Jazz Air LP

Consolidated Financial Statements
December 31, 2007 and 2006

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February 6, 2008

Auditors' Report

To the Directors of Jazz Air Holding GP Inc.

We have audited the consolidated balance sheets of **Jazz Air LP** as at December 31, 2007 and 2006 and the consolidated statements of partners' capital, income, comprehensive income and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 Partnership as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants
Halifax, Nova Scotia

February 6, 2008

Management's Report

The accompanying consolidated financial statements of **Jazz Air LP** are the responsibility of management and have been approved by the Board of Directors of Jazz Air LP's general partner, Jazz Air Holding GP Inc. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the financial statements. The Audit, Finance and Risk Committee of the Board of Directors review the Partnership's consolidated financial statements and recommend their approval by the Board of Directors.

(signed) "Joseph D. Randell"
President and Chief Executive Officer

(signed) "Allan D. Rowe"
Senior Vice President and
Chief Financial Officer

Jazz Air LP
Consolidated Balance Sheets
As at December 31, 2007 and 2006

(expressed in thousands of Canadian dollars)

	2007 $	2006 $
Assets		
Current assets		
Cash and cash equivalents	122,781	134,865
Accounts receivable – trade and other (note 14)	83,348	71,341
Spare parts, materials and supplies	37,587	28,554
Prepaid expenses	8,560	9,418
Total current assets	252,276	244,178
Property and equipment (note 3)	225,387	199,379
Intangible assets (note 4)	7,083	8,671
Other assets (note 5)	33,756	30,925
	518,502	483,153
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 14)	212,959	212,795
Current portion of obligations under capital leases (note 8)	2,119	–
Total current liabilities	215,078	212,795
Long-term debt (note 7)	113,475	115,000
Obligations under capital leases (note 8)	19,069	–
Other long-term liabilities (note 9)	58,838	71,693
	406,460	399,488
Partners' Capital	112,042	83,665
	518,502	483,153

Economic dependence (note 1)
Commitments (note 15)
Contingencies (note 19)
Subsequent event (note 20)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of Jazz Air LP by Jazz Air Holding GP Inc., its general partner

By: (signed) *"Richard H. McCoy"*
Director

By: (signed) *"Katherine M. Lee"*
Director

Jazz Air LP

Consolidated Statements of Partners' Capital

For the years ended December 31, 2007 and 2006

(expressed in thousands of Canadian dollars)

	Partners' capital $	Accumulated earnings $	Contributed surplus $	Accumulated other comprehensive income $	Distributions $	Total $
Balance – December 31, 2005	–	52,476	–	–	–	52,476
Issuance of 23,500,000 units to the Fund (note 1)	222,075	–	–	–	–	222,075
Contribution (note 1)	200,000	–	–	–	–	200,000
Distributions, pre and concurrent with offering (note 1)						
Repayment of acquisition promissory note	–	–	–	–	(424,433)	(424,433)
Deficit created on inception of Jazz Air LP	–	–	–	–	(8,206)	(8,206)
Priority distributions to the Jazz Air Income Fund	–	–	–	–	(80)	(80)
Distributions, post offering	–	–	–	–	(98,209)	(98,209)
Net income for the year	–	140,042	–	–	–	140,042
Balance – December 31, 2006	422,075	192,518	–	–	(530,928)	83,665
Adjusted opening balance due to new accounting policies adopted regarding financial instruments (note 2)	–	–	–	(409)	–	(409)
Balance – December 31, 2006, restated	422,075	192,518	–	(409)	(530,928)	83,256
Change in fair value during the year (note 2)	–	–	–	251	–	251
Priority distributions to the Jazz Air Income Fund	–	–	–	–	(913)	(913)
Distributions, post offering	–	–	–	–	(123,552)	(123,552)
Fund Units contributed by ACE Aviation Holdings Inc. and held by the initial long-term incentive plan (note 17)	(4,505)	–	4,505	–	–	–
Fund Units held by the ongoing long-term incentive plan (note 17)	(1,695)	–	–	–	–	(1,695)
Accretion related to the initial long-term incentive plan (note 2)	–	–	3,494	–	–	3,494
Accretion related to the ongoing long-term incentive plan (note 2)	–	–	547	–	–	547
Net income for the year	–	150,654	–	–	–	150,654
Balance – December 31, 2007	415,875	343,172	8,546	(158)	(655,393)	112,042

The accompanying notes are an integral part of these consolidated financial statements.

Jazz Air LP

Consolidated Statements of Income

For the years ended December 31, 2007 and 2006

(expressed in thousands of Canadian dollars, except units and earnings per unit)

	2007 $	2006 $
Operating revenue (note 14)		
Passenger	1,487,087	1,374,206
Other	8,302	7,001
	1,495,389	1,381,207
Operating expenses (note 14)		
Salaries and wages	284,041	259,014
Benefits	51,121	51,764
Aircraft fuel	320,463	284,836
Depreciation and amortization	24,307	21,262
Food, beverage and supplies	16,221	14,573
Aircraft maintenance materials, supplies and services	119,486	97,761
Airport and navigation fees	198,249	178,223
Aircraft rent	126,999	133,929
Terminal handling services	99,403	90,314
Other	101,940	105,762
	1,342,230	1,237,438
Operating income	153,159	143,769
Non-operating income (expenses) (note 14)		
Interest revenue	7,035	5,536
Interest expense	(8,389)	(9,012)
Gain on disposal of property and equipment	16	53
Foreign exchange loss	(300)	(304)
Unrealized loss on asset backed commercial paper (note 6)	(867)	–
	(2,505)	(3,727)
Net income for the years (note 10)	150,654	140,042
Weighted average number of units	122,288,242	120,100,438
Earnings per unit, basic and fully diluted	$1.23	$1.17

The accompanying notes are an integral part of these consolidated financial statements.

Jazz Air LP

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2007 and 2006

(expressed in thousands of Canadian dollars)

	2007 $	2006 $
Net income for the years	150,654	140,042
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	251	–
Comprehensive income	150,905	140,042

The accompanying notes are an integral part of these consolidated financial statements.

Jazz Air LP

Consolidated Statements of Cash Flows

For the years ended December 30, 2007 and 2006

(expressed in thousands of Canadian dollars)

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Net income for the years	150,654	140,042
Charges (credits) to operations not involving cash		
Depreciation and amortization	24,307	21,262
Amortization of prepaid aircraft rent and related fees	1,820	1,789
Gain on disposal of property and equipment	(16)	(53)
Unit based compensation	2,156	1,885
Deferred charges, prepaid aircraft rent and related fees	(1,730)	4,732
Foreign exchange	(947)	–
Unrealized loss on asset backed commercial paper (note 6)	867	–
Net change in prepaid interest expense	(119)	–
Funding of unit based compensation	(1,695)	–
	175,297	169,657
Net changes in non-cash working capital balances related to operations (note 13)	(31,530)	12,664
	143,767	182,321
Financing activities		
Repayment of acquisition promissory note payable to ACE Aviation Holdings Inc.	–	(424,433)
Payment of Jazz Air Income Fund offering cost	–	(5,880)
Repayment of obligations under capital leases (note 8)	(706)	–
Repayment of long-term debt	–	(13,540)
Long-term borrowings, net of deferred financing costs	–	112,900
Issue of Partnership Units	–	222,075
Priority distributions to the Jazz Air Income Fund	(80)	–
Distributions	(125,796)	(85,669)
	(126,582)	(194,547)
Investing activities		
Decrease in amount receivable from Air Canada	–	137,150
Additions to property and equipment	(23,679)	(24,785)
Decrease in long-term receivables	210	210
Proceeds on disposal of property and equipment	16	53
Cash equivalents reclassified to other assets (note 6)	(5,816)	–
	(29,269)	112,628
Net change in cash and cash equivalents during the years	(12,084)	100,402
Cash and cash equivalents – Beginning of years	134,865	34,463
Cash and cash equivalents – End of years	122,781	134,865
Cash payments of interest	10,350	12,026
Cash receipts of interest	7,018	5,049
Cash and cash equivalents comprise:		
Cash	122,781	5,870
Temporary investments	–	128,995

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

1 Nature of activities and dependence on Air Canada

Jazz Air LP ("Jazz" or the "Partnership") is a limited liability partnership registered in the province of Québec.

Jazz operates a regional airline in Canada and the United States. Effective January 1, 2006, the Partnership entered into an Amended and Restated Capacity Purchase Agreement ("CPA") with Air Canada whereby Air Canada purchases the aircraft capacity flown under the tradename "Air Canada Jazz" on the routes specified by Air Canada. Air Canada receives all passenger and cargo revenue related to passenger seats and cargo services sold on scheduled flights operated by the Partnership pursuant to the CPA and Air Canada pays Jazz for the capacity. The Partnership is economically and commercially dependent upon Air Canada and certain of its affiliates, as, in addition to being the primary source of revenue, these entities currently provide significant services to the Partnership. In addition, ACE Aviation Holdings Inc. ("ACE") and its affiliates provide a substantial portion of the aircraft financing for the Partnership, passenger handling and ground operations to the Partnership.

In conjunction with the initial public offering of the Jazz Air Income Fund (the "Fund"), which was completed on February 2, 2006 (the "offering"), Jazz Air Limited Partnership (the "Successor Partnership") transferred substantially all of its assets and liabilities to the Partnership that was wholly owned by ACE, at that time, in exchange for 99,365,143 units of the Partnership ("Partnership Units") and an acquisition promissory note of $424,433 (the "Acquisition Promissory Note"). For accounting purposes, the Partnership is 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 Partnership Units for cash consideration of $235,000. Offering costs of approximately $12,925 have been applied against the Partners' capital account. Concurrent with the closing of these transactions:

- Jazz received proceeds of $115,000 (before fees of $2,100) representing the drawing under a new term credit facility. The facility bears interest at floating rates and has a four-year term;
- Jazz repaid its term loans and credit facilities outstanding at December 31, 2005; 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 in 2006.

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.

The general partner of Jazz is Jazz Air Holding GP Inc. (the "Jazz GP"), which holds an economic interest of 0.0000005%, or one Partnership Unit.

These financial statements are those of a partnership and do not include all the assets, liabilities, revenues and expenses of its partners. The Partnership is not subject to income taxes as its income is allocated for tax purposes to its partners. Accordingly, no recognition has been given to income taxes in these financial statements. The tax attributes of the Partnership's net assets flow directly to the partners.

Jazz has historically experienced considerably greater demand for its services in the second and third quarters of the calendar year and significantly lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Jazz revenues under the CPA do not fluctuate with passenger load factors.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies

a) Basis of presentation

These consolidated financial statements of the Partnership are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting policies ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions regarding significant items such as amounts related to depreciation and amortization and lease return conditions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b) Principles of consolidation

The consolidated financial statements of the Partnership include the accounts of its subsidiary, Airwest Airlines Ltd. The subsidiary is inactive.

c) Variable Interest Entities

At its inception, Jazz adopted Accounting Guideline 15 ("AcG 15") – *Consolidation of Variable Interest Entities ("VIE")*. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support from other parties, or where the equity investors lack the characteristic of a controlling financial interest, or that do not absorb the expected losses or receive the expected returns of the entity. VIEs are subject to consolidation by an entity if that entity is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both.

Management has reviewed its ownership, contractual and financial interests in other entities and determined that other than the consolidation of the Jazz unit based compensation plans referred to in note 2(g), this guideline does not impact the financial statements of Jazz.

d) Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less.

e) Operating revenue

Under the CPA, the Partnership is paid to provide services to Air Canada as explained in notes 1 and 14. The fee is recognized in revenue as the capacity is provided. Incentive payments and margin adjustments as described in note 14 are recognized as increases in and reductions of passenger revenue respectively, based on management estimates during the year.

Other revenues include charter flights, maintenance, repair and overhaul (MRO) operation and other sources of revenue such as ground handling services and flight simulator revenue, which are all recognized when the service is provided.

The CPA provides for a monthly payment for an amount per aircraft designed to reimburse the Partnership for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, Determining Whether an Arrangement Contains a Lease, the Partnership has concluded that a component of its revenue under the CPA is rental income inasmuch as the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is $156,500 for the year ended December 31, 2007 (2006 - $152,206). This amount was recorded in passenger revenue of the Partnership's consolidated statements of income.

2 Significant accounting policies (continued)

f) Employee future benefits

The significant policies of the 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.
- The measurement date is November 30th.

g) Unit based compensation plans

Initial long-term incentive plan

Jazz has made certain commitments in connection with the granting of units of the Fund ("Fund Units") to key executives as a one-time special award to recognize their efforts in the completion of the Offering and to provide them with incentive compensation under an Initial Long-Term Incentive Plan ("Initial LTIP"). On February 9, 2007, ACE transferred 638,223 Fund Units to a trust for the purpose of funding the Initial LTIP. Under the terms of the Initial LTIP, 50% of the Fund Units granted are subject to vesting conditions based on performance and the remaining 50% vest on December 31, 2008. Vesting is conditional on board of directors' approval. Performance based Fund Units vest at the end of a three-year period ending December 31, 2008 if distributable cash targets established by the board of directors, on behalf of Jazz GP, for each of the periods ending December 31, 2006 through 2008 or on a cumulative basis are met.

Compensation costs related to the Fund Units contributed by ACE are charged to compensation expense over the vesting period, as vesting conditions are met and based on the estimated annual performance, with the corresponding equity contribution being accreted to contributed surplus. Distributions declared by the Fund on the Fund Units granted ultimately accrue to the employees. Forfeited Fund Units, to the extent they were contributed by ACE, and accumulated distributions thereon accrue to ACE. The trust is a VIE with respect to Jazz, and as such it is consolidated with Jazz's financial statements. Fund Units contributed by ACE are credited to contributed surplus at their aggregate value on February 9, 2007, the contribution date, with an equivalent reduction of partners' capital. Compensation expense under this plan is charged to earnings over the vesting period, with a corresponding increase to equity.

Ongoing long-term incentive plan

Under the terms of the Jazz Ongoing Long-term Incentive Plan ("Ongoing LTIP"), eligible employees are entitled to yearly Fund Unit grants determined on the basis of a percentage of their annual base salary. The Fund Units, which are held in a trust for the benefit of the eligible employees, vest at the end of a three year period (the "Performance Cycle"), commencing January 1 of the year in respect of which they are granted, subject to achieving distributable cash targets, established by the board of directors, on behalf of Jazz GP, for the Performance Cycle. Jazz will purchase the Fund Units on the secondary market. Distributions declared by the Fund on any Fund Units granted under this plan, may be invested in additional Fund Units, which will vest concurrently and proportionately with the Fund Units granted. Forfeited Fund Units and accumulated distributions thereon accrue to Jazz. The trust is a VIE entity with respect to Jazz, and as such, it is consolidated with Jazz's financial statements. The fair value of the

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies (continued)

Fund's Units, which approximates their cost under this plan, is charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. Jazz's cost of the Fund Units held is presented as a reduction of partners' capital. Estimated compensation costs relative to this plan are accrued on the basis of actual performance relative to targets.

h) Property and equipment

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 5 - 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

Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments.

Property and equipment under capital leases are depreciated to estimated residual values over the life of the lease.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be used is measured by comparing the net book value of the asset to the undiscounted future cash flows expected to be generated by the asset. An impairment is recognized to the extent that the carrying amount exceeds the fair value of the asset.

i) Intangible assets

Intangible assets are carried at their established estimated fair values as 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.

j) Impairment of long-lived assets

Indefinite life assets are subject to annual impairment tests under GAAP. Any impairment would be recognized as an expense in the period of impairment.

k) 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 losses of $300 for the year ended December 31, 2007 (2006 - $304) were included in other non-operating expense/income.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies (continued)

l) Aircraft lease payments

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.

m) 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.

Jazz uses the direct expense method of accounting for its airframe overhauls where the expense is recorded when the overhaul event occurs. Jazz has most of its aircraft engines under long-term engine service agreements that cover the scheduled and unscheduled repairs for the covered engines. Under the terms of the agreement, the Partnership pays a set dollar amount per engine hour flown on a monthly basis and the third party vendor will assume the responsibility to repair the engines at no additional cost to the Partnership, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when a contractual obligation exists. For those engines not covered under a long-term engine services agreement, the overhaul events are expensed in the time period when the event occurs. The costs of maintenance for airframe and avionics components, landing gear and normal recurring maintenance are expensed as incurred.

n) Income taxes

The Partnership is not subject to income taxes. Additionally, the subsidiary of the Partnership, Airwest Airlines Ltd., 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.

o) Per unit earnings amount

For 2006, the weighted average number of units used in the earnings per unit calculation has been established by restating the outstanding Partnership Units to 99,365,144 for the periods up to February 2, 2006, after which the calculation is based on the weighted average number of units outstanding during the remainder of the year.

For 2007, Fund Units held under the various unit based compensation plans reduce the weighted average number of outstanding Partnership Units from the date they are contributed to the plan.

Changes in accounting policies

Financial instruments

Commencing with the first quarter of 2007, the Partnership adopted four new accounting standards issued by the Accounting Standards Board and included in the Canadian Institute of Chartered Accountants handbook as follows: (i) Section 1530 *Comprehensive Income*; (ii) Section 3855 *Financial Instruments – Recognition and Measurements*; (iii) Section 3861 *Financial Instruments – Disclosure and Presentation*; and (iv) Section 3865 *Hedges*.

The new standards lay out how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

2 Significant accounting policies (continued)

The Partnership has implemented the following classifications:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as "Loans and Receivables". After their critical fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Partnership, the measured amount generally corresponds to cost.
- Accounts payable, credit facilities, and bank loans are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost, net of transaction costs, using the effective interest rate method. For the Partnership, the measured amount generally corresponds to cost.

Section 3865, *Hedges*, establishes how hedge accounting may be applied. The Partnership has decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.

These new standards have been applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities have been recognized as an adjustment to the opening balance of partners' capital or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. The Partnership has recognized a $409 adjustment to the opening balance of accumulated other comprehensive income with respect to the interest rate swaps designated as cash flow hedges.

Due to the adoption of the new accounting policies, the balance of deferred financing charges of $1,458 and prepaid swap interest of $648 as at January 1, 2007 were reclassified to offset the respective debt for which they were incurred.

Spare parts, materials and supplies

Commencing with the second quarter of 2007, Jazz changed its policy for determining the cost of spare parts (consumable aircraft parts), materials and supplies. Spare parts, materials and supplies which were formerly valued at the lower of average cost and net realizable value are now being valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Management believes the first-in first-out method of reporting is more reflective of actual inventory movement. This change has been applied retroactively; however, the difference in inventory valued between the two methods for the prior periods is not material to those financial statements and therefore no adjustments have been made.

Change in accounting estimates

Property and equipment

During 2007, Jazz changed its estimate of both the useful life and the expected residual value of certain flight equipment. The revised estimates better reflect the expected useful life of these assets to Jazz and updates the residual value to reflect both the changed useful life and current and expected market conditions for such aircraft. The changes have been applied prospectively. The change in the basis of depreciation had the effect of decreasing depreciation expense by $524 in 2007.

Future accounting changes

The Canadian Institute of Chartered Accountants issued new accounting standards: Section 1535, *Capital Disclosures;* Section 3031, *Inventories*; Section 3862, *Financial Instruments – Disclosures;* and Section 3863, *Financial Instruments – Presentation*. These new standards will be effective on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure will be required for Jazz once the new standard becomes effective.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies (continued)

Section 3031 will replace section 3030, *Inventories*, revising and enhancing disclosure and presentation requirements. This new section will limit the choices in which to calculate carrying values and will provide new disclosure requirements. There will be no impact in how Jazz accounts for inventory; however, there will be additional disclosure requirements.

Section 3862 and 3863 will replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by Jazz and the disclosure already in place, it is not expected that the revised section will have any impact on the financial statements.

3 Property and equipment

	As at December 31, 2007		
	Cost $	Accumulated amortization $	Net $
Flight equipment	181,815	35,206	146,609
Facilities	15,647	2,024	13,623
Equipment	25,248	9,538	15,710
Leaseholds	36,268	9,020	27,248
Assets under capital leases	23,201	1,004	22,197
	282,179	56,792	225,387

	As at December 31, 2006		
	Cost $	Accumulated amortization $	Net $
Flight equipment	180,275	24,413	155,862
Facilities	15,202	1,411	13,791
Equipment	14,398	6,316	8,082
Leaseholds	26,006	4,362	21,644
	235,881	36,502	199,379

The net book value of the property and equipment pledged as collateral related to the credit facility at December 31, 2007 was $203,190 (2006 - $199,379). Amortization expense related to property and equipment of $22,019, was recorded for the year ended December 31, 2007 (2006 - $18,751).

Property and equipment were acquired at an aggregate cost of $23,201 for the year ended December 31, 2007 (2006 - $nil) by means of capital leases.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

4 Intangible assets

	As at December 31, 2007		
	Cost $	Accumulated amortization $	Net $
Indefinite life assets			
Jazz tradename	1,700	–	1,700
Operating license	4,600	–	4,600
Finite life assets			
Employee contracts	6,028	5,245	783
	12,328	5,245	7,083

	As at December 31, 2006		
	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	3,657	2,371
	12,328	3,657	8,671

During the year ended December 31, 2007, the Partnership recorded amortization of $1,588 (2006 - $1,588).

5 Other assets

	As at December 31,	
	2007 $	2006 $
Promissory note receivable, non-interest bearing, repayable in equal annual instalments over 10 years	628	838
Prepaid aircraft rent and related fees, net of accumulated amortization	28,539	30,087
Asset backed commercial paper (note 6)	4,589	–
	33,756	30,925

(expressed in thousands of Canadian dollars, except units and per unit amounts)

6 Asset backed commercial paper

As at December 31, 2007, included in other assets is US dollar denominated, third-party sponsored, asset backed commercial paper ("ABCP") with an original cost of $5,816 CDN. The ABCP was classified as Held for Trading on initial recognition and is measured at fair value at each reporting date. The asset, which was set to mature on August 16, 2007, has not been paid out due to liquidity problems experienced in the ABCP market. At this time, conduits are subject to a proposal which calls for the notes to be converted into floating rate notes which better matches the maturity with the duration of the underlying assets to address the liquidity problem.

Given the disruption in the third party sponsored ABCP market, quoted market values of the investments are not available. Management has reviewed available investment reports and found there have been no defaults of the underlying assets since inception of the trust and more than 97% of the portfolio's notional amount is rated A (Low) or better. Accordingly, management has used current market information and other factors to determine the fair value of the investment by discounting the expected future cash flows according to the probability of recovery of principal and interest based on a maturity date in line with the expected conversion of the ABCP into a floating rate note. Based on management's assessment of the value of its investment in ABCP, a provision for decline in value of $867 is recorded in other non-operating expense. This estimate is subject to measurement uncertainty and is dependent on the likelihood, nature and timing of the restructuring. There is no assurance that the value of these investments will not decline further, or that the restructuring will be successful. Therefore, the estimated value of the investment in ABCP may change in subsequent periods. There has been no impact on operations, financial covenants or ability to meet obligations as they come due. Jazz is not accruing interest in this investment.

The net foreign exchange loss recorded on the investment for the year ended December 31, 2007 was $360.

7 Long-term debt

	As at December 31,	
	2007 **$**	**2006** **$**
Senior, secured credit facilities bearing interest at floating rates with a maximum amount of $150,000, due on February 2, 2010. Substantially all the present and future assets of the Partnership have been pledged as security for the facilities	113,475	115,000

In connection with the Offering, Jazz arranged for senior secured syndicated credit facilities in the amount of $150,000. On closing of the offering, $115,000 was drawn under the credit facilities. The facility bears interest at floating rates and has a four-year term. During the first quarter of 2007, the original term of the Jazz credit facility was approved by the syndicate for extension from February 2, 2009 to February 1, 2010. The outstanding credit facilities are secured by substantially all the present and future assets of Jazz. Jazz's debt facilities contain various covenants. Jazz is in compliance with all debt covenants at December 31, 2007.

Jazz entered into an interest rate swap agreement with third parties for $115,000 which has effectively resulted in a fixed interest rate of 7.09% until February 2, 2009.

Jazz is charged an annual commitment fee of 0.5% on the unutilized balance of the credit facilities.

As described in note 2, the balance of deferred charges and prepaid swap interest as at January 1, 2007, has been reclassified against the actual debt for which they were incurred. The balance as at December 31, 2007 was $758 and $767 for deferred charges and prepaid swap interest, respectively.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

8 Obligations under capital leases

During the year ended December 31, 2007, Jazz entered into capital leases related to aircraft and ground equipment. The obligations are as follows:

	$
Year ended December 31, 2008	3,910
2009	3,910
2010	3,910
2011	3,884
2012	3,554
Thereafter	10,039
Total minimum lease payments	29,207
Less: Amount representing interest (at rates ranging from 8.755% to 9.450%)	8,019
Present value of net minimum capital lease payments	21,188
Less: Current portion	2,119
Obligations under capital leases	19,069

A significant portion of the lease payments is payable in US dollars. Interest of $791 (2006 - $nil) relating to capital lease obligations has been included in aircraft rent.

9 Other long-term liabilities

	As at December 31,	
	2007 $	2006 $
Accrued pension benefit liability (note 18)	4,810	8,875
Accrued termination benefits, non-current portion	59	1,687
Deferred operating lease inducements, non-current portion	53,969	59,111
Other	–	2,020
	58,838	71,693

10 Future income taxes

The net deductible temporary difference represented by the differences between the tax bases and carrying values of the Partnership's assets and liabilities at December 31, 2007 approximated $494,718. The Partnership has amended previously estimated elected amounts reported for December 31, 2006. As a result, 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, 2006 has been revised to $537,408.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

11 Partnership Units

Partnership Units

The Partnership may issue an unlimited number of units.

Each unit is issued at a subscription price determined by Jazz GP.

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 Jazz GP. Jazz GP shall determine the amount and timing of any distributions.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

11 Partnership Units (continued)

Units issued and fully paid

	December 31, 2007	December 31, 2006
General Partner		
Jazz Air General Partner Inc.		
Units outstanding – Beginning of year	–	1
Cancelled on reorganization referred to in note 1	–	(1)
Units outstanding – End of year	–	–
Jazz Air Holding GP Inc.		
Units outstanding – Beginning of year	1	–
Issued during the year (note 1)	–	1
Units outstanding – End of year	1	1
Limited Partners		
Jazz Air Holdco Partnership		
Units outstanding – Beginning of year	–	15,000,002
Cancelled on reorganization referred to in note 1	–	(15,000,002)
Units outstanding – End of year	–	–
Jazz Air Trust (the "Trust")		
Units outstanding – Beginning of year	25,000,000	–
Issued during the year (note 1)	–	23,500,000
Acquired from ACE	–	1,500,000
Exchanged by ACE for Fund Units under shareholder liquidity agreement	97,226,920	–
Exchanged by ACE for Fund Units and contributed to a trust to fund Initial LTIP	638,223	–
Units outstanding – End of year	122,865,143	25,000,000
ACE Aviation Holdings Inc.		
Units outstanding – Beginning of year	97,865,143	–
Issued during the year (note 1)	–	99,365,143
Exchanged by ACE for Fund Units under shareholder liquidity agreement	(97,226,920)	–
Exchanged by ACE for Fund Units and contributed to a trust to fund Initial LTIP	(638,223)	–
Sold to the Trust	–	(1,500,000)
Units outstanding – End of year	–	97,865,143
Fund Units held to fund unit based compensation plans (note 17)	(728,290)	–
Total units outstanding – End of year	122,136,854	122,865,144

11 Partnership Units (continued)

On February 2, 2006, the Fund, through the Trust, subscribed for 23.5 million Partnership Units for cash consideration of $235,000 less offering costs of approximately $12,925.

On February 27, 2006, as a result of the exercise by the underwriters of the over-allotment option related to the Offering, the Fund purchased, through the Trust, an additional 1,500,000 Partnership Units from ACE, Jazz's former parent company, for cash consideration of $15,000 less offering costs of $825. With the exercise of the over-allotment option, the Fund owned 25,000,000 Partnership Units, or 20.3% of Jazz at a net cost of $246,000.

The weighted average number of Partnership Units used in the earnings per unit calculation, has been established by restating the Partnership's outstanding Partnership Units to 99,365,143 for the periods presented up to February 2, 2006.

On February 9, 2007, ACE exchanged 638,223 of its Partnership Units for 638,223 Fund Units. The 638,223 Fund Units were contributed to a trust in order to fund grants to employees under Jazz's Initial LTIP.

On March 14, 2007, pursuant to a statutory plan of arrangement approved in October 2006, ACE exchanged 25,000,000 Partnership Units for an equivalent number of Fund Units. These Fund Units were distributed to ACE's shareholders as part of a special distribution. On March 14, 2007, ACE also exchanged an additional 25,000,000 Partnership Units for 25,000,000 of Fund Units in accordance with terms of the Investor Liquidity Agreement. On March 30, 2007, ACE exchanged 47,226,920 Partnership Units for an equivalent amount of Fund Units.

12 Financial instruments and risk management

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

Interest rate risk

As indicated in the note entitled "Long-term debt" Jazz uses interest rate swaps to hedge its exposure to changes in interest rates. Jazz has no intention of early settling these contracts. If Jazz settled these contracts at December 31, 2007, a payment of $158 would have resulted.

Concentration of credit risk

In accordance with its investment policy, the Partnership invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes and term deposits. The Partnership does not believe it is subject to any significant concentration of credit risk with the exception of balances with Air Canada.

Fuel price risk management

The Partnership has no fuel hedging agreements outstanding as at December 31, 2007 or December 31, 2006.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

12 Financial instruments and risk management (continued)

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 the credit facilities and the long-term debt approximates its carrying value as they carry interest at floating rates. Financial assets included in the balance sheet include a long-term receivable. The estimated fair value of the asset is $560 (2006 - $752). The estimated fair values of these 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 Partnership for debt instruments of a similar nature.

13 Statement of cash flows – supplementary information

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

	Year ended December 31, 2007 $	2006 $
Decrease (increase) in accounts receivable – trade and other	(12,007)	(13,657)
Decrease (increase) in spare parts, materials and supplies	(10,177)	(3,490)
Decrease (increase) in prepaid expenses	210	(2,587)
Increase (decrease) in accounts payable and accrued liabilities	1,414	28,632
Increase (decrease) in other long-term liabilities	(10,970)	3,766
	(31,530)	12,664

(expressed in thousands of Canadian dollars, except units and per unit amounts)

14 Related party transactions

The transactions between Air Canada, other ACE affiliates and the Partnership are summarized in the table below.

	December 31, 2007 $	December 31, 2006 $
Operating revenue		
Air Canada	1,485,963	1,374,574
Operating expenses		
Air Canada	49,197	52,382
Air Canada Capital Ltd.	91,413	97,005
ACGHS Limited Partnership	59,534	54,115
Aero Technical Support & Services Holdings (formerly ACTS LP)	38,056	31,035
Non-operating expenses (revenues)		
Air Canada	–	(273)
1141679 Alberta Ltd.	–	1,414

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

	As at December 31, 2007 $	As at December 31, 2006 $
Accounts receivable – trade and other		
Air Canada	71,173	59,090
ACGHS Limited Partnership	55	559
Aero Technical Support & Services Holdings (formerly ACTS LP)	251	1,180
Accounts payable and accrued liabilities		
Air Canada	63,604	48,329
Air Canada Capital Ltd.	7,584	8,669
ACGHS Limited Partnership	13,461	21,493
Aero Technical Support & Services Holdings (formerly ACTS LP)	8,120	14,408
ACE Aviation Holdings Inc.	557	11,132
Jazz Air Income Fund	10,296	1,823

(expressed in thousands of Canadian dollars, except units and per unit amounts)

14 Related party transactions (continued)

Capacity Purchase Agreement

The Partnership is party to the CPA (and prior to the Amended and Restated CPA effective on January 1, 2006, was party to the "Initial CPA") with Air Canada, whereby Air Canada purchases the capacity of certain specified aircraft crewed and operated by the Partnership under the tradename of "Air Canada Jazz" on routes specified by Air Canada. The CPA has a term of ten years and is renewable for two additional periods of five years. Under this agreement, the 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, sets ticket prices, determines seat inventories, and performs 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 Partnership for the capacity provided.

New rates came into effect under the CPA on January 1, 2006 and amended rates have been established to be effective for the fiscal years 2006, 2007 and 2008.

The 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 and vary by aircraft type. In addition, Air Canada is required to reimburse the Partnership for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. As these costs are required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue. Pass-through costs amounted to $556,740 for the year ended December 31, 2007 (2006 - $498,123).

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 no later than the 30th day of the following month.

The 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 criteria. The CPA is designed to earn Jazz a 14.09% operating margin, excluding incentive payments and pass-through costs, on the CPA services provided to Air Canada.

Margin adjustment

With respect to each calendar year subsequent to January 1, 2006, during the remaining term of the CPA, if the annual operating margin for flights provided under the CPA is greater than 14.09%, Jazz will pay Air Canada an amount equal to 50% of the operating margin exceeding 14.09%. Operating margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights; however, it excludes any amounts related to pass-through costs or performance incentive payments. This margin adjustment for the year ended December 31, 2007 of $4,574 (2006 - $5,118) is accounted for as a reduction of revenue.

Master Services Agreement

Under the Master Services Agreement dated September 24, 2004, between the Partnership and Air Canada, Air Canada provides certain services to the Partnership for a fee. These services include Insurance and Tax Services, Corporate Real Estate Services, Environmental Affairs Services and Legal Services.

The Master Services Agreement will continue in effect until the termination or expiration of the CPA, but individual services can be terminated earlier in accordance with the terms of the Master Services Agreement.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

14 Related party transactions (continued)

Other

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 Aero Technical Support & Services Holdings (formerly ACTS LP) provides certain inventory, component and engine services to the Partnership.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA.

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

15 Commitments

a) The 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, 2007	
		Third parties $	**Related parties** $
Year ending December 31,	2008	16,700	110,543
	2009	14,810	111,818
	2010	10,189	93,655
	2011	4,744	79,763
	2012	3,793	77,060
	Thereafter	32,734	677,064

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 or Air Canada Capital Ltd., and subleased to the Partnership. These leases have been disclosed as related party leases above.

In the fourth quarter of 2007, Jazz entered into a common terms agreement for an aircraft lease which is also designed to cover potential future leases with the same company. The agreement contains various covenants. Jazz is in compliance with all covenants at December 31, 2007.

b) Letters of credit totalling approximately $2,708 (December 31, 2006 - $1,885) have been issued as security for ground handling and airport fee contracts, lease payments on rental space and certain employee benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

16 Post-employment expenses

The Partnership has recorded pension expense for the year ended December 31, 2007 of $16,884 (2006 - $15,987).

(expressed in thousands of Canadian dollars, except units and per unit amounts)

17 Unit based compensation plans

The details of Fund Units held under unit based compensation plans discussed in note 2 are as follows:

	December 31, 2007	
	Initial LTIP	**Ongoing LTIP**
Number of Fund Units granted	638,223	201,438
Number of Fund Units forfeited	(6,000)	–
	632,223	201,438
Number of Fund Units vested	(105,371)	–
Number of Fund Units outstanding, end of year	526,852	201,438
Weighted average remaining life (years)	1.00	2.00
Cost of units purchased during the year (1)	$ –	$1,695
Weighted average fair value per Fund Unit on date of grant	$8.55	$8.42
Compensation expense for the year	$1,609	$547

(1) The cost of Fund Units purchased under the Ongoing LTIP is not materially different from their fair value at the date they were granted.

Pursuant to the terms of the Ongoing LTIP, Fund Units are purchased on the open market of the Toronto Stock Exchange and are held by a trustee for the benefit of the eligible employees until their vesting.

18 Pension

The Partnership maintains several registered defined contributions pension plans for eligible employees and a registered defined benefit plan for Pilots. The Partnership is the plan sponsor for these plans under the Pension Benefits Standard Act, 1985 (Canada). In addition, the Partnership maintains a supplementary defined benefit pension plan which is partially funded for certain employees. Contributions to the supplementary pension plan started being made in December 2007. The registered and supplementary defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and the final average earnings for a specified period.

The total expense for the Partnership's defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which the Partnership is obligated to make defined contributions only, for the year ended December 31, 2007 is $6,474, and for the year ended December 31, 2006 is $5,970.

Total cash payments made in 2007 for pension benefits were $16,738, which includes cash payments for the Registered Defined Benefit plan of $10,345 (year ended December 31, 2006 - $14,026; $8,529 for the Registered Defined Benefit plan).

(expressed in thousands of Canadian dollars, except units and per unit amounts)

18 Pension (continued)

The most recent actuarial valuations of the defined benefit plan for funding purposes were as of January 1, 2007 and the next funding valuation will be as of January 1, 2008.

Information about the Partnership's defined benefit plans, in aggregate, is as follows:

	2007 $	2006 $
Change in benefit obligation		
Benefit obligation, beginning of year	95,541	72,749
Current service cost	9,978	9,094
Interest cost	5,383	4,342
Plan participants' contributions	5,549	5,152
Benefits paid	(3,106)	(923)
Actuarial (gain) loss	(8,037)	5,127
Benefit obligation, end of year	105,308	95,541
Change in plan assets		
Fair market value of plan assets, beginning of year	76,526	55,540
Actual return on plan assets	953	8,469
Employer contribution	10,225	8,288
Plan participants' contributions	5,549	5,152
Benefits paid	(3,106)	(923)
Fair market value of plan assets, end of year	90,147	76,526
Funded status, end of year	(15,161)	(19,015)
Employer contributions after measurement date	4,969	734
Unamortized net actuarial loss	5,382	9,406
Accrued benefit liability	(4,810)	(8,875)

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

Plan assets consist of the following:

	2007 $	2006 $
Canadian equity	35%	36%
Debt securities	38%	36%
International equity	24%	27%
Short-term and other	3%	1%
	100%	100%

The plan's assets are invested in a balanced fund and include no significant investment in the Fund, if any, at the measurement date, November 30, 2007 or November 30, 2006.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

18 Pension (continued)

Weighted average assumptions used to determine the accrued benefit liability:

	2007 $	2006 $
Discount rate to determine accrued benefit obligations	5.75%	5.00%
Discount rate to determine the benefit cost	5.00%	5.20%
Rate of compensation increase	4.00 – 5.00%	4.00 – 5.00%
Expected return on plan assets	6.00%	5.20%

The Partnership's net defined benefit pension plan expense is as follows:

	2007 $	2006 $
Components of expense		
Current service cost (including provision for plan expenses)	9,978	9,094
Interest cost	5,383	4,342
Actual return on plan assets	(953)	(8,469)
Actuarial (gain) loss	(8,037)	5,127
Costs arising in the period	6,371	10,094
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	(4,050)	5,363
Actuarial (gain) loss	8,074	(4,991)
Net periodic pension cost recognized	10,395	10,466

19 Contingencies

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, the defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850,000 in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz' access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. Jazz maintains that Porter's counterclaims in both jurisdictions as being without merit and will be vigorously contested in court.

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

(expressed in thousands of Canadian dollars, except units and per unit amounts)

19 Contingencies (continued)

Jazz has agreed to indemnify its directors and officers, to the extent permitted under corporate law, against costs and damages incurred by the directors and officers as a result of lawsuits or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. Jazz's directors and officers are covered by directors' and officers' liability insurance. No amount has been recorded in these financial statements with respect to the indemnification agreements.

Jazz enters into real estate leases or operating agreements, which grant a license to Jazz to use certain premises and/or operate at certain airports, in substantially all cities that it serves. It is common in such commercial lease transactions for Jazz as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to Jazz's use or occupancy of the leased or licensed premises. Exceptionally, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, Jazz typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

In aircraft financing or leasing agreements, Jazz typically indemnifies the financing parties, trustees acting on their behalf and other related parties and/or lessors against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. In addition, in aircraft financing or leasing transactions, including those structured as leveraged leases, Jazz typically provides indemnities in respect of certain tax consequences.

When Jazz, as a customer, enters into technical service agreements with service providers, primarily service providers who operate an airline as their main business, Jazz has from time to time agreed to indemnify the service provider against liabilities that arise from third party claims, whether or not these liabilities arise out of or relate to the negligence of the service provider, but usually excluding liabilities that arise from the service provider's gross negligence or willful misconduct.

The maximum amount payable under the foregoing indemnities cannot be reasonably estimated. The Partnership expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities described above.

20 Subsequent event

On January 22, 2008, Jazz took delivery of one Dash 8-300 aircraft, that will be used in the charter operations. The term of the operating lease is 8.5 years.