gasbeau
Chairman of the Board, Telemedia Inc.
and Professor, École des Hautes
Études Commerciales

Sylvie Jacques
Director, Investments, Recreation-
Tourism Fund, Fonds de solidarité
des travailleurs du Québec (FTQ)

Michel Lessard
President, Club Voyages Air-Mer Inc.

Philippe Lortie
Captain, Air Transat A.T. Inc.

Philippe Sureau
Executive Vice-President
Transat A.T. Inc.
President and Chief Executive Officer
Air Transat A.T. Inc.
and President, DMC Transat Inc.

John D. Thompson
Deputy Chairman of the Board
Montreal Trust Company

Transat A.T. Inc. is part of a relatively new industry that involves the organization and distribution of holiday travel, which is why we define our group as a "holiday maker." By analogy with the manufacturing sector, we emphasize the importance of the assembly of various components of our finished product.

SUBSIDIARIES AND AFFILIATED COMPANIES

Our product is a service; more often than not, it is a package that includes many of the following elements: air transportation, transfers from the airport to hotels, accommodations in a hotel or apartment, various activities, meals, cruises, coach tours, excursions, etc. Once the product has been assembled, it is marketed through several distribution channels. The tour operators are the master craftsmen in this production process; their activities are central to the Corporation.

THE HOLIDAY-TRAVEL INDUSTRY

While the occupation of travel agent has existed for at least a century, that of tour operator is only about 25 years old. It is the latter that has brought an industrial dimension to the industry by integrating the different levels of intervention. Beginning with the customer, the first level is contact with travel agents, the true retailers in the industry. They, in turn, work with the second level, the outgoing tour operators who assemble packages and advertise them in travel brochures. These brochures, which are distributed in travel agencies, are one variable of the marketing mix used by tour operators to effectively market their products. At the third level are several service providers, including the air carrier, the incoming tour operator, and the hotelier.

Air transportation is a key component of the holiday package; it enables travellers to arrive quickly at their destinations. Control of this component on a quantitative level – i.e., capacity and destinations offered – and on the qualitative level of passenger service enables the tour operator to have some command of its development.

Incoming tour operators are the complement to outgoing tour operators. At the destination, they assume certain responsibilities, such as the transfer of travellers from the airport to hotels, the availability of guides, and the organization of excursions and tours.

The hotelier, of course, is part of this group of suppliers. Nevertheless, to date, few leisure groups have integrated this activity, and when they do, it only involves a small part of their available inventories. Generally speaking, tour operators reserve blocks of hotel rooms in advance for their packages.

SUBSIDIARIES AND AFFILIATED COMPANIES OF TRANSAT

(Interest in)

Sector	In Canada		In France	
TRAVEL AGENCIES	100%	**VACANCES TOURBEC**	100%	**EURO CHARTER/CLUB VOYAGES** [1]
	50%	**CONSULTOUR** • **CLUB VOYAGES** • **VOYAGES EN LIBERTÉ** • **INTER VOYAGE**		
OUTGOING TOUR OPERATORS	100%	**VACANCES AIR TRANSAT – AIR TRANSAT HOLIDAYS**	100%	**VACANCES AIR TRANSAT (FRANCE)**
			97.9%	**LOOK VOYAGES**
	100%	**VOYAGES NOLITOUR**	39%	**BROK'AIR** • **ANY WAY**
	100%	**REGENT HOLIDAYS**		
	35%	**WORLD OF VACATIONS**		
INCOMING TOUR OPERATORS	66.66%	**DMC TRANSAT** • **KILOMÈTRE VOYAGES**		
	100%	**VACANCES AIR TRANSAT HOLIDAYS (FLORIDA)**		
THE AIRLINE SECTOR	100%	**AIR TRANSAT**	49.6%	**STAR AIRLINES** [2]
	50%	**SERVICES HAYCOT**		

(1) 100% interest held by Consultour/Club Voyages

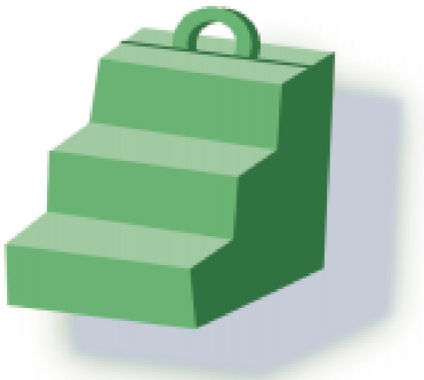
(2) 49.6% interest held by Look Voyages

VERTICAL INTEGRATION

Vertical integration of production and distribution methods has been adopted by essentially all large companies operating in the industry. This approach makes it possible to bring tour operators and air carriers under one roof, as well as, in several cases, travel agencies and incoming tour operators. Integration allows companies not only to control the entire production and distribution process, but also to add value to each level of production. For the tour operator, this formula secures, on the one hand, loyalty from the distributors for the sale of its packages and, on the other hand, control of its seat inventory to destinations where it has blocked hotel rooms.

In Canada, Trafic Voyages, Transat's original tour operator, pioneered this formula a dozen years ago by creating its own airline, Air Transat, and then developing an association with the travel-agency franchisor Consultour/Club Voyages.

THE AIRLINE SECTOR
INCOMING TOUR OPERATORS
OUTGOING TOUR OPERATORS
TRAVEL AGENCIES



CHARACTERISTICS OF LEISURE TRAVEL

Companies operating in the travel industry compete for two major markets: business travel and holiday or leisure travel. These two markets have very distinct characteristics and respond to specific marketing parameters. Transat, its subsidiaries and affiliated companies have chosen to focus almost exclusively on serving vacationers. Leisure travel is particularly characterized by the following:

STRONG SEASONALITY

Travel habits and needs vary according to the time of year. There are major differences between peak seasons, for example school breaks, and spring or fall shoulder seasons. The extent of these differences varies depending on the market served by Transat. In France, for example, peak summer season – from mid-July to the end of August – is more marked than in Canada. Some segments of the clientele, particularly groups and retired people, are attracted by promotional fares during off-seasons.

PREFERRED DESTINATIONS

The destinations preferred by vacationers vary depending on the season and on the originating markets. During the winter, Canadian travellers head for sunshine destinations such as Mexico, the Caribbean, and the United States, while in summertime, they opt for Europe. Europeans make their way to the ski slopes and to the tropics in the winter, and to countries in the Mediterranean region in the summer.

A DISCRETIONARY BUDGET

For most households, except for purchasing a car or home, the holiday budget is the single most important discretionary expenditure of the year, and it is paid for in after-tax dollars. Business travel, by contrast, is paid for by companies, not individuals. Leisure travel is therefore definitely a consumer product.

A SPECIFIC WAY OF TRAVELLING

On holidays, people travel as a couple, with their families, or as part of a group. Business travellers more often travel alone. The product marketing approach takes these aspects into consideration, especially in establishing the price-quality ratio.

Leisure travel companies must find ways to meet market demands. They must change their production with the rhythm of the seasons to ensure that they have availability for major destinations, and to offer packages at competitive rates. Vertical integration definitely contributes to the success of this process.

Vertical integration...

Transat began operations in Canada, where it greatly contributed to the trend of industry rationalization. Recently, opportunities for consolidation have grown scarcer and the Corporation has focused on internal growth. Globalization of the industry has meant that, for the past three years, Transat's two main competitors in the Canadian market have been subsidiaries of British companies.

TRANSAT'S MARKETS

This situation has acted as a catalyst for Transat, which has appreciably increased its investments in Europe over the past three years. Today, Transat divides its operations between Canada and Europe, with sales volumes of 62% and 38%, respectively. In Europe, Transat markets its air transportation services for travel to Canada in France, the United Kingdom, Germany, the Netherlands, Ireland, Italy, Portugal, and Greece.

TOUR OPERATORS AND CHARTER CARRIERS

In Canada, there are two major groups on the national scene: Transat, and the tour operator Signature, which is the subsidiary of the British company, First Choice. These two groups alone offer their holiday travel services to all Canadians from coast to coast.

Two other players have an important role: Canada 3000 and Sunquest, part of the North American Leisure Group that is owned by Airtours in the UK, which is one of the largest tour operators in the world. Sunquest, a leading tour operator in Ontario and in western Canada, is the customer of Skyservice, an airline whose leisure charter capacity is reserved exclusively for Sunquest. It should be noted that foreign companies cannot hold more than 25% of a Canadian airline's voting shares, which complicates matters for integrated, non-Canadian companies.

Until the fall of 1998, Canada 3000 was the main provider of Signature's airline capacity. A radical change in strategic alliances led to the coupling of Royal Aviation and Signature, which also acquired Royal Vacations, the tour operator subsidiary of Royal Aviation. Canada 3000, which launched its own tour operator, Canada 3000 Holidays, in the spring of 1998, seems to be adopting a marketing approach oriented more towards the "traditional airline" rather than the "leisure airline." Other players in the market are smaller and are positioned either as regional players, or as specialists in one type of product or destination.

Transat, for its part, is present in all Canadian markets. The uncontested industry leader in Quebec, Transat is one of the three leading tour operators in all other Canadian markets: the Atlantic Provinces, Ontario, the Prairies, and western Canada.

Recent actions on the part of Transat's competitors have given rise to overcapacity due to a certain duplication of seats offered by Canada 3000 and Signature-Royal, each of which is trying to keep customers they previously shared, especially with regard to air-only activities.

THE CANADIAN MARKET

Presence of Transat Companies in the Canadian market

	Atlantic	Quebec	Ontario	Prairies	West
Air Transat	•	•	•		•
Consultour/Club Voyages	•	•			
Vacances Air Transat – Air Transat Holidays	•	•	•		•
Voyages Nolitour		•			
Regent Holidays			•		
World of Vacations	•		•	•	•

Significant presence of Tour Operators in the Canadian market

	Atlantic	Quebec	Ontario	Prairies	West
Transat	•	•	•	•	•
Signature	•	•	•	•	•
Sunquest			•		•
Canada 3000 Holidays			•		•

TRANSAT IN NORTH AMERICA

TRAVEL AGENCIES

Consultour/Club Voyages [1]

Network Revenues ($)	439,000,000
Company Revenues ($)	85,000,000
Number of Outlets	179

[1] *Excluding Vacances Tourbec and Euro Charter/Club Voyages*

Vacances Tourbec

Network Revenues ($)	39,000,000
Company Revenues ($)	4,000,000
Number of Outlets	27

OUTGOING TOUR OPERATORS

Vacances Air Transat – Air Transat Holidays

Revenues ($)	474,000,000
Number of Employees	437
Travellers	626,000

Voyages Nolitour

Revenues ($)	78,000,000
Number of Employees	65
Travellers	79,000

Regent Holidays

Revenues ($)	135,000,000
Number of Employees	99
Travellers	136,000

World of Vacations

Revenues ($)	186,000,000
Number of Employees	235
Travellers	262,000

INCOMING TOUR OPERATORS

DMC Transat

Revenues ($)	21,000,000
Number of Employees	26
Travellers	43,000

Vacances Air Transat Holidays (Florida)

Revenues ($)	6,000,000
Number of Employees	20

THE AIRLINE SECTOR

Air Transat

Revenues ($)	509,000,000
Number of Employees	1,627
Passengers Carried	2,510,000

Services Haycot

Revenues ($)	14,000,000
Number of Employees	600

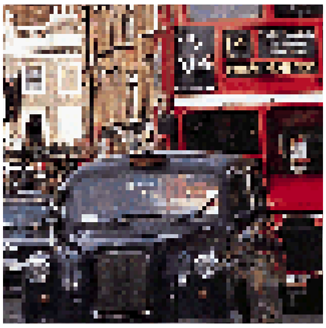
TRAVEL AGENCIES

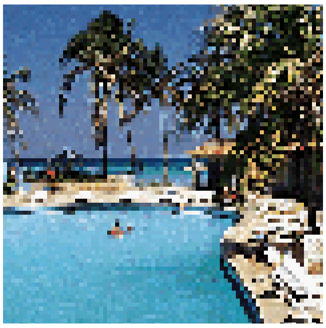
Transat has chosen to focus on travel agencies for its distribution. In Canada, all major travel-agency networks and independent agents do business with our companies. Transat holds a 50% stake in **Consultour/Club Voyages**, a travel-agency franchise group, and is the sole owner of franchisor **Vacances Tourbec**.

CONSULTOUR/CLUB VOYAGES, VACANCES TOURBEC

The Consultour/Club Voyages group (50% owned) has four banners: **Club Voyages**, **Voyages en Liberté**, **Inter Voyage**, and **Vacances Tourbec**. Operating 206 outlets (including those of Vacances Tourbec) in eastern Canada, it is the foremost franchisor in Quebec, with 30% of the holiday-travel market. Consultour/Club Voyages also acts as a consolidator, selling airplane tickets for scheduled flights at preferential fares, providing this service for the Consultour/Club Voyages network, and for other travel agencies in Quebec, as well as in the Atlantic Provinces, New England, and in eastern Ontario.

During 1998, Consultour/Club Voyages equipped its agencies with information tools that integrate internal communication and access to the Internet via individual terminals connecting travel agents to air carriers and tour operators. The objective for the year in progress is to continue to create a paperless, technology-oriented environment in agencies.





OUTGOING TOUR OPERATORS

Transat's wholly-owned tour operators are **Vacances Air Transat – Air Transat Holidays** (Montreal, Toronto, Vancouver), **Voyages Nolitour** (Montreal), and **Regent Holidays** (Toronto). Transat also holds a 35% interest in **World of Vacations** (Toronto). The combined revenues of the three tour operators active in Ontario put Transat in first place. As well, by combining the sales of the two tour operators in Quebec, Transat is the undisputed leader in that market. In total, the revenues of Transat's tour operators are the highest in Canada.

VACANCES AIR TRANSAT – AIR TRANSAT HOLIDAYS

Vacances Air Transat – Air Transat Holidays is the leading Canadian-owned tour operator with offices in Montreal, Toronto, and Vancouver, and regional offices in Halifax, Quebec City, and Calgary.

In the Atlantic Provinces, Air Transat Holidays has developed a solid presence for travel from Halifax, Gander, and St. John's.

In Quebec, Vacances Air Transat is the market leader, offering a complete range of services including packages, flights, car rentals, hotel reservations, coach tours, cruises, etc., for individuals and groups. In winter, the product focus is on sunshine destinations, while in summer, European destinations are catered to. The tour operator's summer and winter activities are, nevertheless, balanced, which is a significant competitive advantage.

In Ontario, Air Transat Holidays has succeeded in ranking among the leading tour operators in a highly competitive market; furthermore, it is the market leader for summertime travel to European destinations (the UK, Germany, the Netherlands). The tour operator has a strong presence in markets for air-only flights to Florida, domestic flights, as well as sunshine destinations. It continues to be a leader for packages to Las Vegas.

The company is maintaining sustained growth in western Canada, and is now offering departures from Vancouver, Calgary, and Edmonton. The introduction of long-range aircraft to Air Transat's fleet – Lockheed L-1011-500s in 1997 and the anticipated arrival of Airbus A330-200s in spring 1999 – enables Air Transat Holidays to offer quality non-stop service that is highly appreciated by our clientele. Europe, sunshine destinations, and domestic flights are part of the range of products offered by the company.

Quebec, Ontario...

OUTGOING TOUR OPERATORS (cont.)

VOYAGES NOLITOUR

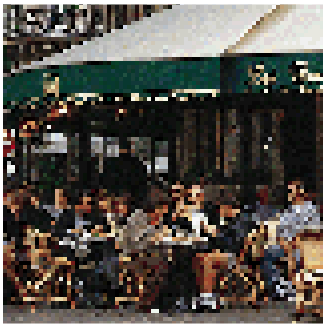
Voyages Nolitour holds an important position in the Quebec market. The company has succeeded in maintaining its image due to the excellent price-quality ratio of its packages to sunshine destinations, and as a result of dynamic advertising campaigns. For the past two years, Voyages Nolitour has set itself apart by its new summer products (packages and direct flights on Air Transat) to Italy and Greece in Europe, which enabled the tour operator to noticeably improve the balance of its winter and summer activities.

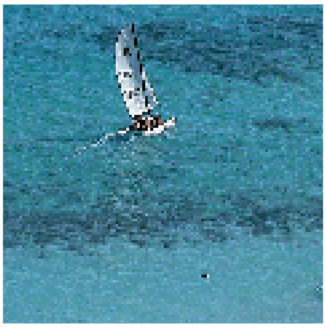
REGENT HOLIDAYS

Regent Holidays is now in its eighteenth year of operations and maintains its position as leader in certain niches in the Ontario market, especially cruises in the Caribbean and the Mediterranean, and packages to Greece, Venezuela, Colombia, and Panama. As a result of its alliance in the fall of 1998 with EnRoute Holidays – a Florida specialist operating in the Ontario market – Regent Holidays should be in a position to assert itself as a leader in travel services to this important destination, while continuing to market sunshine destinations where it is firmly established, such as Cuba, Mexico, and the Dominican Republic.

WORLD OF VACATIONS

For destinations in the United States, the Bahamas, the West Indies, Mexico, and South America, World of Vacations offers a broad range of quality products at competitive prices to travel markets in Ontario, the Atlantic Provinces, the Prairies, and western Canada. The company also offers ski packages in Canada. In the summer, it adds major European destinations to its product line. World of Vacations has been serving Canadians for over 70 years.





INCOMING TOUR OPERATORS

Transat is present in the field of incoming tour operators with **DMC Transat** (in which it holds a 66.7% interest) in Canada and **Vacances Air Transat Holidays (Florida)** in the United States. Incoming tour operators offer products to foreign tourists visiting their countries; leisure travel, conferences, and incentive trips are part of their field of expertise.

DMC TRANSAT

DMC Transat is one of the largest incoming tour operators in Canada. Its activities cover two very different market segments. On the one hand, there is leisure travel (traditional, discovery, and adventure tourism) for groups or individuals visiting Canada. These products are sold by, among others, French, British, German, and Scandinavian tour operators. On the other hand, there is business travel, particularly incentive travel, special events, meetings, and conferences, for clients coming from the United States, and, to a lesser extent, from Europe. The Kilomètre Voyages division provides packages for Quebec and North America to Quebeckers and to travellers who are passing through.

VACANCES AIR TRANSAT HOLIDAYS (FLORIDA)

This company offers representation services and tours to Air Transat Holidays customers during their stay in Florida. It also markets Air Transat flights to Canada. Since the fall of 1998, Vacances Air Transat Holidays (Florida) has taken advantage of purchases made by its parent company and added packages to Mexico, the Dominican Republic, and Las Vegas to the travel products offered to its local clientele. The company's offices are in Fort Lauderdale, Florida.

Foreign tourists...

THE AIRLINE SECTOR

Transat's vertical integration strategy also encompasses air transportation. The Corporation is the sole owner of its subsidiary, **Air Transat** – which occupies the charter carrier niche – and holds a 50% interest in **Services Haycot**, which operates in the airport handling services niche.

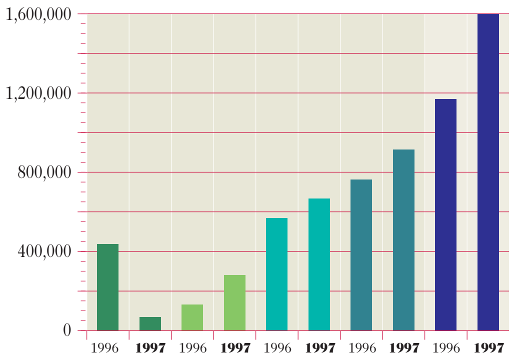
AIR TRANSAT

Air Transat operates charter flights from several Canadian cities including Halifax, Quebec City, Montreal, Toronto, Calgary, Edmonton, and Vancouver. These flights are primarily marketed by Transat's member tour operators, as well as by non-member tour operators. A limited portion of its services, however, is marketed directly by the air carrier to the public because of its designation as a scheduled airline between Canada and France, as well as between Canada and Cuba. Furthermore, this same approach is undertaken for some deregulated markets (domestic flights within Canada, and transborder flights to the United States).

On December 15, 1998, Air Transat unveiled the new colours for its aircraft. This new image symbolizes a renewal of the energy with which service is being offered to passengers while also maintaining continuity with the past. From a practical standpoint, this change will also facilitate aircraft exchanges with STAR Airlines and increase existing synergies.

At the beginning of 1999, Air Transat took delivery of a fourth Lockheed L-1011-500. It should be noted that since December 1998, one of Air Transat's Lockheed L-1011-500s is being leased to STAR Airlines in France, enabling the latter to start up its long-range operations. The company will also add two Airbus A330-200s to its fleet under the terms of an operating lease signed at the end of 1997. These aircraft are scheduled for delivery in February and April 1999, and herald the beginning of a fleet-renewal program that will be carried out gradually over the coming years.

International charter flights (excluding the United States), Canadian carriers, from January 1 to December 31



Company	Year	Passengers	Market share
Air Transat	**1997**	**1,597,956**	**45.3%**
	1996	1,167,826	38.1%
Canada 3000	1997	914,049	26.0%
	1996	761,444	24.9%
Royal	1997	666,607	18.9%
	1996	567,690	18.6%
Skyservice	1997	279,054	7.9%
	1996	129,820	4.2%
Other	1997	65,900	1.9%
	1996	435,975	14.2%
TOTAL	1997	3,523,566	100.0%
	1996	3,062,755	100.0%

Charter flights...

Source: Statistics Canada

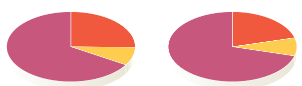
Statistics on the charter-flight market and data compiled by Air Transat have enabled us to determine the following regarding Air Transat's positioning in Canada:

- In 1998, Air Transat carried 2,510,000 passengers, broken down into three major destination categories: international flights (70.3%), transborder flights to the United States (20.8%), and domestic flights (8.9%).
- Air Transat dominates the leisure-travel sector at the Quebec City and Mirabel airports (Montreal), and matches Canada 3000's numbers at Toronto's Lester B. Pearson International Airport in the same market niche.
- Air Transat is the leading operator of holiday flights from Canada to France, Belgium, the UK, Germany, Greece, Portugal, and Switzerland, as well as to Cuba, the Dominican Republic, Venezuela, Mexico, Colombia, and Costa Rica.
- In Canada, Air Transat ranks first among carriers targeting international holiday flights (excluding the United States), cornering 45.3% of the market.
- Air Transat operates 53.2% of the charter flights to all transatlantic destinations combined, and is also positioned as the leading carrrier to all sunshine destinations combined, with a 39.1% market share.

SERVICES HAYCOT

Services Haycot provides airport representation, baggage handling and aircraft cleaning services at the Montreal airports (Mirabel and Dorval) and at Lester B. Pearson International Airport in Toronto. The company's main customers are Air Transat, Air France, Royal Air Maroc, Lufthansa, and Aéroports de Montréal.

Geographic distribution of Air Transat's traffic from November 1 to October 31



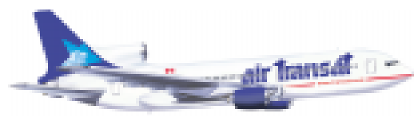
	1997-1998		1996-1997
International (except U.S.)	**70.3**%		65.0%
United States	**20.8**%		26.5%
Domestic	**8.9**%		8.5%

The Air Transat fleet

EQUIPMENT TYPE	Number of Aircraft	Number of Seats
Lockheed L-1011-150	10	362
Lockheed L-1011-500 *	4	309
Airbus A330-200 **	2	362
Boeing 757-200ER	5	228
Boeing 737-400 ***	2	170

* *Including one aircraft in service with STAR Airlines in France*
** *Starting spring 1999*
****Winter season only*

Lockheed L-1011-150



Lockheed L-1011-500

Airbus A330-200

Boeing 757-200ER

TOUR OPERATORS AND CHARTER CARRIERS

The major northern European countries, principally Germany and the UK, have developed substantial tourism export markets. Consequently, very large travel companies have been established in these markets (Preussag, C&N, LTU, etc., in Germany; Thomson, Airtours, First Choice, and Thomas Cook/Carlson in the UK). To the south, it was companies tied to the hospitality industry that were first to enter the tourism field (for example, Sol Melia and G V I in Spain).

France, which is both the leading tourist destination in the world and a country that exports tourism, is at the beginning of a phase of consolidation of its industry. There is no clear dominant player in the French market. On the other hand, Nouvelles Frontières, a highly integrated company, includes a major tour operator, two airlines, hotel operations, and an exclusive distribution network. It is the exclusive nature of its distribution network that has kept this company on the fringe of the French industry despite its leading position in terms of revenues.

FRAM, a large traditional tour operator, is embarking on integration. Air France, an air carrier that was very active in the field of holiday travel, withdrew from the market, having ceased operations of its subsidiary, Air Charter International, in 1998, and sold Jet Tours, its tour operator, in 1997. For its part, Accor, a hotel operator, entered the market as a tour operator by developing Accor Tour – the result of merging several small players – and has shown an interest in the retail sector. Finally, apart from Transat, Swiss Kuoni is the only foreign tour operator that holds a significant share of the tour-operator market in France.

Transat is well positioned in this French landscape. Its tour operator, Vacances Air Transat (France) combines its airline activities with Air Transat for its products to Canadian destinations, and with STAR Airlines for most of its products to destinations in the Caribbean. Furthermore, Look Voyages, one of the leading French tour operators, launched STAR Airlines, in which it holds a 49.6% interest.

STAR Airlines is well positioned to accelerate its development. The airline has greatly broadened its customer base and began long-range operations at the end of 1998.

THE FRENCH MARKET


TRANSAT IN EUROPE

TRAVEL AGENCIES

Euro Charter/Club Voyages

Company Revenues ($)	145,000,000
Number of Employees	75
Number of Outlets	50

OUTGOING TOUR OPERATORS

Vacances Air Transat (France)

Revenues ($)	124,000,000
Number of Employees	115
Travellers	90,000

Look Voyages

Revenues ($)	341,000,000
Number of Employees	340
Passengers	1,239,000

Brok'Air

Revenues ($)	69,000,000
Number of Employees	59

THE AIRLINE SECTOR

STAR Airlines

Revenues ($)	122,000,000
Number of Employees	233
Passengers Carried	600,000

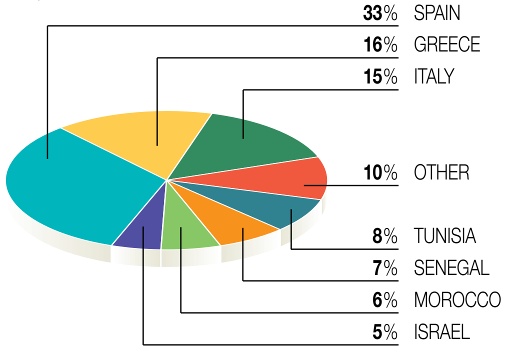
TRAVEL AGENCIES

In France, as in Canada, Transat maintains a distribution strategy encompassing all of the market players. In this respect, the products of Transat's companies are available at almost all travel agencies in the retail network. Consultour/Club Voyages, Transat's affiliated company, is the sole owner of the **Euro Charter/Club Voyages** travel agencies.

EURO CHARTER/CLUB VOYAGES

Its network of 50 agencies, of which 30 are in the metropolitan Paris area, is present in most of France's large cities. In 1998, a major program of renewal was initiated; it will continue in 1999, enabling the agencies to carry on business under the colours of Club Voyages. In addition, management is relying on new telecommunications technologies to broaden its customer base.

Geographic distribution of STAR Airlines' traffic from November 1, 1997 to October 31, 1998



The STAR Airlines fleet

TYPE OF EQUIPMENT	Number of Aircraft	Number of Seats
Airbus A320 *	5	180
Lockheed L-1011-500 **	1	309

* *Fifth aircraft starting April 1999*
** *Aircraft leased from Air Transat starting December 1998*

OUTGOING TOUR OPERATORS

In France, the Corporation operates **Vacances Air Transat (France)**, a wholly-owned subsidiary of Air Transat Holidays, **Look Voyages**, a subsidiary in which Transat holds a 97.9% interest, and **Brok'Air**, in which Transat holds a 39% interest.

VACANCES AIR TRANSAT (FRANCE)

Canadian destinations account for 51% of the sales of Vacances Air Transat (France); it is, in fact, the leader in the French market for travel to Canada. For three years the company has been implementing its strategy to diversify production, which played a considerable role in balancing its summer/winter activities. In 1998, travel to the Dominican Republic accounted for 14% of the tour operator's sales volume, with Cuba generating 12% of sales, and Mexico, 6%. In addition, sales to the United States doubled in 1998.

LOOK VOYAGES

In 1998, Look Voyages achieved its marketing objectives. With regard to distribution, the company today has sales agreements with all the major retail networks operating in the French market. Its strong consumer image has been supported by aggressive advertising campaigns. With regard to products, Look Voyages maintains its leadership position in air-only products, is developing its cruise business, and has launched new vacation clubs called "Lookéa."

BROK'AIR

Brok'Air is active in two major fields. First, it is a consolidator for charter flights, and provides effective computerized tools that enable 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.

THE AIRLINE SECTOR

STAR AIRLINES

In just four years, STAR Airlines has succeeded in becoming one of the leading charter operators in the French market. In 1998, the company stabilized its growth. However, with the addition of new aircraft, it will undertake significant development in the future.

In December 1998, STAR Airlines started operating a Lockheed L-1011-500 leased from Air Transat. This aircraft enables the company to market long-range flights.

Vacation clubs...

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 reflect its excellent market positioning.

MANAGEMENT'S DISCUSSION OF OPERATING RESULTS

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.

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 1 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.

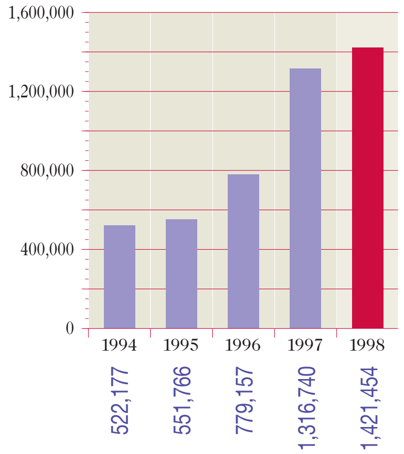
Similarly, Air Transat's revenues, including business activities within the group, rose by approximately 20%, mainly as a result of greater demand from the group's tour operators. In order to sustain this growth, Air Transat added another aircraft to its fleet. Air Transat operated ten Lockheed L-1011-150s, 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.

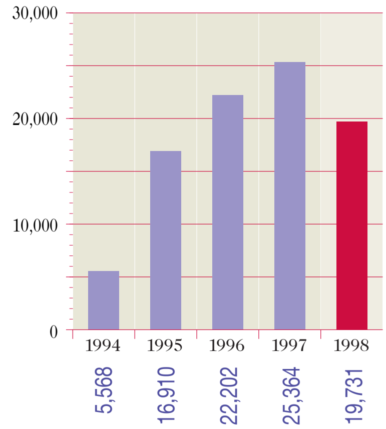
In France, Brok'Air's revenues rose by 22%, while those of Vacances Air Transat (France) dropped 11% due to a slow period in the leisure travel sector caused, among other things, by the World Cup soccer tournament. Vacances Air Transat (France) therefore experienced a slight drop in the demand for Canadian 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.

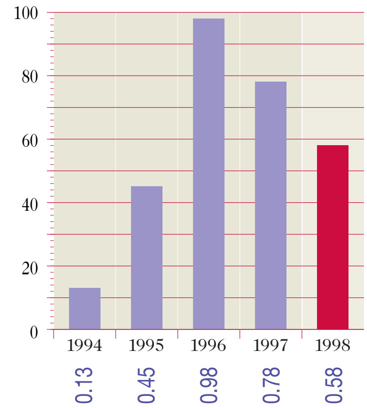
Revenues
for the years ended
October 31
(in thousands of dollars)



Net income
for the years ended
October 31
(in thousands of dollars)



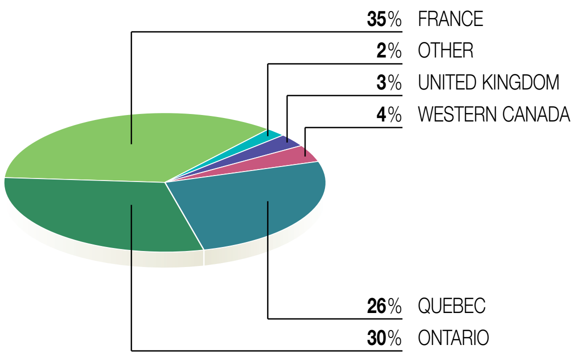
Earnings per share
for the years ended
October 31
(in dollars)



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 aircraft 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 incomes 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.

Sources of revenues
for fiscal 1998



Revenues per season
(in thousands of dollars)

	WINTER SEASON	SUMMER SEASON	TOTAL
1998	**668,993**	**752,461**	**1,421,454**
1997	627,982	688,758	1,316,740
Change in $	41,011	63,703	104,714
Change in %	+ 6.5	+ 9.2	+ 8.0

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 aircraft, 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.

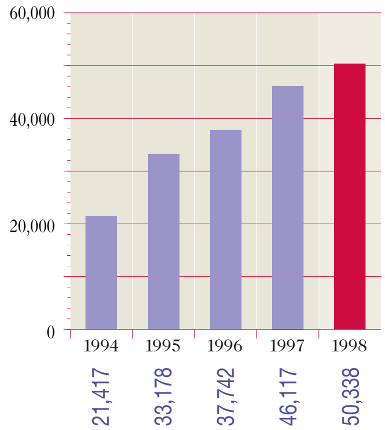
Management is still working to improve the product line offered and achieve better positioning in the travel-agency networks. A new general manager, who is well acquainted with the French market, joined Look Voyages at the beginning of July. Given Look Voyages's progress in 1998 over 1997, this subsidiary 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 carried on at the Vancouver office to Toronto. Management is still working to reduce overall operating costs and position the company in its markets.

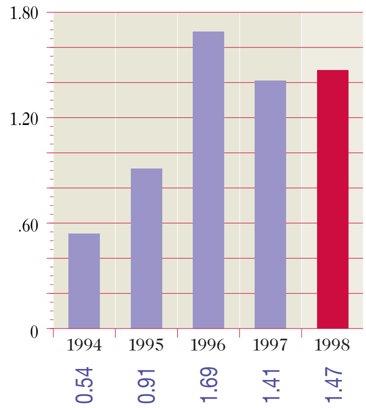
INTEREST

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.

Operating cash flow for the years ended October 31
(in thousands of dollars)



Operating cash flow per share for the years ended October 31
(in dollars)



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.

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.

Operating results...

RISK MANAGEMENT

FUEL AND FOREIGN CURRENCY

As part of its operations, Transat spends significant amounts on fuel for its aircraft. 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.

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 after 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.

OUTLOOK

CANADIAN OPERATIONS

The Corporation anticipates that the market will be very competitive. Some important changes in a strategic alliance that was forged in 1998 resulted in air carrier overcapacity which, in turn, caused a war between two of the Corporation's competitors, primarily in markets outside Quebec. Although Transat considers that it is well positioned, this situation could affect profitability in 1999 if it persists.

The airline company, Air Transat, will begin the process of renewing its fleet by adding new Airbus A330-200s. With the addition of these aircraft combined with the Lockheed L-1011-500s, the group has the requisite equipment to meet customer demand, and better serve its markets, particularly in western Canada in order to increase its market presence there. Air Transat will have to make optimum use of its aircraft to achieve an appropriate balance between its structure of fixed and variable costs and, consequently, maintain profitability while offering a quality product that is constantly being improved.

EUROPEAN OPERATIONS

Look Voyages's results are very encouraging and indeed hold promise for the future. The subsidiary made excellent progress in 1998. It improved its marketing position by obtaining referrals from all the major travel agency networks in France, implemented a development strategy for its package products with the "Clubs Lookéa" trademark and reported significantly reduced losses.

In 1999, Look Voyages will continue its efforts to consolidate its position and improve profitability. It is also expected to benefit from and continue to enhance its product line and positioning in the distribution networks, thereby embarking on a new growth phase. In fiscal 1999, Look Voyages should therefore return to profitability.

Lorraine Maheu (signed)
Vice-President, Finance and Administration
and Chief Financial Officer

MANAGEMENT REPORT AND AUDITORS' REPORT

The consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors. Management's responsibility in this respect includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with generally accepted accounting principles which are adequate in the circumstances. The financial information presented throughout this annual report is consistent with that appearing in the financial statements.

The Corporation and its affiliated companies have set up accounting and internal control systems designed to provide reasonable assurance that the Corporation's assets are safeguarded against loss or unauthorized use, and that its books of account may be relied upon for the preparation of financial statements.

The Board of Directors is responsible for the consolidated financial statements through its Audit Committee. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors of the accounting methods and policies used as well as of the internal control systems set up by the Corporation. These financial statements have been audited by Ernst & Young LLP, the external auditors. Their report on the consolidated financial statements appears below.

Jean-Marc Eustache (signed)
Chairman of the Board,
President and Chief Executive Officer

Lorraine Maheu (signed)
Vice-President,
Finance and Administration
and Chief Financial Officer

TO THE SHAREHOLDERS OF TRANSAT A.T. INC.

We have audited the consolidated balance sheets of Transat A.T. Inc. as at October 31, 1998 and 1997 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young LLP

Montreal, Canada
January 8, 1999

Ernst & Young LLP (signed)
Chartered Accountants

CONSOLIDATED BALANCE SHEETS
AS AT OCTOBER 31
(IN THOUSANDS OF DOLLARS)

	1998 $	1997 $
ASSETS *[notes 7, 8 et 10]*		
Current assets		
Cash and cash equivalents *[note 3]*	**155,720**	141,333
Accounts receivable *[note 16]*	**47,323**	39,225
Inventories	**13,380**	5,726
Deposits with suppliers	**20,807**	19,787
Prepaid expenses	**23,543**	16,845
Total current assets	**260,773**	222,916
Deposits *[note 4]*	**20,061**	30,058
Tax benefits	**18,980**	18,966
Inventory of rotable aircraft spare parts	**8,474**	12,064
Investments in companies subject to significant influence	**15,718**	14,057
Capital assets *[note 5]*	**120,837**	118,019
Goodwill	**36,026**	38,639
Other assets *[note 6]*	**15,698**	12,757
	496,567	467,476
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans *[note 7]*	**16,637**	10,318
Accounts payable and accrued liabilities *[note 16]*	**113,134**	103,711
Customer deposits and deferred income	**64,005**	56,031
Income taxes payable	**208**	5,908
Current portion of long-term debt and obligations under capital leases *[notes 8 and 9]*	**18,832**	17,625
Total current liabilities	**212,816**	193,593
Long-term debt *[note 8]*	**44,975**	47,170
Obligations under capital leases *[note 9]*	**45,569**	50,965
Debenture *[note 10]*	**10,000**	10,000
Other long-term liabilities	**539**	1,328
	313,899	303,056
Shareholders' equity		
Share capital *[note 11]*	**115,795**	114,995
Retained earnings	**69,156**	49,425
Deferred translation adjustments	**(2,283)**	—
	182,668	164,420
	496,567	467,476

See accompanying notes to consolidated financial statements

Contingencies *[note 19]*

On behalf of the Board
(signed) Jean-Marc Eustache, Director
(signed) André Bisson, Director

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED OCTOBER 31
(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	1998 $	1997 $
Revenues *[note 16]*	**1,421,454**	1,316,740
Operating expenses *[note 16]*	**1,349,175**	1,244,283
Income before the following accounts	**72,279**	72,457
Amortization *[note 13]*	**33,206**	25,515
Interest on long-term debt, obligations under capital leases and debenture	**10,269**	8,172
Other interest and financial expenses	**2,977**	4,443
Interest income	**(8,769)**	(6,652)
	37,683	31,478
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest	**34,596**	40,979
Share of net income of companies subject to significant influence	**1,796**	2,380
Income taxes (recovered) *[note 15]*		
Current	**16,675**	18,518
Deferred	**(14)**	(534)
	16,661	17,984
Share of non-controlling interest in subsidiaries' results	**—**	(11)
Net income for the year	**19,731**	25,364
Earnings per share	**0.58**	0.78
Diluted earnings per share	**0.56**	0.74

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
YEARS ENDED OCTOBER 31
(IN THOUSANDS OF DOLLARS)

	1998 $	1997 $
Retained earnings at beginning of year	**49,425**	26,572
Net income for the year	**19,731**	25,364
Common share issue expenses, net of related income taxes of $1,540	**—**	(2,511)
Retained earnings at end of year	**69,156**	49,425

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
YEARS ENDED OCTOBER 31
(IN THOUSANDS OF DOLLARS)

	1998 $	1997 $
OPERATING ACTIVITIES		
Net income for the year	**19,731**	25,364
Add items not involving an outlay (receipt) of funds		
Amortization *[note 13]*	**33,206**	25,515
Share of net income of companies subject to significant influence	**(1,796)**	(2,380)
Deferred income taxes	**(14)**	(534)
Decrease in long-term deferred income	**(789)**	(1,859)
Non-controlling interest	**—**	11
Operating cash flow	**50,338**	46,117
Net change in non-cash working capital balances related to operations	**(14,320)**	(13,807)
Deposits for engine and airframe overhauls	**(214)**	(7,707)
Cash provided by operating activities	**35,804**	24,603
INVESTING ACTIVITIES		
Additions to capital assets	**(24,156)**	(46,352)
Deposits	**(4,477)**	1,266
Other assets	**(2,889)**	(2,351)
Purchase of rotable aircraft spare parts	**(210)**	(9,133)
Loan to a company subject to significant influence	**—**	(6,410)
Consideration paid for companies acquired	**—**	(1,159)
Other	**—**	(304)
Cash used in investing activities	**(31,732)**	(64,443)
FINANCING ACTIVITIES		
Long-term debt – revolving term loan	**(142)**	43,681
Increase in other long-term debt and obligations under capital leases	**15,529**	41,878
Repayment of other long-term debt and obligations under capital leases	**(27,562)**	(16,244)
Bank loans	**6,319**	(19,560)
Issue of common shares	**800**	88,572
Recovery of deposits for engine and airframe overhauls	**15,371**	—
Common share issue expenses	**—**	(4,051)
Cash provided by financing activities	**10,315**	134,276
Net increase in cash for the year	**14,387**	94,436
Cash at beginning of year	**141,333**	46,897
Cash at end of year	**155,720**	141,333

Cash comprises cash and cash equivalents and includes cash amounts referred to in note 3.

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1998 AND 1997
(TABULAR FIGURES IN THOUSANDS OF DOLLARS)

1 INCORPORATION AND NATURE OF BUSINESS

The Corporation, incorporated under the Canada Business Corporations Act, offers services as a tour operator and as a retail travel agent and also operates a commercial charter flight service. In addition, Consultour/Club Voyages Inc., a company subject to significant influence, acts as a franchisor in the travel industry and Services Haycot Inc., a company subject to significant influence, offers airport ground handling and representation services.

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by Management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in Management' s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and joint ventures as well as the investments in companies subject to significant influence, of which the major ones are:

Corporate entities	Interest held on October 31, 1998	Accounting method
	[see note 14]	
Air Transat A.T. Inc.	100%	Consolidated
Air Transat Holidays A.T. Inc.	100%	Consolidated
Vacances Air Transat Holidays (Florida)	100%	Consolidated
Vacances A.T. Europe S.A.	100%	Consolidated
Transat A.T. Barbados Limited	100%	Consolidated
Look Voyages S.A.	97.9%	Consolidated
Vacances Air Transat (France) S.A.R.L.	100%	Consolidated
DMC Transat Inc.	66.7%	Proportionate consolidated
Tourbec (1979) Inc.	100%	Consolidated
Les Voyages Nolitour Inc.	100%	Consolidated
Regent Holidays Limited	100%	Consolidated
Consultour/Club Voyages Inc. and its subsidiary	50%	Equity method
Services Haycot Inc.	50%	Equity method
STAR Airlines S.A.	48.5%	Equity method
Brok' Air S.A. and its subsidiaries	39%	Proportionate consolidated
World of Vacations Ltd.	35%	Proportionate consolidated

CASH EQUIVALENTS

The Corporation invests its cash overage primarily in commercial paper, term deposits and bankers' acceptances, and these investments are recorded at cost plus accrued interest. Their carrying values approximate their fair market values.

INVENTORIES

Inventories are valued at the lower of cost determined according to the first-in, first-out method and market value. Market value, in the case of duty-free merchandise, is equal to net realizable value and for other inventories it is equal to replacement value. Inventories of rotable aircraft spare parts are valued at the lower of average cost and replacement value.

CAPITAL LEASES

Capital leases which transfer substantially all the benefits and inherent risks related to the ownership of the property leased to the Corporation are capitalized by recording as assets and liabilities the present value of the payments under the leases. The property leased and recorded in this way is amortized over its estimated useful life. Rental payments are recorded partly against the amount of the obligation and partly as interest.

2 SIGNIFICANT ACCOUNTING POLICIES [cont.]

CAPITAL ASSETS

Capital assets are recorded at cost and are amortized, taking into account their residual value, on a straight-line basis over their estimated useful lives [except for aircraft engines which are amortized based on the number of cycles used], as follows:

Property under capital leases	
Aircraft	6 to 12 years
Other property	Lease term
Owned assets	
Hangar and administrative building	35 years
Aircraft	6 to 12 years
Improvements to aircraft under operating leases	Lease term
Aircraft equipment	10% and 20%
Computer equipment, software and other	20%, 25%, 30% and 33 1/3%
Office furniture and equipment	10%, 20% and 25%
Leasehold improvements	Lease term
Automotive equipment	20% and 30%

ENGINE AND AIRFRAME OVERHAUL EXPENSES

Engine and airframe overhaul expenses are determined based on their estimated cost and are charged to income according to the number of flying hours recorded during the year.

FOREIGN CURRENCY TRANSLATION

Foreign operations are divided into two categories: integrated and self-sustaining operations. Look Voyages S.A. and Brok' Air S.A. are self-sustaining operations whereas Vacances Air Transat (France) S.A.R.L. is an integrated operation.

Since its acquisition in 1996, Look Voyages S.A. has been considered an integrated foreign operation. For 1998, this company is considered a self-sustaining foreign operation since it is financially and operationally independent given the improvement in its operating results.

(a) SELF-SUSTAINING OPERATIONS

All assets and liabilities of self-sustaining operations are translated at the exchange rates in effect at year-end. Revenues and expenses are translated at average rates of exchange during the period. Net gains or losses resulting from the translation of assets and liabilities are shown under the heading of "Deferred translation adjustments" in shareholders' equity.

(b) INTEGRATED OPERATIONS AND ACCOUNTS IN FOREIGN CURRENCIES

The accounts of integrated operations and accounts in foreign currencies of the Corporation are translated using the temporal method. Under this method, monetary items on the balance sheet are translated at the exchange rates in effect at year-end, while non-monetary items are translated at the historical rates of exchange. Revenues and expenses [other than amortization which is translated at the exchange rates applying to the related capital assets] are translated at the rates of exchange in force on the transaction date or at the average exchange rates for the period. Gains or losses resulting from the translation are included in the statement of income except for those related to a monetary item whose lifetime is pre-determined and extends beyond year-end, which are amortized over the remaining life of the asset or liability.

2 SIGNIFICANT ACCOUNTING POLICIES [cont.]

REVENUE RECOGNITION

Revenue earned from passenger transportation is recorded upon each return flight. Revenue of tour operators and retail travel agents and the related costs are recorded at the time of the departure of the passengers. Amounts received for services not yet rendered are included in current liabilities as customer deposits and deferred income.

GOODWILL

Goodwill is recorded at cost and is amortized on a straight-line basis over periods from 10 to 20 years. The Corporation evaluates the carrying value of goodwill each year to determine if there has been a decline in value based on estimates of current and expected undiscounted cash flows from operations of each underlying business taking into consideration operating trends and other relevant factors.

DERIVATIVE INSTRUMENTS

The Corporation uses foreign exchange forward contracts to hedge against currency exchange rate variations related to long-term debt and lease payments denominated in other currencies, aircraft operating lease payments, receipt of revenue from some tour operators and disbursements pertaining to some operating expenses. The gains or losses resulting from exchange rate variations are recorded in income when the related hedging transactions are realized.

To protect itself against variations in fuel costs, the Corporation has entered into fuel hedging contracts. The resulting gains or losses are recorded in fuel costs as purchases of fuel are made.

INCOME TAXES

The Corporation provides for income taxes using the tax deferral method. Under this method, temporary differences between income for accounting and for tax purposes result in deferred income taxes.

3 CASH AND CASH EQUIVALENTS

As at October 31, 1998, cash balances amounting to $22,258,000 [$17,283,000 in 1997] were held in trust representing funds received from customers for services not yet rendered.

Further to the issuance of a letter of guarantee by its bankers, Air Transat A.T. Inc. is required to reserve a cash amount at least equal to the deposits received from tour operators for flights not made. As at October 31, 1998, an amount of $4,112,000 had been reserved for this purpose [$6,741,000 in 1997].

As at October 31, 1998, bank accounts and term deposits amounting to $11,595,000 [$9,502,000 in 1997] were pledged as collateral security against letters of guarantee issued by financial institutions.

4 DEPOSITS

	1998 $	1997 $
Deposits on leased aircraft	**9,661**	7,687
Other deposits	**6,635**	3,448
Deposits for engine and airframe overhauls	**3,765**	18,923
	20,061	30,058

5 CAPITAL ASSETS

	1998 Cost $	1998 Accumulated amortization $	1997 Cost $	1997 Accumulated amortization $
Property under capital leases				
Aircraft	**128,381**	**46,028**	128,469	46,644
Others	**5,815**	**2,071**	3,627	1,433
	134,196	**48,099**	132,096	48,077
Owned assets				
Aircraft engines	**4,095**	**3,982**	4,095	3,793
Hangar and administrative building	**6,001**	**799**	5,802	625
Aircraft	**13,101**	**4,868**	13,101	3,055
Improvements to aircraft under operating leases	**1,402**	**929**	1,346	692
Aircraft equipment	**13,527**	**8,409**	11,644	6,845
Computer equipment, software and other	**20,804**	**11,908**	16,878	8,998
Office furniture and equipment	**9,620**	**5,965**	7,517	4,946
Leasehold improvements	**5,440**	**2,999**	4,623	2,549
Automotive equipment	**1,244**	**635**	941	444
	75,234	**40,494**	65,947	31,947
	209,430	**88,593**	198,043	80,024
Accumulated amortization	**88,593**		80,024	
Net book value	**120,837**		118,019	

6 OTHER ASSETS

	1998 $	1997 $
Deferred costs [unamortized balance]		
Foreign exchange loss on long-term monetary items	**5,938**	3,638
Financing costs	**646**	1,124
Development costs and other	**2,336**	2,424
	8,920	7,186
Loan to a joint venture at 12% interest, net of the Corporation's interest therein	**2,167**	2,167
Miscellaneous	**4,611**	3,404
	15,698	12,757

7 BANK LOANS

Operating lines of credit totalling FF 124,000,000 [FF 64,500,000 in 1997] have been authorized for Look Voyages S.A., of which FF 59,953,000 [approximately $16,637,000] was used as at October 31, 1998. Accounts receivable of Look Voyages S.A. totalling FF 7,984,000 [approximately $2,216,000] were given as collateral. As at October 31, 1998, the operating lines of credit bore interest at an average rate of 4.25% [4.4% in 1997] corresponding to the average monthly rate of the French money market plus 0.75% to 1%.

8 LONG-TERM DEBT

	1998 $	1997 $
Air Transat A.T. Inc.		
Bank loans and bankers' acceptances at rates ranging between 6.17% and 6.75% [ranging between 4.53% and 5.25% in 1997] *[See a)]*	**33,539**	16,681
Term loan, bearing interest at 9.46%, repayable in monthly instalments of varying amounts maturing in July 2001 and collateralized by a first rank movable hypothec on an aircraft	**2,230**	2,991
Other loans	**170**	4,154
Air Transat Holidays A.T. Inc.		
Bankers' acceptances at a rate of 6.3% [rates ranging between 4.54% and 4.86% in 1997] *[See a)]*	**10,000**	27,000
Other subsidiaries		
Term loans maturing at various dates until 1999	**448**	127
	46,387	50,953
Less current portion	**1,412**	3,783
	44,975	47,170

Principal instalments payable during the next three years are as follows: 1999 – $1,412,000, 2000 – $44,351,000 and 2001 – $624,000.

(a) REVOLVING TERM LOAN AND SPECIAL REVOLVING CREDIT

The Corporation, Air Transat A.T. Inc. and Air Transat Holidays A.T. Inc. entered into an agreement with a banking syndicate for a revolving term loan in the amount of $55,000,000 and, with respect to guarantee agreements related to the operations of Air Transat A.T. Inc., a special revolving credit of $35,000,000 [$27,000,000 in 1997].

Under the bank agreement, the Corporation and its subsidiaries, Air Transat A.T Inc. and Air Transat Holidays A.T. Inc., granted their bankers movable hypothecs on all their movable property. In addition, the Corporation granted a movable hypothec in respect of the shares of its subsidiaries and Air Transat A.T Inc. granted an immovable hypothec in respect of the hangar and administrative building.

The revolving term loan matures on February 29, 2000 and can be extended for two consecutive 12-month periods. Under this agreement, amounts can be drawn by way of bankers' acceptances or loans in Canadian or U.S. dollars. The interest rate is based on a rate scale which varies in accordance with the level of financial ratios calculated on a consolidated basis.

9 OBLIGATIONS UNDER CAPITAL LEASES

	1998 $	1997 $
Obligations totalling US $40,661,000 [US $45,792,000 in 1997] related to aircraft, maturing at various dates until 2004	**62,736**	64,493
Other obligations maturing at various dates until 2001	**253**	314
	62,989	64,807
Less current portion	**17,420**	13,842
	45,569	50,965

Obligations under capital leases related to aircraft were determined based on interest rates ranging between 8.8% and 11.9% [between 8.8% and 11.9% in 1997], and those related to other obligations were determined based on rates averaging 12% [12% in 1997].

Minimum instalments payable under these leases amount to approximately $76,253,000, $13,264,000 of which is interest, payable as follows for the next five years: 1999 – $22,714,000, 2000 – $19,078,000, 2001 – $13,200,000, 2002 – $13,585,000 and 2003 – $2,653,000.

10 DEBENTURE

The $10,000,000 debenture of Air Transat Holidays A.T. Inc. bears interest at 17.5% and matures on November 1, 2005. The debenture is repayable at Air Transat Holidays A.T. Inc.'s option at any time on or after November 1, 2000, subject to a ten-day prior notice. In the event the debenture is repaid, the redemption price will be such that the holder earns a compound annual return of 20.5% from its issuance on November 1, 1995 [taking into consideration annual interest already paid and recorded at a rate of 17.5%]. The debenture, if not repaid, is convertible into 25% of Air Transat Holidays A.T. Inc.'s common shares on or after November 1, 2000, subject to a 30-day prior notice.

The debenture is collateralized by certain intercorporate guarantees and by a second rank movable hypothec on the shares of a number of the Corporation's subsidiaries and on all of the tangible assets of Air Transat Holidays A.T. Inc. and of Air Transat A.T. Inc. Should the Corporation be subject to a takeover bid, the lender has the option to acquire all of the outstanding shares of Air Transat Holidays A.T. Inc. at a price determined under an agreed formula.

11 SHARE CAPITAL

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

		1998 $	1997 $
34,429,317	common shares [34,062,633 in 1997]	**115,359**	114,450
123,800	preferred shares, series 3 [154,750 in 1997] *[See note 14(b)]*	**436**	545
		115,795	114,995

11 SHARE CAPITAL [cont.]

In 1998, the Corporation issued 237,200 common shares [424,850 in 1997] for $421,000 [$743,000 in 1997] under its stock option plan and 36,634 common shares [36,979 in 1997] for $379,000 [$286,000 in 1997] in connection with a common share purchase plan for the employees of the Corporation and its subsidiaries.

On November 7, 1996, the Corporation issued 4,230,000 common shares for $42,652,500 and 4,470,000 warrants for $45,072,500. The warrants were exercised on January 29, 1997 and the Corporation issued 4,470,000 common shares.

The preferred shares, series 3, are non-voting and are entitled to a dividend equal to any dividend declared on the common shares. The Corporation and the shareholders have agreed that these shares will remain in escrow until December 31, 1999 at the latest. They are convertible at the rate of one preferred share, series 3, for three common shares, redeemable at any time at the holder's option at their issue price *[See note 14(b)]*.

During the year ended October 31, 1998, 30,950 preferred shares, series 3, [43,579 in 1997] were converted into 92,850 common shares [130,737 in 1997]. Also, 51,671 preferred shares, series 3 are the property of its subsidiary Regent Holidays Limited, and are excluded from the number of issued and outstanding shares *[See note 14(b)]*.

Options on common shares have been granted under a stock option plan for directors, management and employees. These options may be exercised during a five-year period after the grant date.

The number of options has varied as follows:

	1998	1997
Balance at beginning of year	**1,154,450**	798,300
Granted	**105,000**	850,000
Exercised and cancelled	**(276,450)**	(493,850)
Balance at end of year	**983,000**	1,154,450

The options granted and outstanding at year-end are as follows:

Grant date	Exercise price $	1998	1997
1993	1.76	**—**	193,500
1995	0.83	**42,000**	51,000
1996	1.83	**85,250**	128,950
1997	12.32	**750,750**	781,000
1998	9.93 to 12.83	**105,000**	—
		983,000	1,154,450

12 JOINT VENTURES

The Corporation's share in the assets, liabilities, revenues, expenses and changes in financial position of joint ventures is summarized as follows:

	1998 $	1997 $
Balance sheet		
Cash	**10,875**	10,579
Other current assets	**5,996**	7,988
Capital assets	**1,171**	1,291
Other long-term assets	**5,769**	4,520
	23,811	24,378
Current liabilities	**19,329**	20,622
Shareholders' equity	**4,482**	3,756
	23,811	24,378
Statement of income		
Revenues	**106,269**	117,918
Expenses	**107,753**	118,132
Net loss	**(1,484)**	(214)
Statement of changes in financial position		
Operating activities	**633**	(8,472)
Investing activities	**(291)**	(542)
Financing activities	**350**	(85)
Increase (decrease) in cash	**692**	(9,099)

Revenues and expenses include sales of $9,561,000 and purchases of $16,475,000 with the Corporation for the year ended October 31, 1998 [sales of $18,778,000 and purchases of $13,657,000 in 1997].

The commitments presented in note 17(a) include the Corporation's share in the commitments of joint ventures.

13 AMORTIZATION

	1998 $	1997 $
Capital assets	**23,742**	19,030
Rotable aircraft spare part – utilization	**3,800**	2,108
Goodwill	**2,613**	2,713
Deferred costs and other assets	**2,529**	1,378
Deferred foreign exchange loss	**522**	286
	33,206	25,515

14 ACQUISITIONS

(a) LOOK VOYAGES S.A.

During the year, further to a reorganization of the capital of Look Voyages S.A. involving, among other things, an issue of common shares by Look Voyages S.A., the Corporation increased its interest to 97.9% in exchange for substantially all of the advances that it had granted to Look Voyages S.A., totalling approximately $27,000,000

In 1997, the Corporation made a takeover bid, bringing its interest in the share capital of Look Voyages S.A. to 84.4%. The cash consideration, including expenses related to the acquisition, amounted to $653,000. This acquisition was recorded under the purchase method and the total consideration paid was recorded in goodwill.

(b) REGENT HOLIDAYS LIMITED

On March 19, 1997, the Corporation acquired all the shares held by a shareholder of Regent Holidays Limited, thereby increasing its interest from 50% to 69%. In exchange, the Corporation released from escrow 43,579 preferred shares, series 3 in favour of the selling shareholder while the balance of the preferred shares, series 3 held by this shareholder was transferred to Regent Holidays Limited. This acquisition was recorded under the purchase method.

On April 30, 1997, the Corporation acquired the balance of the participating shares of Regent Holidays Limited at a price which will be based on net income for the years from 1994 to 1999, thereby bringing its interest to 100% of the participating shares and 50% of the issued and outstanding voting shares. This acquisition was recorded under the purchase method and an amount corresponding to the debit balance of the non-controlling interests, totalling $706,000 at that date, was included in goodwill.

15 INCOME TAXES

Income tax expense as presented differs from the amount calculated by applying the statutory income tax rate to income before share of net income of companies subject to significant influence, income taxes and non-controlling interest.

The reasons for this difference and the impact on income tax expense are as follows:

	1998 $	1997 $
Statutory income tax rate	**41.3%**	39.9%
Income tax expense at statutory rate	**14,288**	16,350
Income taxes related to:		
Non-deductible expenses and other permanent differences	**1,479**	1,628
Amortization of goodwill	**1,080**	1,082
Foreign exchange variance on translation of financial statements	**(186)**	(1,076)
	16,661	17,984

16 RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of its operations, the Corporation entered into the following transactions with related companies:

	1998	1997
	$	$
Revenues from companies subject to significant influence	**27,009**	32,250
Purchases from companies subject to significant influence	**67,034**	54,914

The balances receivable from and payable to related companies included in the accounts receivable and accounts payable and accrued liabilities are as follows:

	1998	1997
	$	$
Accounts receivable from companies subject to significant influence	**3,139**	438
Accounts payable and accrued liabilities due to companies subject to significant influence	**5,011**	3,860

17 COMMITMENTS

(a) As at October 31, 1998, the Corporation's commitments under operating leases relating to aircraft [including two Airbus A330-200's whose delivery is scheduled for February and April 1999], land, automotive equipment, telephone systems and office premises totalled to $425,850,000 broken down into the following amounts: $19,882,000, US $255,520,000 and FF 42,254,000.

Annual instalments to be paid under these leases during the next five years are as follows:

	$
1999	62,796
2000	64,897
2001	59,138
2002	49,295
2003	36,543

(b) In 2001, the joint venturer in DMC Transat Inc. will have the option of selling to the Corporation and to Air Transat Holidays A.T. Inc. the shares of DMC Transat Inc. which it holds at a price equal to the greater of 7.5 times the average net income earned by DMC Transat Inc. during the two previous years and the investment of $2,500,000 plus the amount required to provide an annual return of 7% starting in May 1995.

18 FINANCIAL INSTRUMENTS AND OTHER DERIVATIVE INSTRUMENTS

In the normal course of its operations, the Corporation is exposed to risks related to exchange rate fluctuations for certain currencies and fuel cost variations. The Corporation manages these risks by entering into various derivative financial instruments. The Corporation's Management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to hedge existing commitments or obligations and not to realize a profit on trading operations.

CREDIT RISK RELATED TO DERIVATIVE INSTRUMENTS

The theoretical risk to which the Corporation is exposed related to derivative financial instruments is limited to the replacement cost of contracts at market rates in effect in the event of default by one of the parties. Management is of the opinion that the credit risk related to derivative instruments is well controlled because the Corporation only enters into agreements with large financial institutions and multinational companies.

MANAGEMENT OF FUEL PRICE AND FOREIGN EXCHANGE RISKS

The Corporation enters into fuel purchasing contracts of less than one year to manage fuel price fluctuation risks. If the Corporation had cancelled these contracts on the balance sheet date, it would not have had to pay large amounts with respect to the contracts.

The Corporation also enters into foreign exchange forward contracts of less than one year for the purchase and sale of foreign currencies to manage foreign exchange risks. As at October 31, 1998, the face value of these contracts to purchase and sell foreign currencies amounted to approximately $151,789,000 and $92,864,000, respectively [$59,185,000 and $115,576,000, respectively in 1997].

The fair value of foreign exchange forward contracts generally reflects the estimated amounts that the Corporation would receive from settlements of favourable contracts or that it would pay to cancel unfavourable contracts on the balance sheet date. These fair values are estimated using the rates obtained from financial institutions. As at October 31, the fair values would be as follows, if a settlement was made:

	1998	1997
	$	$
Favourable foreign exchange forward contracts	**1,775**	1,757
Unfavourable foreign exchange forward contracts	**(15,895)**	(4,015)
	(14,120)	(2,258)

The Corporation's policy is not to speculate either on contracts to purchase fuel or foreign exchange positions. Thus, the contracts are normally maintained until their maturity according to the main objective of hedging risks. Favourable and unfavourable differences on foreign exchange and fuel purchase contracts are offset by gains or losses from the underlying transactions in the statement of income.

18 FINANCIAL INSTRUMENTS AND OTHER DERIVATIVE INSTRUMENTS [cont.]

CONCENTRATION OF CREDIT RISK

The Corporation believes it is not exposed to a significant concentration of credit risk. Cash and cash equivalents are invested on a diversified basis in corporations benefitting from an excellent credit rating. Accounts receivable generally arise from the sale of vacation packages to individuals through retail travel agencies and the sale of seats to tour operators which are dispersed over a wide geographic area.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to their short-term nature, the carrying amount of short-term financial assets and liabilities reflected on the consolidated balance sheets approximates their fair value.

The fair value of long-term debt and obligations under capital leases, including the current portion, is based on the rates in effect for financial instruments with similar terms and maturities. As at October 31, 1998 and 1997, the carrying amount and fair value of long-term financial instruments are as follows:

	1998		1997	
	Carrying value $	**Fair value $**	Carrying value $	Fair value $
Long-term debt	**47,527**	**47,600**	52,093	52,100
Obligations under capital leases	**62,989**	**65,200**	64,807	65,600

The fair value of the debenture could not be determined with sufficient reliability due to its specific nature.

19 CONTINGENCIES

(a) YEAR 2000 ISSUE

In general, the Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

The Corporation has developed and implemented a plan aimed at identifying and solving problems raised by the transition to the year 2000. Given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

(b) Look Voyages S.A. has guaranteed the obligations of STAR Airlines S.A. related to operating leases for two aircraft. The guarantee amounts to a maximum of US $24,000,000 in 1999 and decreases to US $18,000,000 in 2000 and to US $12,000,000 in 2001 [approximately $37,030,000 in 1999, $27,772,000 in 2000 and $18,515,000 in 2001].

It also acts as guarantor for a maximum of FF 4,720,000 [approximately $1,310,000] in respect of certain obligations of Euro Charter S.A., a subsidiary of Consultour/Club Voyages Inc., and of an amount of FF 3,871,000 [approximately $1,074,000] for other companies.

19 CONTINGENCIES [cont.]

(c) Prior to its acquisition, Look Voyages S.A. was involved in litigation with Air Liberté which was suing it for approximately FF 90,000,000 [approximately $25,000,000] with respect to the cancellation of six contracts. On November 4, 1996, the Tribunal de Commerce de Paris rendered a judgment in favour of Air Liberté without determining the amount of damages. Further to an appeal filed by Look Voyages S.A. on December 17, 1996, the Paris Court of Appeal decided on November 25, 1998 that one of the contracts had been cancelled due to reciprocal wrongs by the parties, four contracts had been cancelled due to wrongs exclusively committed by Look Voyages S.A. and the sixth contract had been cancelled due to wrongs exclusively committed by Air Liberté. In addition, the Court ruled that Air Liberté had committed an act of disparagement against Look Voyages S.A. The Court ordered an expert's report be prepared to allow it to evaluate the prejudice suffered by each party, including that suffered by Look Voyages S.A. in respect of the act of disparagement.

Since it is not possible for the Corporation to determine whether Look Voyages S.A. will be required to make any payments further to the expert's report, the Corporation has not recorded a provision following this decision.

20 SUBSEQUENT EVENT

On January 8, 1999, Air Transat A.T. Inc. committed itself to acquire a Lockheed L-1011-500 aircraft under a capital lease. The obligation under the capital lease expiring in 2004 is evaluated to be approximately US $9,000,000 [approximately $13,886,000].

21 COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the presentation adopted in 1998.

22 SEGMENTED INFORMATION

The Corporation carries out its operations in two geographic segments: Canada and France. Geographic intersegment sales are accounted for at prices that take into account market conditions and other considerations.

The Corporation's operations are interdependent and comprise only one industry segment.

	Canada		France		Eliminating entries		Total	
	1998	1997	**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	**—**	—	**(42,031)**	(68,242)	**—**	—
Total revenues	**974,013**	885,197	**489,472**	499,785	**(42,031)**	(68,242)	**1,421,454**	1,316,740
Income (loss) by segment	**35,249**	52,702	**3,824**	(5,760)			**39,073**	46,942
Interest on long-term debt, obligations under capital leases and debenture							**(10,269)**	(8,172)
Other interest and financial expenses							**(2,977)**	(4,443)
Interest income							**8,769**	6,652
							(4,477)	(5,963)
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest							**34,596**	40,979
Share of net income of companies subject to significant influence							**1,796**	2,380
Income taxes							**16,661**	17,984
Share of non-controlling interest in subsidiaries' results							**—**	(11)
Net income for the year							**19,731**	25,364
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

FINANCIAL REVIEW
(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	1998	1997	1996	1995	1994
Consolidated statements of income					
Revenues	**1,421,454**	1,316,740	779,157	551,766	522,177
Expenses					
Operating	**1,349,175**	1,244,283	718,978	504,260	489,396
Amortization	**33,206**	25,515	17,353	18,245	16,778
Operating income	**39,073**	46,942	42,826	29,261	16,003
Expenses and other income					
Interest on long-term debt, obligations under capital leases and debenture	**10,269**	8,172	6,556	6,146	6,464
Other interest and financial expenses	**2,977**	4,443	3,455	472	1,214
Interest income	**(8,769)**	(6,652)	(3,452)	(3,248)	(1,800)
Gain on transfer of incoming tour operator activities	**—**	—	—	(2,500)	—
	4,477	5,963	6,559	870	5,878
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest	**34,596**	40,979	36,267	28,391	10,125
Share of net income of companies subject to significant influence	**1,796**	2,380	1,233	467	588
Income taxes	**16,661**	17,984	15,667	11,652	5,069
Share of non-controlling interest in subsidiaries' results	**—**	(11)	369	(296)	(76)
Net income for the year	**19,731**	25,364	22,202	16,910	5,568
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
Cash provided by (used in)					
Operating	**35,804**	24,603	27,400	35,142	18,019
Investing	**(31,732)**	(64,443)	(44,122)	(9,008)	(5,959)
Financing	**10,315**	134,276	28,518	(18,253)	(2,914)
Increase in cash	**14,387**	94,436	11,796	7,881	9,146
Cash, end of year	**155,720**	141,333	46,897	35,101	27,220
Operating cash flow	**50,338**	46,117	37,742	33,178	21,417
Operating cash flow per share	**1.47**	1.41	1.69	0.91	0.54
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
Non-controlling interest	**—**	—	—	10,058	—
Shareholders' equity	**182,668**	164,420	52,995	25,824	39,222
Debt ratio (1)	**0.63**	0.65	0.83	0.85	0.78
Book value per share	**5.29**	4.81	2.10	1.11	0.91
Return on weighted average shareholders' equity	**11.4%**	23.5%	58.9%	56.8%	15.9%
Shareholding statistics (in thousands)					
Common shares outstanding at year-end	**34,429**	34,063	24,770	20,358	39,411
Weighted average number of common shares outstanding (before dilution)	**34,311**	32,705	22,389	36,552	39,342
Weighted average number of common shares outstanding (after dilution)	**35,772**	34,415	26,067	41,700	43,152

(1) Represents liabilities over liabilities plus shareholders' equity.

QUARTERLY DATA

	1998				1997			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Revenues	**387,507**	**364,954**	**368,747**	**300,246**	343,974	344,784	348,192	279,790
Operating income (loss)	**21,673**	**10,075**	**12,385**	**(5,060)**	25,483	20,741	6,912	(6,194)
Net income (loss)	**12,151**	**6,330**	**6,111**	**(4,861)**	14,178	12,803	3,335	(4,952)
Earnings (loss) per share	**0.36**	**0.18**	**0.18**	**(0.14)**	0.43	0.40	0.12	(0.17)
Operating cash flow	**22,733**	**13,215**	**13,213**	**1,177**	23,788	18,756	6,565	(2,992)
Operating cash flow per share	**0.66**	**0.39**	**0.39**	**0.03**	0.72	0.58	0.21	(0.10)

DIRECTORS AND OFFICERS

IN CANADA

DIRECTORS

Jean-Marc Eustache [1]	Chairman of the Board President and Chief Executive Officer Transat A.T. Inc. and President, Look Voyages S.A.
Jean-Paul Bellon [1]	Chairman of the Board and Chief Executive Officer Consultour/Club Voyages Inc. and President, Euro Charter S.A.
André Bisson, O.C. [2,4]	Director of Corporations
Lina De Cesare [1]	President and Chief Executive Officer Vacances Air Transat A.T. Inc. and President, Tourbec (1979) Inc.
Benoît Deschamps [1,4]	Vice-President Financial Planning and Treasurer Le Groupe Vidéotron Ltée
Yves Graton [1,3]	Director of Corporations
Jean Guertin [1,3]	Chief Executive Officer, Société Gasbeau Chairman of the Board, Telemedia Inc. and Professor, École des Hautes Études Commerciales
Sylvie Jacques [1,2]	Director, Investments, Recreation- Tourism Fund, Fonds de solidarité des travailleurs du Québec (FTQ)
Michel Lessard [4]	President, Club Voyages Air-Mer Inc.
Philippe Lortie	Captain, Air Transat A.T. Inc.
Philippe Sureau [1]	Executive Vice-President, Transat A.T. Inc. President and Chief Executive Officer Air Transat A.T. Inc. and President, DMC Transat Inc.
John D. Thompson [2,3]	Deputy Chairman of the Board Montreal Trust Company

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Human Ressources and Compensation Committee
4 Member of the Corporate Governance Committee

THE CORPORATION

TRANSAT

Jean-Marc Eustache	President and Chief Executive Officer
Philippe Sureau	Executive Vice-President
Lorraine Maheu	Vice-President Finance and Administration and Chief Financial Officer
Jean-Marc Bélisle	Vice-President, Information Systems
Gérald Caron	Director, Special Projects
Louis Gagnon	Director Planning and Projects, Information Systems
Jean-François Legault	General Counsel and Secretary of the Corporation
Marc Poirier	Director, Finance and Administration
Nathalie Delisle	Legal Counsel
Linda Gautreau	Legal Counsel
Sophie Lussier	Communications Manager
Édith Nantel	Chief Accountant

THE AIRLINE SECTOR

AIR TRANSAT

Philippe Sureau	President and Chief Executive Officer
Denis Jacob	Executive Vice-President
Alfred Ouimet	Senior Vice-President Maintenance and Engineering
Kevin Kalbfleisch	Vice-President, Marketing
Pierre Ménard	Vice-President, Flight Operations
Denis Pétrin	Vice-President, Finance and Administration
André Souchon	Vice-President, Passenger Services and Human Resources
Jean Côté	Assistant to the Vice-President and Director, Flight Operations
Suzanne LeCouffe	Assistant to the Vice-President and Director, Sales – Europe
Luc Boivin	Director, Engineering and Technical Purchasing
Michel Daoust	Director, Flight Operations
Rashwan Domloge	Director, Line Servicing Toronto, Vancouver, Calgary, and Halifax
Lubomir Filip	Director, Aircraft Leasing
Alain Giraldeau	Chief Pilot and Director, L-1011
Denis Gosselin	Chief Pilot and Director, Airbus 330
Gordon Greene	Director, Fuel Supply and Purchasing
David Holmes	Director, Transport Europe
Marie Anne Juneau	Director, Customer Service
Anne Lainé	Director, In-Flight Service
Johanne Lavoie	Controller, Finance
Simon Lavoie	Chief Pilot and Director, Boeing 757
Pierre Lessard	Chef Pilot and Director, Boeing 737
Maurice Montpetit	Director, Heavy Maintenance
George Petsikas	Director, Government and Industry Affairs
Linda Phelps	Director, Commissary
Céline Roy	Director, Ground Services and Contracts
Jean-Pierre Sauro	Director, Quality Assurance
Isabelle Sbeghen	Director, Accounting
Serge Bréard	Manager, Quality Assurance
Michel Defays	Station Manager, Toronto
Patricia Del Duca	Manager, Collection
Francine Desjardins Lafond	Manager, Training and Quality, In-Flight Service
Marie Lyne Dion	Manager, Payroll Department
Kevin Donovan	Manager, Purchasing
Robin Fleming	Manager, In-Flight Service, Vancouver
Johanne Hotte-Hébert	Manager, Accounts Receivable
Kathleen Humphrey	Manager, Crew Planning and Scheduling
David Johnson	Manager, Duty-Free
Patricia Kinsley	Manager, Sales
John Kopty	Manager, Maintenance Hangar
Michel Langlois	Manager, Line Servicing Montreal, Quebec City, and Paris
Dean McCunn	Station Manager, Vancouver
Denis Ménard	Chief Flight Engineer
Claudette Plouffe	Station Manager, Montreal
François Ringuet	Manager, Safety Program
Jean-Louis Rioux	Manager, Dispatch
Johanne Ross	Manager, In-Flight Service, Montreal
Mario Themens	Manager, Budgets
Harry Wasch	Manager, Line Servicing, Vancouver

THE AIRLINE SECTOR (cont.)

SERVICES HAYCOT

Claude Racicot	President
Caroline Arseneau	Director, Passenger Services
Jean-Pierre Marin	Director, Finance and Administration
Pierre Provost	Director, Operations
Micky Abbatemarco	Station Manager, Dorval
Édith Bolduc	Ramp Manager, Mirabel
Brigitte Boucher	Station Manager, Passenger Services, Toronto
André Piché	Manager, Ground Equipment Maintenance
Luke Psarianos	Ramp Manager, Toronto
Stéphanie Therrien	Coordinator, Training and Special Projects

OUTGOING TOUR OPERATORS

VACANCES AIR TRANSAT – AIR TRANSAT HOLIDAYS

Lina De Cesare	President and Chief Executive Officer
Daniel Godbout	Executive Vice-President
Anna Malito	Vice-President, Product Merchandising
Clauderic Saint-Amand	Vice-President, Sales and Marketing
François St-Jacques	Vice-President, European Tours and Cruises
Isabelle Sparer	Vice-President, European Products
Daniel Tessier	Vice-President, Sunshine Products
Georges Vacher	Vice-President, Finance and Administration
Danièle Bergeron	Director, Human Resources
Lucy De Cesare	National Operations Director
Éric Gagnon	Director, Creation Department
Andrée Gervais	Director, Payload Control European Destinations
Denise Heffron	National Marketing Director
Marie Anne Juneau	Director, Customer Service
Robert Leprohon	Director, Management Information Systems
Suzanne Marquis	Director, Budget and Analysis
Gisèle Poirier	Director, Finance
Martine Potvin	Director, Promotions and National Accounts
Jeannine Auclair	Supervisor, Profitability Analysis
Louise Benoit	Supervisor, Payroll Department
Renée Boisvert	Supervisor, Operations
Lyne Leblanc	Supervisor, Costing
Michel Lefebvre	Supervisor, Interline

VACANCES AIR TRANSAT (MONTREAL)

Benoit Deshaies	General Manager
Michel Calabro	Director, Payroll Control Sunshine Destinations
Martine Dauvet	Director, Reservations
Denise Toméo	Director, Sales and Marketing
Erasmo Ciccolella	Supervisor, Credit Department
Christina Côté	Supervisor, Invoicing and Collection, Tour Operators
Liliane Côté	Supervisor, Reservations
Michelle Daoust	Supervisor, Manifests
Maryse De Seves	Supervisor, Administrative Payments
Susie Deveault	Supervisor, Reservations
Chantale Dubois	Supervisor, Hotel Payments
Nathalie Dunn	Supervisor, Group Services
Diane Poulet	Supervisor, Ticketing Service
Caroline Roy	Supervisor, Air Cost Payables

OUTGOING TOUR OPERATORS (cont.)

AIR TRANSAT HOLIDAYS (TORONTO)

Paul Foster	Executive Vice-President
Jacques Gilbert	Vice-President, Sales
Teresa Brady	Director, Operations
Kristin Kinstler	Manager, Reservations
Dominic Mazzei	Director, Payload Control Sunshine Destinations
Mark Melchior	Director, Finance and Administration
Susan Pines	Manager, Accounting
Nicole Bursey	Manager, Sales Development
Elaine Farley	Manager, Sales (Halifax)

AIR TRANSAT HOLIDAYS (VANCOUVER)

Vic Nakhleh	Executive Vice-President
Sophie Brodeur	Manager, Payload Control
Janis Dalgleish	Acting Manager, Marketing
Shawn Edmonds	Director, Sales
Deborah Girard	Director, Reservations/Operations
Thomas Klos	Manager, Creation

VOYAGES NOLITOUR

Sam Ghorayeb	President
Robert Brouillard	Executive Vice-President
Paul Capaday	Vice-President, Finance
Daniel Laik	Vice-President, Products and Administration
Charles E. Roy	Vice-President, Sales and Marketing
Dominic Calabretta	General Manager, Vacances Auratours
Lyne Chayer	Director, Sales, Products, and Marketing
Marie Andrée Demers	Director, Reservations
Joan Robitaille	Director, Hotel Operations

REGENT HOLIDAYS

Peter Linnett	President
Ian Rayment	Executive Vice-President
Phil Egan	Vice-President Sales and Customer Service
Heather Qually	Vice-President, Marketing
Robert Sutherland	Vice-President, Products
Joanne Cothran	Director, Group Sales and Development
Debbie Hiscox	Director, Air Contracting and Payload
Sonny Lim	Director, Finance and Administration
Michelle Palma	Director, Cruise Division
Jennifer Perry	Director, Operations
Mark Salter	Director, Agency Sales

WORLD OF VACATIONS

Errol Francis	President and Chief Executive Officer
Naila Abdulla	Vice-President National Sales and Distribution
Carl Dickinson	Vice-President, Operations
Dennis Lepholtz	Vice-President, Finance and Chief Financial Officer
David Soong	Director, Information Systems and Technology

IN CANADA

INCOMING TOUR OPERATORS

DMC TRANSAT

Philippe Sureau	President
Brigitte Michaud	General Manager
Gérald Caron	Director, Finance
Suzanne Chabot	Director, Operations and Tours
Rosanna Grande	Director, Products
Monica Orr	Director, Sales and Marketing Leisure Travel
Claire Roberge	Director, Administration and Computer Services
Janet Oakley	Supervisor, Sales and Operations Corporate Travel
Annie Joyal	Supervisor, FIT Services
Grace Dufour	Assistant Manager, Kilomètre Voyages
Liette Dubois	Assistant Chief Accountant

VACANCES AIR TRANSAT (FLORIDA)

Michel Boismenu	Vice-President
Nathalie Lamothe	Director, Administration

TRAVEL AGENCIES

VACANCES TOURBEC

Lina De Cesare	President
Odette Thomas	General Manager
Chantal Barbeau	Director, Administration
Patricia Corcos	Director, Marketing

CONSULTOUR/CLUB VOYAGES

Jean-Paul Bellon	Chairman of the Board and Chief Executive Officer
Odette Thomas	President
Chantal Barbeau	Vice-President and General Manager
Patricia Corcos	Vice-President, Marketing
Sylvie Lecouteur	Vice-President, Consolidation – Montreal
Serge Marleau	Vice-President, Consolidation – Quebec City
Peter Ouellette	Vice-President, Corporate Development
Jocelyne St-Amour	Vice-President, Corporate Affairs
Pierre Fortin	Director, Information Systems
Guylaine L'Écuyer	Director, Accounting

IN FRANCE

THE AIRLINE SECTOR

STAR AIRLINES

Cédric Pastour	President and Chief Executive Officer
Jim Dezetter	Advisor to the President and Chief Executive Officer
Daniel Chaubard	Vice-President, Technical
Jean-Louis Clauzier	Vice-President, Finance and Human Resources
Daniel Dupont	Vice-President, Flight Operations
Michel Madi	Vice-President, Administration Fuel and Catering
Luc Preher	Vice-President, Planning and Stations
Laurent Valet	Vice-President, Sales
Patricia Lachaise	Assistant to the President and Chief Executive Officer
André Paul Berger	Chief Flight Attendant
Christophe Boileau	Manager, Budgets
Olivia Bonnot	Manager, Crew Planning
Christophe Boursier	Manager, Operational Quality
Patrick Brunet	Manager, Operations
Florence Cadoret	Manager, Purchasing and Administrative Services
Corinne Cotereau-Preat	Manager, Legal Affairs
Lydia Josselin	Personnel Manager
Patrick Ligerot	Manager, Maintenance Quality
Arnaud Pastour	Wages Manager
Christian Queyssalier	Stations Manager
Catherine Roullin	Manager, Quality Passenger Services
Sabine Spieker	Catering Manager
Monique Trillaud	Chief Accountant
Alain Truffaut	Airbus A320 Sector Head

OUTGOING TOUR OPERATORS

VACANCES AIR TRANSAT (FRANCE)

Jean-Marc Batta	General Manager
Patrice Caradec	Director, Business and Marketing
Cédric Gest	Director, Operations
Gilles Martin	Director, Sales
Michel Quenot	Director, Production
Leng Taing	Director, Finance
Patrick Alexandre	Supervisor, Reservations
Murielle Baleste	Supervisor, Marketing
Magaly Baverey	Supervisor, Production
Ange Derment	Supervisor, Groups
Manon Ducharme	Supervisor, Data Entry
Alain Gallant	Supervisor, Computer Department
Serge Martineau	Supervisor, Accounts Receivable
Didier Michelin	Supervisor, Payroll

OUTGOING TOUR OPERATORS (cont.)

LOOK VOYAGES

EXECUTIVE COMMITTEE

Jean-Marc Eustache	President
Paul Roll	General Manager
Gérald Caron	Vice-President, Finance and Administration
Jean-Luc Fabing	Vice-President, Information Systems
Patrick Martinet	Vice-President, Marketing and Sales
Michel Mordret	Vice-President, Tour Operating Division
Bruno Rigal	Vice-President, Legal Affairs
Christian Vanroy	Vice-President, Transport

ADMINISTRATION

Marie-Françoise Héry	Director, Accounting
Martine Quelennec	Director, Accounts Payable
Monique Graffin	Operating Representative
Yannick Houel	Supervisor, Training
Marie Levenes	Supervisor, Personnel
Carole Moissinac	Supervisor, Payroll
Césaire Serreau	General Supervisor

MARKETING AND SALES

Jacques Alonzeau	Director, Sales – F.W.I.
Jérôme Angoin	Director, Marketing
Éric Batailley	Director, Sales
Didier Sanchez	Director, Reservations
Naziha Hadj-Ali	Agency Manager – Look Amis
Florence Levieux	Agency Manager – Fort-de-France
Hélène Rossini	Agency Manager – Pointe-à-Pitre
David Rougeau	Agency Manager – Réunion
Christine Bouzon	Supervisor, Special Group Sales
Mariane Bovine	Supervisor, Communications and Public Relations
Laurent Milleville	Supervisor, Group Sales
Agathe Pressoir	Supervisor, Quality
David Calmont	Regional Representative – Toulouse
Claire Doutre	Regional Representative – Lyons
Patricia Fonteneau	Regional Representative – Nantes

TRANSPORT DIVISION

Cécile Collet	Supervisor, Air Negotiations Scheduled Carriers
Marc Desnos	Supervisor, Payload Control, Mediterranean I
Yannick Fauthier	Supervisor, Ticketing
Marine Laclavère	Supervisor, Technical Scheduled Air-Only Flights
Claudine Lamaze	Supervisor, Group Sales
Alice Martin-Gros	Supervisor, Airport Services
Cecilia Minier	Supervisor, Payload Control Mediterranean II
Fabienne Poteloin	Supervisor, Payload Control U.S.A./Canada
Ricarda Vernay	Supervisor, Payload Control, Caribbean

TOUR OPERATING DIVISION

Bernard De Rozario	Director, Production
François Filloux	Director, Purchasing
Blandine Stephanidis	Director, Operations
Thierry Tellier	Director, Club Operations
Laurence Agrapart	Supervisor, Technical Inventory Management
Victoria Chervier	Supervisor, Ticketing
Cyrille Cord'homme	Supervisor, Technical Groups
Pascale Pingrieux	Supervisor, Operations

OUTGOING TOUR OPERATORS (cont.)

BROK'AIR

Éric Eustache	President and Chief Executive Officer
Christian Diamante	Director, Finance and Administration
Marieke Bruijns	Division Manager, Globe System
Jean Eustache	Division Manager, Group Sales
Christian Gillet	Division Manager, Any Way

TRAVEL AGENCIES

EURO CHARTER/CLUB VOYAGES

Jean-Paul Bellon	President
Odette Thomas	General Manager
Patricia Chastel	Assistant General Manager
Chantal Barbeau	Director, Administration
France Dubois	Director, Finance

INFORMATION FOR SHAREHOLDERS AND INVESTORS

THE ANNUAL MEETING OF THE SHAREHOLDERS WILL BE HELD ON MARCH 24, 1999, 10:30 A.M.

AT:

SALON DES SAISONS
OMNI MONTREAL HOTEL
1050 SHERBROOKE WEST
MONTREAL, QUEBEC

Head Office

Transat A.T. Inc.
300 Léo-Pariseau Street
Suite 600
Montreal, Quebec
H2W 2P6
Telephone: (514) 987-1660
Fax: (514) 987-9546
Internet: http://www.transat.com

Informations

For additional information on the Corporation, investors and analysts are invited to contact, in writing, the Director, Finance and Administration.

Vous pouvez obtenir un exemplaire de ce rapport annuel en français en écrivant au directeur, finances et administration.

Stock Exchange

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

Transfer Agent and Registrar

Montreal Trust Company
Place Montreal Trust
1800 McGill College Avenue
Montreal, Quebec H3A 3K9

Auditors

Ernst & Young LLP
Montreal, Quebec

DESTINATIONS OFFERED BY TOUR OPERATORS ON THE WINGS OF STAR AIRLINES

CARIBBEAN
FORT-DE-FRANCE
PUNTA CANA
SANTO DOMINGO

KENYA
ELDORET
MOMBASA

MOROCCO
AGADIR
MARRAKECH
TANGIER

SENEGAL
CAP SKIRRING
DAKAR

TUNISIA
DJERBA
MONASTIR
TABARKA
TUNIS

AUSTRIA
SALZBURG

FRANCE
BASTIA
FIGARI

GREECE
ATHENS
CORFU
IRAKLION
RHODES
SANTORINI

ISRAEL
TEL AVIV

ITALY
CATANIA
MILAN
PALERMO
ROME
VENICE
VERONA

NORWAY
OSLO

PORTUGAL
FARO
LISBON
OPORTO

SPAIN
ALICANTE
IBIZA
MÁLAGA
PALMA
TENERIFE

TURKEY
BODRUM
IZMIR

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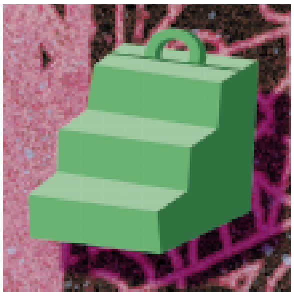

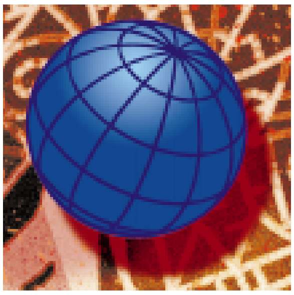

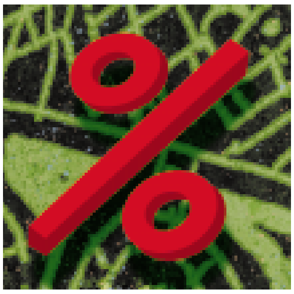

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