Jazz Air Limited Partnership

Consolidated Financial Statements
December 31, 2005

PRICEWATERHOUSECOOPERS

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February 9, 2006

Auditors' Report

To the Directors of Jazz Air General Partner Inc.

We have audited the consolidated balance sheets of **Jazz Air Limited Partnership** (Successor Partnership) as at December 31, 2005 and 2004 and the consolidated statements of partners' capital (deficiency), operations and cash flows for the year ended December 31, 2005 and for the period from September 9, 2004, date of creation of the Successor Partnership to December 31, 2004. These consolidated financial statements are the responsibility of the Successor Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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 consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Successor Partnership as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

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February 23, 2005

Auditors' Report

To the Directors of
Jazz Air Inc.

We have audited the consolidated statements of deficit, operations and cash flows of **Jazz Air Inc.** (Predecessor Company) for the nine-month period ended September 30, 2004. These consolidated financial statements are the responsibility of the Predecessor Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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 consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of the Predecessor Company's operations and the change in cash flows for the nine-month period ended September 30, 2004 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Halifax, Nova Scotia

Jazz Air Limited Partnership (Successor Partnership)

Consolidated Balance Sheet

As at December 31, 2005

(expressed in thousands of Canadian dollars)

	2005 $	2004 $
Assets		
Current assets		
Cash	34,463	–
Amount receivable from Air Canada (note 17)	137,150	–
Accounts receivable – trade and other (note 17)	60,013	54,452
Spare parts, materials and supplies	25,064	12,320
Prepaid expenses	6,831	4,983
	263,521	71,755
Property and equipment (note 7)	193,907	194,694
Intangible assets (note 8)	10,259	12,015
Other assets (note 9)	35,914	1,434
	503,601	279,898
Liabilities		
Current liabilities		
Bank indebtedness	–	758
Air Canada indebtedness (note 17)	–	4,511
Accounts payable and accrued liabilities (note 17)	171,543	111,057
Current portion of long-term debt (note 10)	3,153	3,089
	174,696	119,415
Long-term debt (notes 10 and 17)	210,387	213,541
Other long-term liabilities (note 11)	66,042	12,357
	451,125	345,313
Partners' Capital (Deficiency)	52,476	(65,415)
	503,601	279,898

Economic dependence (note 1), **Commitments** (note 16), **Contingencies** (note 21), **Subsequent events** (note 22)

Approved on behalf of Jazz Air Limited Partnership by Jazz Air General Partner Inc., its general partner

By: Robert A. Milton, Director

By: Richard H. McCoy, Director

Jazz Air Limited Partnership (Successor Partnership)

Consolidated Statement of Partners' Capital (Deficiency)

(expressed in thousands of Canadian dollars)

	For the year ended December 31, 2005 $	**For the period ended December 31, 2004 $**
Partners' Capital (Deficiency)		
Opening balance	(65,415)	–
Contributed capital	–	1
Net income for the period	117,891	18,421
Distributions (note 6 (b))	–	(83,837)
Balance – End of period	52,476	(65,415)

Jazz Air Inc. (Predecessor Company)

Consolidated Statement of Deficit

(expressed in thousands of Canadian dollars)

	For the nine-month period ended September 30, 2004 $
Deficit – Beginning of period	(182,875)
Net loss for the period	(80,596)
Fresh start reporting and restructuring plan (note 5)	263,471
Deficit – End of period	–

Jazz Air Limited Partnership (Successor Partnership)
Jazz Air Inc. (Predecessor Company)
Consolidated Statements of Operations

(expressed in thousands of Canadian dollars)

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	For the period ended December 31, 2004 $ (note 3)	For the nine-month period ended September 30, 2004 $ (note 3)
Operating revenue (note 17)			
Passenger	1,013,053	184,971	591,773
Cargo	–	–	12,405
Other	10,185	2,552	12,103
	1,023,238	187,523	616,281
Operating expenses (note 17)			
Salaries and wages	229,481	49,997	148,063
Benefits	35,997	6,572	26,240
Aircraft fuel	176,707	28,928	80,452
Depreciation and amortization	17,924	4,272	22,927
Commissions	–	–	19,226
Food, beverage and supplies	8,123	1,606	6,229
Aircraft maintenance materials, supplies and services	67,504	16,154	68,720
Airport and navigation fees	123,796	22,164	75,694
Aircraft rent	80,141	9,420	27,166
Terminal handling services	71,386	10,281	61,894
Other	82,739	16,407	90,750
	893,798	165,801	627,361
Operating income (loss) before the undernoted items	129,440	21,722	(11,080)
Reorganization and restructuring (note 14)	–	–	(56,119)
Operating income (loss)	129,440	21,722	(67,199)
Non-operating (expenses) income (note 17)			
Net interest expense	(14,778)	(3,905)	(8,598)
Gain (loss) on disposal of property and equipment	3,674	–	(5,385)
Other	(445)	604	586
	(11,549)	(3,301)	(13,397)
Net income (loss) for the period (note 12)	117,891	18,421	(80,596)

Jazz Air Limited Partnership (Successor Partnership)
Jazz Air Inc. (Predecessor Company)
Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	**For the period ended December 31, 2004 $** (note 3)	**For the nine-month period ended September 30, 2004 $** (note 3)
Cash provided by (used in)			
Operating activities			
Net income (loss) for the period	117,891	18,421	(80,596)
Charges (credits) to operations not involving cash			
Depreciation and amortization	17,924	4,272	22,927
Amortization of prepaid aircraft rent and related fees	1,155	–	–
Loss (gain) on disposal of property and equipment	(3,674)	–	5,385
Interest charges added to debt principal	–	–	1,939
Deferred charges, prepaid aircraft rent and related fees	(35,844)	(177)	534
	97,452	22,516	(49,811)
Net changes in non-cash working capital balances related to operations (note 15)	94,018	(27,611)	38,269
	191,470	(5,095)	(11,542)
Financing activities			
Repayment of long-term debt	(3,090)	(1,093)	(11,437)
Increase (decrease) in Air Canada indebtedness	(4,511)	4,511	33,940
Partners' contributions	–	1	–
	(7,601)	3,419	22,503
Investing activities			
Increase in amount receivable from Air Canada	(137,150)	–	–
Additions to property and equipment	(15,905)	(292)	(17,458)
Recovery of intangible assets	–	233	–
Decrease in long-term receivables	209	365	645
Proceeds on disposal of property and equipment	4,198	–	10,161
	(148,648)	306	(6,652)
Net change in cash (bank indebtedness) during the period	35,221	(1,370)	4,309
Cash (bank indebtedness) – Beginning of period	(758)	612	(4,921)
Cash (bank indebtedness) – End of period	34,463	(758)	(612)

(expressed in thousands of Canadian dollars)

1 Nature of activities and dependence on Air Canada

Jazz Air Limited Partnership (the "Successor Partnership" or the "Partnership") operates a regional airline in Canada and the United States under the brand name Air Canada Jazz. On October 1, 2004, the Partnership entered into a Capacity Purchase Agreement (CPA) with Air Canada whereby Air Canada will purchase the aircraft capacity flown under the Tradename or "Marks" and on the routes specified by Air Canada. Air Canada will receive all passenger and cargo revenue related to passenger seats and cargo services sold on scheduled flights provided by the Partnership and Air Canada will pay for the capacity (note 17). The Partnership is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being the primary source of revenue, these companies currently provide significant services to the Partnership. In addition, Air Canada and its subsidiaries provide a substantial portion of the financing for the Partnership (note 10), lease certain aircraft to the Partnership, provide aircraft maintenance, passenger handling, reservations, ticketing, ground operations and loyalty program services and certain treasury functions (note 17) to the Partnership.

Prior to September 30, 2004, Jazz Air Inc. (the "Predecessor Company") generated substantially all its passenger operating revenue from tickets sold to passengers and cargo services sold to customers by its then parent, Air Canada. The Partnership was the primary obligor for these services. An interline agreement provided for a proration of the fare between Air Canada, the Predecessor Company and any other airlines as applicable.

2 Creditor protection and restructuring

On April 1, 2003, Air Canada, being the parent company of Jazz Air Inc., obtained an order from the Ontario Superior Court of Justice (the "Court") providing creditor protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA"). On April 1, 2003, Air Canada, through its Court-appointed Monitor, also made a concurrent petition for recognition and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The CCAA and U.S. proceedings covered Air Canada and the following of its wholly owned subsidiaries: Jazz Air Inc., ZIP Air Inc., 3838722 Canada Inc., Air Canada Capital Ltd., Manoir International Finance Inc., Simco Leasing Ltd., and Wingco Leasing Inc. (collectively, the "Applicants"). During the proceedings, the Applicants continued to operate under Court protection.

ACE Aviation Holdings Inc. ("ACE") was incorporated on June 29, 2004 for the purpose of becoming the parent company of Air Canada and its subsidiaries upon the implementation of the consolidated plan of reorganization, compromise and arrangement (the "Plan").

On August 17, 2004, the creditors approved the Plan and on August 23, 2004, the Plan was confirmed pursuant to an order of the Court. The Plan was implemented through a series of steps which were completed on September 30, 2004. Accordingly, on September 30, 2004, the Applicants emerged from the CCAA and U.S. proceedings and ACE became the parent company of Air Canada and various subsidiaries.

Jazz Air Limited Partnership, acting through and represented by Jazz Air General Partner Inc., was created on September 9, 2004 to become the successor operating Partnership to the Predecessor Company. This is in accordance with the Plan.

(expressed in thousands of Canadian dollars)

2 Creditor protection and restructuring (continued)

As part of the Plan, on September 30, 2004, immediately after the Predecessor Company applied fresh start reporting as further described in note 5, the Successor Partnership purchased and assumed from the Predecessor Company substantially all of the assets and certain specified liabilities as further described in note 6.

In consideration for the transfer of the net assets, the Successor Partnership issued a promissory note in favour of the Predecessor Company and issued 14,999,900 Partnership units. The Predecessor Company was then wound-up into its parent, Air Canada (see note 6(a)).

Air Canada then transferred the 14,999,900 Partnership units in the Successor Partnership to Jazz Air Holdco Partnership, a partnership ultimately owned by Air Canada, in exchange for 1,000,000 preferred units of Jazz Air Holdco Partnership. With the exception of these preferred units, Air Canada then transferred its ownership interests in Jazz Air Holdco Partnership and Jazz Air General Partner Inc., which collectively own 100% of the Successor Partnership, to ACE.

3 Basis of presentation

In accordance with Section 1625 of the CICA Handbook, Comprehensive Revaluation of Assets and Liabilities, Jazz Air Inc. adopted fresh start reporting on September 30, 2004. References to “Predecessor Company” in these consolidated financial statements and notes thereto refer to Jazz Air Inc. and its subsidiaries prior to September 30, 2004. References to “Successor Partnership” or “Partnership” refer to Jazz Air Limited Partnership and its subsidiaries on or after September 30, 2004. In accordance with CICA 1625, prior period financial information has not been restated to reflect the impact of the fair value adjustments, and accordingly, certain amounts in the Predecessor Company are not directly comparable. See note 5 for information related to fresh start reporting.

The consolidated balance sheets as of December 31, 2005 and December 31, 2004 include the accounts of Jazz Air Limited Partnership and its subsidiary. The consolidated statements of operations for the year ended December 31, 2005 and for the period from the creation of Jazz Air Limited Partnership to December 31, 2004 reflect the operations of the Successor Partnership and its subsidiary; the nine-months ended September 30, 2004 reflect the results of operations of the Predecessor Company and its subsidiary. The consolidated statements of cash flows for the year ended December 31, 2005 and the period from the creation of Jazz Air Limited Partnership to December 31, 2004 reflect the cash flows of the Successor Partnership and its subsidiary; the nine-months ended September 30, 2004 reflect the cash flows of the Predecessor Company and its subsidiary.

(expressed in thousands of Canadian dollars)

3 Basis of presentation (continued)

For the period from April 1, 2003 through to September 30, 2004, while the Predecessor Company and its subsidiary operated under CCAA proceedings, it followed accounting policies, including disclosures, applicable to entities under creditor protection. In addition to generally accepted accounting principles applicable in Canada, the Predecessor Company applied the guidance in American Institute of Certified Public Accountant Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (SoP 90-7). Accordingly, revenues, expenses (including professional fees), realized gains and losses and provisions for losses directly associated with the reorganization and restructuring of the business were reported separately as reorganization items. In addition, the consolidated balance sheet of the Predecessor Company distinguished between liabilities subject to compromise and post-filing liabilities. Liabilities subject to compromise were reported at the amounts expected to be allowed, even if they were settled for lesser amounts.

For the period April 1, 2003 to September 30, 2004, interest expense on compromised liabilities was reported only to the extent that it would be paid under the Plan or that it was probable that it would be an allowed claim. The consolidated statement of financial position of the Predecessor Company distinguished pre-filing liabilities subject to compromise from both those pre-filing liabilities that are not subject to compromise, together with post-filing liabilities. Cash flows related to reorganization items have been disclosed separately in the consolidated statement of cash flows.

4 Significant accounting policies

These consolidated financial statements of the Successor Partnership and the Predecessor Company are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting policies ("GAAP"). The accounting policies of the Successor Partnership, as described below, are consistent with those of the Predecessor Company, with the exception of the fair value adjustments applied under fresh start reporting and the adjustment of the estimated useful lives of certain assets.

The consolidated financial statements of the Predecessor Company were prepared in accordance with Canadian GAAP on a going concern basis, which assumed that the Predecessor Company would be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future, with no adjustments made in the carrying amounts of the assets, liabilities, revenues and expenses.

a) Basis of valuation

With the application of fresh start reporting on September 30, 2004, all assets and liabilities, except for future income taxes, were reported at fair values as further described in note 5. Goodwill is not recorded under GAAP applicable to fresh start reporting. In addition, the estimated useful lives of certain assets were also adjusted, including flight equipment where useful lives were extended to periods not exceeding 30 years.

(expressed in thousands of Canadian dollars)

4 Significant accounting policies (continued)

b) Management estimates

The preparation of financial statements in conformity with GAAP 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.

c) Principles of consolidation

The consolidated financial statements of the Successor Partnership include the accounts of the Successor Partnership and its subsidiary. The consolidated financial statements of the Predecessor Company include the accounts of the Predecessor Company and its subsidiary. The subsidiary is inactive.

d) Employee future benefits

As a result of the application of fresh start reporting, pension and other future benefit obligations were adjusted to reflect the estimated net accrued benefit obligation at September 30, 2004. Thus, all unrecognized net actuarial losses, prior service costs, and net transition obligations of the Predecessor Company were eliminated.

The significant policies of the Successor Partnership related to employee future benefits are as follows:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- Fair values are used to value Plan assets for the purpose of calculating the expected return on Plan assets.
- Past service costs arising from amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. This period does not exceed the average remaining service period of such employees up to the full eligibility date.
- Cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market value of Plan assets at the beginning of the year are amortized over the remaining service period of active employees.
- In 2005, the measurement date in the Successor Partnership was changed to November 30th on a prospective basis. The measurement date for the Predecessor Company for the nine-month period ended September 30, 2004 was September 30, 2004.

(expressed in thousands of Canadian dollars)

4 Significant accounting policies (continued)

e) Property and equipment

Property and equipment is originally recorded at cost. On the application of fresh start accounting effective September 30, 2004, the cost of property and equipment values was adjusted to fair value in the Successor Partnership. In addition, the estimated useful lives of certain assets were also adjusted.

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 20% estimated residual values.

Buildings are depreciated over their useful lives not exceeding 40 years on a straight-line basis. An exception to this is where the useful life of the building is greater than the term of the land lease. In these circumstances, the building is depreciated over the life of the lease.

Depreciation on other property and equipment is provided on a straight-line basis from the date assets are placed in service, to their estimated residual values, over the following estimated useful lives.

Leaseholds	Over the term of the related lease
Ground and other equipment	5 years

f) Impairment of long-lived assets

Effective January 1, 2004, the Predecessor Company adopted the CICA accounting standard on impairment of long-lived assets, which includes intangible assets with a finite life. The new standard requires that impairment of long-lived assets be tested whenever the circumstances indicate that the carrying value may not be recoverable and measured as the amount by which the asset’s carrying value exceeds fair value. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset. The Predecessor Company did not record any impairment loss as a direct result of the transition to the new standard.

(expressed in thousands of Canadian dollars)

4 Significant accounting policies (continued)

f) Impairment of long-lived assets (continued)

Indefinite lived assets are subject to annual impairment tests under GAAP. With fresh start accounting, intangible assets have been reported at their estimated fair value. Any impairment would be recognized as an expense in the period of impairment.

g) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction. Foreign exchange gains of $138 for the year ended December 31, 2005, $422 for period ended December 31, 2004 and $876 for the Predecessor Company for the nine-months ended September 30, 2004 are included in other non-operating expense/income.

h) Spare parts, material and supplies

Spare parts, materials and supplies are valued at the lower of average cost and net realizable value.

i) Aircraft lease payments in excess of aircraft rent and related fees

Total aircraft rentals under operating leases and the related lease inducement received and fees paid over the lease term are amortized to operating expense on a straight-line basis. Prepaid aircraft rentals and related fees is the difference between the straight-line aircraft rent and the payments stipulated under the lease agreements and legal and related transaction fees associated with the leases. Current and non-current unamortized lease inducements are included in accounts payable and accrued liabilities and other long-term liabilities respectively,

j) Operating revenue

Under the CPA, the Successor Partnership is paid to provide services to Air Canada as explained in notes 1 and 17. The fee is recognized in revenue as the capacity is provided. Incentive payments and margin adjustments as described in note 17 are recognized as increases in and reductions of passenger revenue respectively, based on management estimates during the year.

The Predecessor Company’s revenues include passenger and cargo revenues under agreements with Air Canada and other airlines as explained in note 1. Such revenues were recognized when transportation was provided. As Air Canada managed the sales of tickets, any deferred revenue related to providing future services was the responsibility of Air Canada. Accordingly, these financial statements do not report any deferred revenue related to future transportation services by the Predecessor Company.

Other revenues include charter services, ancillary flight services and maintenance and maintenance repairs and overhaul revenue, which are all recognized when the service is provided.

(expressed in thousands of Canadian dollars)

4 Significant accounting policies (continued)

k) Maintenance and repairs

Maintenance and repair costs are charged to operating expenses as incurred. Significant modification costs considered to be betterments are capitalized and amortized over the remaining service lives of the applicable assets.

l) Income taxes

The Successor Partnership is not subject to income taxes. The subsidiary is inactive. Accordingly, no recognition is given to income taxes in these financial statements because the income or loss of the Partnership is included in the tax returns of its Partners. The tax attributes of the Partnership's net assets flow directly to each Partner, accordingly, these financial statements do not reflect any future income taxes related to any temporary differences between the carrying values and tax basis of assets and liabilities of the Partnership.

The Predecessor Company accounted for income taxes using the liability method. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using substantially enacted tax rates and laws that are in effect at the year-end. Future income tax assets are recognized to the extent that realization is considered more likely than not.

m) Intangible assets

As a result of the application of fresh start reporting, intangible assets are carried at their established estimated fair values at September 30, 2004. Indefinite life assets are not amortized, while assets with finite lives are amortized over their estimated useful lives of four years.

5 Fresh start reporting

The Predecessor Company adopted fresh start reporting on September 30, 2004. As a result, all assets and liabilities of the Predecessor Company have been reported at fair values, except for future income taxes which are reported in accordance with the requirements of Section 3465 of the CICA Handbook, Income Taxes. As a result of the implementation of the Plan and the adoption of fresh start reporting, a revaluation adjustment of $32,927 has been recorded as a credit to Shareholders' Equity and the deficit and contributed surplus of the Predecessor Company as at September 30, 2004 have been reclassified to Shareholders' Equity, resulting in a capital deficiency of $100,940.

The fair values of the assets and liabilities have been based on management's best estimates and on valuation techniques as of September 30, 2004.

(expressed in thousands of Canadian dollars)

5 Fresh start reporting (continued)

	Predecessor Company Pre-fresh start September 30, 2004 $	Fresh start adjustments increase (decrease) $	Predecessor Company Post-fresh start September 30, 2004 $
Assets			
Current assets			
Cash	612	–	612
Accounts receivable	66,929	–	66,929
Spare parts, materials and supplies	18,993	(5,311) [(a)]	13,682
Prepaid expenses	5,126	–	5,126
	91,660	(5,311)	86,349
Property and equipment	263,316	(64,263) [(a)]	199,053
Goodwill	6,693	(6,693) [(a)]	–
Other assets	28,641	(11,882) [(a)]	16,759
	390,310	(88,149)	302,161
Liabilities			
Current liabilities			
Bank indebtedness	1,224	–	1,224
Air Canada indebtedness	160,689	–	160,689
Accounts payable and accrued liabilities	161,919	(4,198) [(a)]	157,721
Current portion of long-term debt	3,118	–	3,118
	326,950	(4,198)	322,752
Long-term debt	80,349	–	80,349
Liabilities subject to compromise	116,878	(116,878) [(b)]	–
	524,177	(121,076)	403,101
Shareholders' Equity (Deficiency)			
Share capital	110,004	(94,066) [(a)]	
		(116,878) [(b)]	(100,940)
Contributed surplus	19,600	(19,600) [(a)]	–
Deficit	(263,471)	263,471 [(a)]	–
	(133,867)	32,927	(100,940)
	390,310	(88,149)	302,161

(expressed in thousands of Canadian dollars)

5 Fresh start reporting (continued)

Fresh start adjustments

a) Comprehensive revaluation of assets and liabilities.

b) Liabilities subject to compromise totalling $116,878 were settled as part of ACE's restructuring plan.

6 Reorganization

On September 30, 2004, immediately after the Predecessor Company applied fresh start reporting as described in note 5, the Predecessor Company transferred the operations and its related assets and liabilities to the Successor Partnership, except for the following assets and liabilities, which are primarily related party balances and sales taxes receivable and payable:

	$
Accounts receivable	62,415
Other assets	2,675
Bank indebtedness	(1,224)
Air Canada indebtedness	(160,689)
Accounts payable and accrued liabilities	(54,536)
Long-term debt	(65,744)
	(217,103)

The operations and net assets were transferred in exchange for:

a) Unit certificate issued to the Predecessor Company representing fourteen million, nine hundred ninety nine thousand, and nine hundred (14,999,900) Partnership units; and

b) A promissory note in favour of the Predecessor Company in the principal amount of two hundred million dollars ($200,000).

This transfer of assets and liabilities was between entities under common control and was accounted for using a continuity of interest method. Accordingly, the assets and liabilities transferred were recorded at the carrying values of the Predecessor Company, after comprehensive revaluation under fresh start accounting. The monetary consideration for the transfer of a $200,000 promissory note exceeded the carrying value of the net assets transferred and has been reflected as a distribution to the Partners resulting in a capital deficiency of $83,837 as of September 30, 2004.

(expressed in thousands of Canadian dollars)

6 Reorganization (continued)

The results of these transactions are outlined in the table below:

	(a) Predecessor Company Post-fresh start September 30, 2004 $ (note 5)	(b) Net assets left in the Predecessor Company $	(c) Net assets transferred to the Successor Partnership $	(d) Consideration paid by Successor Partnership $	(e) Successor Partnership September 30, 2004 $
Assets					
Current assets					
Cash	612	–	612	–	612
Accounts receivable	66,929	62,415	4,514	–	4,514
Spare parts, materials and supplies	13,682	–	13,682	–	13,682
Prepaid expenses	5,126	–	5,126	–	5,126
	86,349	62,415	23,934	–	23,934
Property and equipment	199,053	–	199,053	–	199,053
Other assets	16,759	2,675	14,084	–	14,084
	302,161	65,090	237,071	–	237,071
Liabilities					
Current liabilities					
Bank indebtedness	1,224	1,224	–	–	–
Air Canada indebtedness	160,689	160,689	–	–	–
Accounts payable and accrued liabilities	157,721	54,536	103,185	–	103,185
Current portion of long-term debt	3,118	–	3,118	–	3,118
	322,752	216,449	106,303	–	106,303
Long-term debt	80,349	65,744	14,605	200,000	214,605
	403,101	282,193	120,908	200,000	320,908
Shareholders'/Partners' Deficiency	(100,940)	(217,103)	116,163	(200,000)	(83,837)
	302,161	65,090	237,071	–	237,071

(expressed in thousands of Canadian dollars)

6 Reorganization (continued)

a) This is the ending post-fresh start balance sheet of the Predecessor Company (see note 5).

b) These are the excluded assets that were left in the Predecessor Company and subsequently wound up into Air Canada.

c) These are the net assets transferred to the Successor Partnership, being all net assets except those in b) above.

d) This is the $200,000 promissory note issued as consideration.

e) This is the balance sheet of the Successor Partnership as at September 30, 2004.

7 Property and equipment

	As at December 31, 2005		
	Cost $	**Accumulated amortization** $	**Net** $
Flight equipment	173,726	12,632	161,094
Facilities, leaseholds and equipment	39,015	6,202	32,813
	212,741	18,834	193,907

	As at December 31, 2004		
	Cost $	**Accumulated amortization** $	**Net** $
Flight equipment	172,615	2,582	170,033
Facilities, leaseholds and equipment	26,038	1,377	24,661
	198,653	3,959	194,694

In accordance with the application of fresh start reporting, the cost of flight equipment was adjusted to estimated fair value at September 30, 2004 in the Successor Partnership.

At December 31, 2005, the net book value of flight equipment pledged as security for long-term debt is approximately $33,160 (December 31, 2004 - $34,984). As at December 31, 2004, substantially all the remaining property and equipment was pledged as security for certain debt of ACE. During the year ended December 31, 2005, this ACE debt was repaid and the security was released.

During the year ended December 31, 2005, the Successor Partnership recorded depreciation on property and equipment of $15,862 (period ended December 31, 2004 - $3,968) and during the nine-months ended September 30, 2004, the Predecessor Company recorded depreciation of $21,660.

(expressed in thousands of Canadian dollars)

8 Intangible assets

The fair value of identifiable intangible assets of the Successor Partnership were based on valuation techniques for the purpose of financial reporting under the fresh start requirements, as described in note 5.

		As at December 31, 2005	
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Indefinite life assets			
Air Canada Jazz Tradename	1,700	–	1,700
Operating license	4,600	–	4,600
Finite life assets			
Employee contracts	6,028	2,069	3,959
	12,328	2,069	10,259

During the year ended December 31, 2005, the Successor Partnership recorded amortization of $1,756.

		As at December 31, 2004	
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Indefinite life assets			
Air Canada Jazz Tradename	1,700	–	1,700
Operating license	4,600	–	4,600
Finite life assets			
Employee contracts	6,028	313	5,715
	12,328	313	12,015

During the period ended December 31, 2004, the Successor Partnership recorded amortization of $313.

9 Other assets

	As at December 31, 2005 **$**	**As at December 31, 2004** **$**
Promissory note receivable, non-interest bearing, repayable in equal annual instalments over 10 years	1,048	1,257
Deferred financing costs	4,502	–
Prepaid aircraft rent and related fees, net of accumulated amortization	30,364	177
	35,914	1,434

(expressed in thousands of Canadian dollars)

10 Long-term debt

	2005 $	2004 $
Note payable to a subsidiary of the parent company on demand after January 1, 2007, bearing interest at a rate per annum equal to the CIBC commercial prime Canadian dollar loans plus 3.0%. Prior to the repayment of certain debt by Air Canada, the note carried interest at a rate equal to the Banker's Acceptance (BA) rate plus an applicable rate margin. Interest is payable monthly in arrears	200,000	200,000
Term loans and credit facilities, repayable in monthly or quarterly instalments, are secured by flight equipment and bear interest at floating rates or at fixed rates ranging from 3.0% to 12.02%	13,540	16,630
	213,540	216,630
Less: Current portion of long-term debt	3,153	3,089
	210,387	213,541

Principal repayments over the next five years excluding the $200,000 note payable to the parent are as follows:

	$
Year ending December 31, 2006	3,153
2007	3,376
2008	5,834
2009	1,177
	13,540

Subsequent to the year-end, the above loans were repaid and a $115,000 draw was made on a new term credit facility (note 22).

11 Other long-term liabilities

	As at December 31, 2005 $	As at December 31, 2004 $
Accrued pension benefit liability	6,984	8,134
Accrued termination benefits, non-current portion	5,311	4,223
Deferred operating lease inducements, non-current portion	53,377	–
Other	370	–
	66,042	12,357

(expressed in thousands of Canadian dollars)

12 Future income taxes

The net deductible temporary difference represented by the difference between the tax bases and carrying values of the Partnership's assets and liabilities as at December 31, 2005 amounted to $71,610 (December 31, 2004 - $47,085).

13 Partnership Units – Successor Partnership

Partnership Units

The Partnership may issue an unlimited number of units.

Each unit is issued at a subscription price determined by the General Partner.

Each unit issued and outstanding shall be of equal rank with any other unit in respect of any manner, no unit having any preference or any priority of privilege or right whatsoever on any other unit.

A unit may not be divided or split into fractions and the Partnership shall not accept any subscription for, record an assignment of, or otherwise recognize any interest in less than a whole unit, except as necessary to implement a subdivision of units.

No partner shall have pre-emptive rights with respect to the issuance of units.

Distribution of units to the public is prohibited.

Allocation of income

Any amount that is allocated to or to be distributed amongst the partners shall be apportioned amongst the holders on the basis of their respective pro-rata share.

Distributions

No partner shall have any right to withdraw any amount or receive any distribution from the Partnership unless authorized by applicable law or agreed to by the General Partner. The General Partner shall determine the amount and timing of any distributions.

Units issued and fully paid

	Units	$
Jazz Air General Partner Inc.	1	–
Jazz Air Holdco Partnership	15,000,002	1
		1

(expressed in thousands of Canadian dollars)

14 Reorganization and restructuring

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	**For the period ended December 31, 2004 $**	**For the nine-month period ended September 30, 2004 $**
Repudiated leases and contracts, net (a)	–	–	47,158
Labour related items (b)	–	–	7,493
Professional fees (c)	–	–	157
Other	–	–	1,311
	–	–	56,119

a) Repudiated and renegotiated contracts, including aircraft lease agreements, represent the estimated allowable claim resulting from contracts that have been terminated and the amortization of deferred charges related to deficiency claims on renegotiated claims.

b) Labour related items relate to voluntary and involuntary severance programs, contractual termination benefits, as well as to the amortization of the estimated claim related to the Predecessor Company's employee group (see below).

c) The Predecessor Company has only recorded professional fees associated with the CCAA filings that have been charged to it directly. Certain fees are being absorbed by the parent company as part of the overall reorganization proceedings and are not reflected in these financial statements.

(expressed in thousands of Canadian dollars)

14 Reorganization and restructuring (continued)

Non-Unionized Labour Reductions

A workforce reduction plan pertaining to non-unionized employees has been established and implementation of the Plan began in May 2003 and continued until the end of 2005. The Predecessor Company has recorded a charge to earnings, recorded as reorganization and restructuring costs, of $nil from January 1 – September 30, 2004 pertaining to the involuntary severance costs associated with this non-unionized workforce reduction plan.

The Successor Partnership has recorded costs of $4,901 for the year ended December 31, 2005 and costs of $nil for the period ended December 31, 2004 under the voluntary workforce reduction plan. These costs have been included in salaries and wages. This program ended December 31, 2005.

Unionized Labour Reductions

Implementation of the workforce reduction plan pertaining to unionized employees commenced in the second quarter of 2003 as a result of agreed modifications to all collective agreements between employee unions and the Predecessor Company. Based on the contractual termination benefits contained in the agreements, an accrual of $7,493 was recorded as a charge during the nine-months ended September 30, 2004.

The following table summarizes the changes to the labour related provision.

	Successor Partnership		Predecessor Company
	Year ended December 31, 2005 $	**Period ended December 31, 2004 $**	**Nine-month period ended September 31, 2004 $**
Opening balance	8,179	9,102	1,726
Charges recorded	4,901	–	7,493
Costs paid	(3,908)	(923)	(117)
	9,172	8,179	9,102
Current portion	3,861	3,956	3,956
	5,311	4,223	5,146

The current portion of the liability is included in accounts payable and accrued liabilities. The long-term portion is included in other long-term liabilities.

(expressed in thousands of Canadian dollars)

15 Statement of cash flows – supplementary information

Net changes in non-cash working capital balances related to operations

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	**For the period ended December 31, 2004 $**	**For the nine-month period ended September 30, 2004 $**
Decrease (increase) in accounts receivable – trade and other	(5,561)	(49,938)	10,970
Decrease (increase) in spare parts, materials and supplies	(12,744)	1,362	2,796
Decrease (increase) in prepaid expenses	(1,848)	143	(595)
Increase in accounts payable and accrued liabilities	60,486	13,456	20,436
Increase in other long-term liabilities	53,685	7,366	4,662
	94,018	(27,611)	38,269

Interest paid

Interest paid on long-term debt in 2005 by the Successor Partnership was $15,716 (December 31, 2004 - $294); Predecessor Company $743.

16 Commitments

a) The Successor Partnership is committed to the following future minimum lease payments under operating leases for flight equipment and base facilities that have initial or remaining non-cancellable terms in excess of one year .

	As at December 31, 2005	
	Third parties $	**Related parties $**
Year ending December 31, 2006	14,084	113,680
2007	9,660	115,813
2008	7,842	113,815
2009	7,411	115,574
20010	4,100	100,804
Thereafter	4,859	971,194

A significant portion of the lease payments is payable in U.S. dollars.

Certain of the aircraft lease agreements have been entered into with third parties by Air Canada Capital Ltd and subleased to the Successor Partnership. These leases have been disclosed as related party leases above.

(expressed in thousands of Canadian dollars)

16 Commitments (continued)

b) Air Canada has signed definitive purchase agreements with Bombardier Inc. ("Bombardier") covering aircraft that will ultimately be delivered to the Successor Partnership. This agreement covers firm orders for 15 Bombardier CRJ700 Series 705 aircraft and 30 Bombardier CRJ200 aircraft of which 15 of the Bombardier CRJ200 may be cancelled without penalty. The purchase agreement also contains options for an additional 45 aircraft.

Deliveries of the 50-seat Bombardier CRJ200 and the 75-seat CRJ700 Series 705 commenced in October 2004, and May, 2005 respectively. The first 15 of the CRJ200 and the first 15 of the CRJ705 aircraft were delivered prior to December 31, 2005. These aircraft are being leased from third parties by Air Canada Capital Ltd. and subleased to the Successor Partnership. These leases are being accounted for by the Successor Partnership as operating leases and are included in the above table.

Management anticipates entering into similar lease arrangements for the undelivered aircraft under this purchase agreement; however, as of December 31, 2005, no definitive lease or other arrangements have been entered into between Air Canada, Air Canada Capital Ltd. or any other entities and the Successor Partnership (see note 22 (d)).

c) The Successor Partnership also expects Air Canada to transfer to it a total of 25 CRJ100 aircraft. The first 15 of these aircraft were delivered to the Successor Partnership prior to December 31, 2005 under operating leases with Air Canada Capital Ltd. Each of these leases have been accounted for as operating leases. Management anticipates entering into similar lease agreements with Air Canada for the remaining ten CRJ100 aircraft and expects these aircraft to be transferred to the Successor Partnership by August, 2006. As of December 31, 2005, the Successor Partnership has not entered into any definitive lease arrangement for these ten aircraft and as such, no anticipated lease payments are recorded in the table in note 16 (a).

d) Letters of credit totalling approximately $1,966 (December 31, 2004 - $608) have been issued as security for the rental of specific aircraft leases, ground handling and airport fee contracts and lease payments on rental space.

(expressed in thousands of Canadian dollars)

17 Related party transactions

The following table summarizes the Successor Partnership's (Predecessor Company's) related party transactions for the period. Each of the referenced entities and the Successor Partnership are controlled by ACE. For periods prior to October 1, 2004, the Predecessor Company, Zip Air Inc., and Aeroplan Limited Partnership were wholly owned subsidiaries of Air Canada.

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	For the period ended December 31, 2004 $	For the nine-month period ended September 30, 2004 $
Operating revenue			
Air Canada	1,013,053	184,971	–
Zip Air Inc.	–	–	453
Aeroplan Limited Partnership	–	–	6,720
Operating expenses			
Air Canada	14,242	3,080	133,191
Air Canada Capital Ltd.	75,799	7,480	19,254
Aeroplan Limited Partnership	–	–	8,289
ACGHS Limited Partnership	48,067	4,780	–
ACTS Limited Partnership	13,422	3,007	–
Non-operating expenses (revenues)			
Air Canada	(2,147)	(6)	7,029
1141679 Alberta Ltd.	14,673	–	–
ACE	–	3,617	–

(expressed in thousands of Canadian dollars)

17 Related party transactions (continued)

The following balances with related parties are included in the financial statements:

	As at December 31, 2005 $	As at December 31, 2004 $
Accounts receivable		
Air Canada	46,270	34,375
Amount receivable from Air Canada (note 22)	137,150	–
Air Canada indebtedness	–	(4,511)
Accounts payable and accrued liabilities		
Air Canada	60,811	30,600
Air Canada Capital Ltd.	8,711	1,733
ACGHS Limited Partnership	14,763	–
ACTS Limited Partnership	277	–
Long-term debt (notes 10 and 22)		
1141679 Alberta Ltd.	200,000	200,000

Successor Partnership

Capacity Purchase Agreement

On October 1, 2004, the Successor Partnership entered into a Capacity Purchase Agreement (CPA) with Air Canada, a company under common control with the Successor Partnership whereby Air Canada will purchase the capacity of certain specified aircraft crewed and operated by the Successor Partnership under the mark of “Air Canada Jazz” on routes specified by Air Canada. The CPA has a term of ten years and is automatically renewed for two additional periods of five years. Under this agreement, the Successor Partnership is required to provide Air Canada the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance and airport operations for such flights and Air Canada determines routes and controls scheduling, ticket prices, seat inventories, marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays the Successor Partnership for the capacity provided. Air Canada determines the routing and scheduling of all scheduled flights, passenger fares and cargo rates.

(expressed in thousands of Canadian dollars)

17 Related party transactions (continued)

The Successor Partnership is paid, on a monthly basis, fees for the capacity provided. The fee consists of a number of variable components based on certain different metrics, including block hours flown and cycles (number of take-offs and landings), number of passengers and number of aircraft covered by the CPA. The rates for these metrics are fixed for annual periods. The initial rates established effective October 1, 2004 were revised effective January 1, 2005. The rates for these metrics vary by aircraft type has been revised effective January 1, 2006 (see note 22). Rates may be revised if certain significant events result in a change in utilization of the aircraft by more than 10%. In addition, Air Canada is required to reimburse the Successor Partnership for certain pass-through costs, including fuel, deicing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. As these costs are costs required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue. For the year ended December 31, 2005, pass-through costs amounted to $320,671 (for the period ended December 31, 2004 - $54,398).

The above fees are paid on the first day of each month based on estimates for the month and adjusted at the end of each month for actual amounts to be paid within 35 days after month-end.

The Successor Partnership is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction. The CPA is designed to earn Jazz a nine percent (9%) operating margin, excluding incentive payments, on the CPA services provided to Air Canada.

Prepayment

On August 31, 2005, Air Canada made a prepayment for future services under the CPA in the amount of $400,100 in exchange for a note receivable. The note receivable was non-interest bearing. The note was repaid as the revenue was recognized under the CPA and was repaid in full as at December 31, 2005.

Margin adjustment

With respect to each calendar year during the term of the Capacity Purchase Agreement, if the annual operating margin for flights provided under the CPA is greater than 9%, Jazz will pay Air Canada an amount equal to 50% of the operating margin exceeding 9%. Operating margin represents the total operating revenue from flights under the CPA less expenses incurred related to such flights; however excludes any amounts related to performance incentive payments. This margin adjustment of $22,535 (2004 - $2,791) is accounted for as a reduction of revenue.

In addition to being the primary source of revenue, these companies currently provide significant services to the Successor Partnership as detailed below.

(expressed in thousands of Canadian dollars)

17 Related party transactions (continued)

Cash management

The Successor Partnership's and the Predecessor Company's cash is managed through Air Canada's centralized cash management system. At the end of each day, excess cash is cleared from the Successor Partnership's or Predecessor Company's bank accounts into Air Canada's bank accounts. In addition, any cash deficiencies in the Successor Partnership's or Predecessor Company's bank accounts at the end of each day are settled by transfers of cash from Air Canada's bank accounts. The resulting intercompany balance related to these cash management activities is referred to in the financial statements as, in the case of an asset, Amount receivable from Air Canada, and, in the case of a liability, Air Canada indebtedness. Surplus balances in the inter-company account earn interest on a daily basis, based on Air Canada's average yield on its short-term investment portfolio for the month, less .25%. The Successor Partnership is charged interest on deficit balances in the inter-company account on a daily basis, based on the average Canadian prime rate for the month plus a spread based on the amount Air Canada pays on its floating debt, calculated and debited monthly. The Successor Partnership receives its monthly payment from Air Canada under the CPA agreement at the beginning of each month and pays amounts due to Air Canada and its affiliates for services received based on terms agreed to between the parties. The Predecessor Company received payments from and made payments to Air Canada and its affiliates for services provided and received. These cash receipts and payments for services to and from Air Canada and the interest received from or paid to Air Canada are included in cash flows from operating activities. The transfers of excess cash to and from Air Canada are reflected as investing or financing activities based on whether the opening balance for the period is an amount receivable or amount payable, respectively. As a result of this cash management system, the Successor Partnership and the Predecessor Company had certain bank overdrafts at period ends which have been reflected in these financial statements as a component of cash and cash equivalents as the amounts.

Master Services Agreement

Under the Master Services Agreement between the Successor Partnership and Air Canada, Air Canada provides certain services to the Successor Partnership for a fee. These services include Aeronautical Charting Services, Corporate Finance Services (including the aforementioned cash management services), Corporate Real Estate Services, Environmental Affairs Services and Legal Services. Fees paid under this agreement are included in the operating and non-operating expenses table above.

The Master Services Agreement will continue in effect until the termination or expiration of the Capacity Purchase Agreement.

Other

During the year ended December 31, 2005, the Partnership received $56,506 in lease inducements from Air Canada Capital Ltd. and made lease pre-payments of $24,326 to Air Canada Capital Ltd.

Air Canada provides settlement with suppliers on certain expense transactions, primarily fuel purchases, on behalf of the Partnership and subsequently collects the balances from the Partnership. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed.

ACGHS Limited Partnership provides ground handling services and ACTS Limited Partnership provides aircraft maintenance and overhaul services to the Successor Partnership.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the Capacity Purchase Agreement.

The balances in accounts payable and accrued liabilities are payable on demand and have arisen from the services provided by the named related party.

(expressed in thousands of Canadian dollars)

17 Related party transactions (continued)

Predecessor Company

Prior to September 30, 2004, Air Canada provided passenger handling, reservations, ticketing, ground operations and loyalty program services on a fee basis. The transactions with Zip Air Inc. relate to services provided for dispatch and information system services. The transactions with Aeroplan Limited Partnership relate to the purchase of points and the redemption reimbursement for customer loyalty program. The transactions with Air Canada Capital Limited relate to aircraft leases and aircraft maintenance charges. All related party operating transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The cash management activities referred to above also applied to the Predecessor Company.

In addition, Air Canada provides settlement on revenue and certain expense transactions on behalf of the Predecessor Company with customers and suppliers and subsequently remits/collects balances with the Predecessor Company. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed.

Substantially all of the trade receivable from Air Canada relates to passenger revenue collected by Air Canada on behalf of the Predecessor Company.

The balances in trade receivable and accounts payable and accrued liabilities from Aeroplan Limited Partnership represent redemption credits and expenses for customer loyalty program.

The balances in accounts payable and accrued liabilities are payable on demand and have arisen from the services provided by Air Canada.

18 Government assistance

During the year ended December 31, 2005, the Successor Partnership recorded government assistance of $nil (period ended December 31, 2004 - $nil). During the nine-months ended September 30, 2004, the Predecessor Company recorded, as a reduction of the related expense, government assistance of $1,154, all related to the Aeroplane Cabin Security Enhancement Contribution Program Agreement.

19 Financial instruments and risk management

Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

a) Concentration of credit risk

The Successor Partnership does not believe it is subject to any significant concentration of credit risk with the exception of balances with Air Canada.

b) Interest rate risk

The Successor Partnership is exposed to interest rate risk because it has $213,540 (December 31, 2004 - $216,630) of long-term debt that is currently at floating rates of interest.

(expressed in thousands of Canadian dollars)

19 Financial instruments and risk management (continued)

c) Fuel price risk management

The Successor Partnership, through its parent company, may enter into contracts with financial intermediaries, not exceeding two years, to manage some of its exposure to aircraft fuel price volatility. The Successor Partnership has no fuel hedging agreements outstanding as at December 31, 2005.

d) Fair value of financial instruments

The carrying amounts reported in the balance sheet for accounts receivable, bank indebtedness, parent company indebtedness and accounts payable and accrued liabilities approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of long-term debt approximates its carrying value. Financial assets included in the balance sheet are as follows:

	Successor Partnership	
	As at December 31, 2005 $	**As at December 31, 2004 $**
Long-term receivables	845	1,037

The estimated fair values of each class of financial instruments were determined to be the present value of contractual future payments of principal and interest, calculated by discounting such future payments at the current market rates of interest available to the Successor Partnership for debt instruments of a similar nature.

20 Pension

The Successor Partnership maintains several defined benefit and defined contribution pension plans, providing pension benefits to most of its employees.

The total expense for the Successor Partnership’s defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which the Successor Partnership is obligated to make defined contributions only, for the year ended December 31, 2005 is $6,178, and for the period ended December 31, 2004 is $1,133 and the Predecessor Company’s nine-months ended September 30, 2004 expense is $3,377.

The most recent actuarial valuations of the defined benefit plan for funding purposes were as of January 1, 2005 and the next funding valuation will be as of January 1, 2006.

Information about the Successor Partnership’s and the Predecessor Company’s defined benefit plans, in aggregate, is as follows:

(expressed in thousands of Canadian dollars)

20 Pension (continued)

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	**For the period ended December 31, 2004 $**	**For the nine-month period ended September 30, 2004 $**
Change in benefit obligation			
Benefit obligation, beginning of period	50,576	47,916	40,767
Current service cost	4,260	979	2,793
Interest cost	3,453	776	2,083
Plan participants' contributions	3,775	564	2,463
Benefits paid	(578)	(27)	(100)
Actuarial loss (gain)	11,263	368	(90)
Benefit obligation, end of year	72,749	50,576	47,916
Change in plan assets			
Fair market value of plan assets, beginning of period	41,874	40,192	33,803
Actual return on plan assets	4,543	796	1,097
Employer contribution	5,926	349	2,929
Plan participants' contributions	3,775	564	2,463
Benefits paid	(578)	(27)	(100)
Fair market value of plan assets, end of period	55,540	41,874	40,192
Funded status, end of period	(17,209)	(8,702)	(7,724)
Employer contributions after measurement date	447	341	–
Unamortized net actuarial loss	9,778	227	4,682
Unamortized past service costs	–	–	62
Accrued benefit liability	(6,984)	(8,134)	(2,980)

The accrued benefit liability is included in other long-term liabilities.

Total cash payments made in 2005 for pension benefits were $12,065 (period ended December 31, 2004 - $1,482). Total cash payments made by the Predecessor Company were $6,306 for the pension and benefits for 2004.

(expressed in thousands of Canadian dollars)

20 Pension (continued)

Plan assets consist of the following:

	As at December 31, 2005 $	As at December 31, 2004 $
Canadian equity	37%	35%
Canadian fixed income	35%	35%
International equity	25%	25%
Short-term and other	3%	5%
	100%	100%

Weighted average assumptions used to determine the accrued benefit liability:

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	For the period ended December 31, 2004 $	For the nine-month period ended September 30, 2004 $
Discount rate to determine accrued benefit obligations	5.20%	6.11%	6.26%
Discount rate to determine the benefit cost	6.11%	6.26%	6.27%
Rate of compensation increase	4.00 – 5.25%	4.00 – 5.50%	4.00 – 5.50%
Expected return on plan assets	6.10%	6.25%	6.25%

(expressed in thousands of Canadian dollars)

20 Pension (continued)

The Successor Partnership's (Predecessor Company's) net defined benefit pension plan expense is as follows:

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005 $	**For the period ended December 31, 2004 $**	**For the nine-month period ended September 30, 2004 $**
Components of expense			
Current service cost (including provision for plan expenses)	4,260	979	2,793
Interest cost	3,453	776	2,083
Actual return on plan assets	(4,543)	(796)	(1,097)
Actuarial loss (gain)	11,262	368	(90)
Costs arising in the period	14,432	1,327	3,689
Differences between costs arising in the period and costs recognized in the period in respect of:			
Return on plan assets	1,712	142	(635)
Actuarial loss (gain)	(11,262)	(368)	116
Plan amendments	–	–	4
Net periodic pension cost recognized	4,882	1,101	3,174

21 Contingencies

Various lawsuits and claims are pending by and against the Successor Partnership and provisions have been recorded where appropriate. It is the opinion of management, supported by counsel, that final determination of these claims will not have a material adverse effect on the financial position or the results of the Successor Partnership.

(expressed in thousands of Canadian dollars)

22 Subsequent events

a) In conjunction with the initial public offering of the Jazz Air Income Fund, which closed on February 2, 2006, the Successor Partnership transferred all of its assets and liabilities to a newly created partnership that is wholly owned by ACE in exchange for Units of the New Partnership and an acquisition promissory note of approximately $413,225, subject to post closing adjustments. For accounting purposes, the New Partnership will be considered to be a continuation of the Successor Partnership. In conjunction with the initial public offering of the Fund, the Fund subscribed for 23.5 million of the Units of the New Partnership for cash consideration of $235,000. Offering costs of approximately $18,000 will be paid by the New Partnership. Concurrent with the closing of these transactions:

- Jazz received proceeds of $115,000 net of fees of $2,100 representing the drawing under a new term credit facility. The facility bears interest at floating rates and has a three year term;
- Jazz repaid its term loans and credit facilities (note 10); and
- The $200,000 note payable to 1141679 Alberta Ltd. was transferred to ACE and was then cancelled in consideration for an increase in ACE's capital account.

The acquisition promissory note was repaid from proceeds received for the Partnership Units, from the new term credit facility and out of working capital, including the settlement of the amount from Air Canada.

b) In conjunction with the sale of the partnership units referred to above, Air Canada and the partnership amended certain terms and conditions of the CPA including, among other things, the following:

- An effective date of January 1, 2006, expiring on December 31, 2015;
- New contractual rates for the fees to be paid by Air Canada to Jazz for each of the 2006 to 2008 calendar years;
- The payment of fees to Jazz on a variety of different metrics based on a specified percentage mark-up on Jazz's estimated controllable costs, being total operating costs less certain pass-through costs, for each calendar year in the applicable period; and
- A long-range fleet plan which sets out the number of aircraft covered by the CPA agreement (Covered Aircraft), by aircraft type, on a monthly basis through December 2007 and on an annual basis through December 2015. The total number of Covered Aircraft cannot, at any time during the term of the CPA, be reduced below the total monthly and annual numbers set forth in the existing long-range fleet plan without the mutual agreement of Air Canada and Jazz, except in certain limited circumstances where Jazz enters into an agreement with another carrier to provide regional airline services.

c) In conjunction with the initial public offering of Jazz Air Income Fund, the New Partnership established a long-term incentive plan for officers, directors and key personnel. Under this plan, awards are made of Units of Jazz Air Income Fund which will be purchased on the secondary market by the New Partnership and held in trust as the ownership of the awards vest, and ultimately are distributed to the participants.

(expressed in thousands of Canadian dollars)

22 Subsequent events (continued)

d) Subsequent to December 31, 2005, the Successor Partnership took delivery of one CRJ200 aircraft and two CRJ100 aircraft and entered into related sublease agreements with Air Canada Capital Ltd. The maximum term of these operating subleases is five years. The incremental annual lease payments under these new subleases is approximately as follows:

		$
Year ending December 31,	2006	2,314
	2007	3,127
	2008	2,524
	2009	2,524
	2010	1,840