Jazz Air Income Fund
and
Jazz Air LP

Second Quarter 2008
Management's Discussion and Analysis
of Results of Operations and Financial Condition
For the Period Ended June 30, 2008

August 6, 2008

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1. PREFACE

The following management's discussion and analysis of financial condition and results of operations ("MD&A") of Jazz Air Income Fund (the "Fund") and Jazz Air LP ("Jazz" or the "Partnership") is prepared as at August 6, 2008 and should be read in conjunction with the accompanying unaudited interim consolidated financial statements of Jazz Air Income Fund and the notes therein for the six months ended June 30, 2008 and the accompanying unaudited interim consolidated financial statements of Jazz Air LP and the notes therein for the six months ended June 30, 2008, the audited consolidated financial statements of Jazz Air LP and the notes therein for the year ended December 31, 2007, the audited restated consolidated financial statements of Jazz Air Income Fund and the notes therein for the year ended December 31, 2007, the restated MD&A dated February 19, 2008, and the Jazz Air Income Fund Annual Information Form dated March 28, 2008. The audited consolidated financial statements of Jazz Air Income Fund and Jazz Air LP and the unaudited interim consolidated financial statements of Jazz Air Income Fund and Jazz Air LP are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

As of May 24, 2007, the Fund has consolidated Jazz as a variable interest entity under the existing guidelines established by the Canadian Institute of Chartered Accountants ("CICA"). The unaudited interim consolidated financial statements (the "interim financial statements") with accompanying notes therein have been presented for both the Fund and Jazz. In addition, the following management's discussion and analysis presents a discussion of the financial condition and results of operations for both the Fund and Jazz.

The Fund is entirely dependent upon the operations and financial condition of Jazz. The earnings and cash flows of Jazz are affected by certain risks. For a description of those risks, please refer to Section 19 – Risk Factors.

This MD&A is in all material respects in accordance with the recommendations provided in CICA publication, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.*

Except where the context otherwise requires, all monetary amounts are stated in thousands of Canadian dollars.

For further information on the Fund's public disclosure file, including the Fund's annual information form, please consult SEDAR at www.sedar.com.

1.1 Caution regarding forward-looking information

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified in the Risk Factors section of the restated annual MD&A dated February 19, 2008. The forward-looking statements contained in this discussion represent Jazz's expectations as of August 6, 2008, and are subject to change after such date. However, Jazz disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

1.2 Glossary of terms

Available Seat Mile (ASMs) – Available Seat Mile means a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

Block Hours – Block Hours mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

Billable Block Hours – Billable Block Hours mean actual Block Hours flown under the CPA plus Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights;

Controllable Actual Margin – Controllable Actual Margin means for any period, the actual Controllable Operating Income divided by the actual Scheduled Flights Revenue;

Controllable Adjusted Actual Margin – Controllable Adjusted Actual Margin means for any period, the Controllable Actual Margin less 50% of any margin exceeding 14.09%, at this level;

Controllable Cost per Available Seat Mile – Controllable Cost per Available Seat Mile means the average Controllable Cost per Available Seat Mile;

Controllable Costs – Controllable Costs mean for any period, all costs and expenses incurred and paid by Jazz with respect to the Scheduled Flights and the Aircraft Services, as defined in the CPA, other than pass-through costs, but including any profit sharing expense;

Controllable Operating Income – Controllable Operating Income means for any period, Scheduled Flights Revenue less Controllable Costs;

Cost per Available Seat Mile (CASM) – Cost per Available Seat Mile means the operating expense per Available Seat Mile;

Covered Aircraft – Covered Aircraft are Jazz's aircraft subject to the CPA;

CPA – CPA means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and Jazz;

Credit Facilities – Credit Facilities mean the senior secured syndicated facilities in the aggregate amount of $150 million established pursuant to a credit agreement dated February 2, 2006, between Jazz, as borrower, the financial institutions identified therein, as Lenders and Royal Bank of Canada, as administrative agent;

FTE – FTEs are full-time equivalents in respect of employee staffing levels;

Fund – Fund means Jazz Air Income Fund;

Jazz – Jazz means Jazz Air LP, and where the context requires, Jazz Air LP, together with its general partner, Jazz GP and their respective subsidiaries and predecessors;

Jazz GP – Jazz GP means Jazz Air Holding GP Inc., a corporation incorporated under the Canada Business Corporations Act on August 23, 2005, to act as the general partner of Jazz;

LP Units – LP Units mean the limited partnership units of Jazz;

Maintenance Capital Expenditures – represent expenditures incurred to sustain operations or Jazz's productive capacity;

Operating Aircraft – Operating Aircraft means Covered Aircraft under the CPA plus charter aircraft less new aircraft deliveries which have not yet entered commercial service;

Passenger Load Factor – Passenger Load Factor means a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles;

Revenue Passenger Miles (RPMs) – Revenue Passenger Miles mean the total number of revenue passengers carried, including frequent flyer redemptions, multiplied by the number of miles flown by such passengers;

Scheduled Flights – Scheduled Flights mean the flights operated by the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the CPA;

Scheduled Flights Revenue – Scheduled Flights Revenue means, for any period, all revenues generated by Jazz under the CPA from aircraft services and Scheduled Flights excluding revenues resulting from the reimbursement by Air Canada of Jazz's pass-through costs and from the payment by Air Canada of performance incentives;

Trust – Trust means Jazz Air Trust; and

Units or Fund Units – Units or Fund Units mean units of the Fund.

1.3 Seasonality

Jazz has historically experienced greater demand for its services in the second and third quarters of the calendar year and 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 significantly with passenger load factors (refer to Section 10 – Economic Dependence for further discussion of the CPA).

2. JAZZ AIR INCOME FUND

2.1 General

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated November 25, 2005 and amended by an amended and restated declaration of trust dated January 24, 2006 (the "Fund Declaration of Trust"). The Fund qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The principal and head office of the Fund is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2. The Fund has been established to acquire and hold, directly or indirectly, investments in Jazz and its general partner Jazz Air Holding GP Inc. ("Jazz GP"), a regional airline, and such other investments as the trustees of the Fund (the "Trustees") may determine.

On January 24, 2008, ACE Aviation Holdings Inc. ("ACE") sold 13,000,000 Units, thereby reducing its ownership in the Fund to 9.5% of the issued and outstanding Units. As a result, ACE no longer had the ability to appoint the majority of the board of directors of Jazz GP pursuant to the Securityholders' Agreement among the Fund, the Trust, the Partnership, Jazz GP and ACE (the "Securityholders' Agreement"). The Securityholders' Agreement was terminated by agreement among the parties effective as of February 7, 2008.

On May 28, 2008, ACE sold its remaining 11,726,920 units and therefore retains no ownership interest in the Fund.

During the quarter, the Fund adjusted the purchase price allocation to reflect certain previously unrecorded long-term liabilities related to post-employment future benefits, which were assumed by the Partnership upon inception. This resulted in an increase in goodwill of $5.9 million.

(in thousands of Canadian dollars) (unaudited)	**Feb. 2, 2006 $**	**Feb. 9, 2007 $**	**Mar. 14, 2007 $**	**Mar. 30, 2007 $**	**Total $**
Step purchase interest	*20.3%*	*0.5%*	*40.8%*	*38.4%*	*100%*
Purchase price	246,174	5,457	401,500	387,733	1,040,864
Proportionate net book value of the Partnership	9,494	425	35,204	35,813	80,936
Excess of purchase price over net book value of assets acquired	236,680	5,032	366,296	351,920	959,928
Allocated as follows:					
Intangible assets					
Finite life					
CPA	165,401	4,179	328,139	308,843	806,562
Indefinite life					
Jazz tradename	19	1	60	56	136
Goodwill	71,260	852	38,097	43,021	153,230
	236,680	5,032	366,296	351,920	959,928

2.2 Distribution policy

The Fund intends to make distributions of its available cash (based on distributions received indirectly from Jazz) to the holders of Units ("Unitholders") (refer to Section 1.1 – Caution regarding forward-looking information). Any such distributions will be made to Unitholders of record on the last business day of each month, within 15 days of the end of each month, net of estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions or repurchases of Units, and any tax liability. Distributions to the Unitholders declared amounted to $30.9 million for the three months ended June 30, 2008 ($30.9 million for the three months ended June 30, 2007) and $61.8 million for the six months ended June 30, 2008 ($45.4 million for June 30, 2007), as follows:

	June 30, 2008		**June 30, 2007**	
(in thousands of Canadian dollars, except amount per unit) (unaudited)	**Amount $**	**Amount per Unit $**	**Amount $**	**Amount per Unit $**
January	10,296	0.0838	2,095	0.0838
February	10,296	0.0838	2,148	0.0838
March	10,296	0.0838	10,296	0.0838
April	10,296	0.0838	10,296	0.0838
May	10,296	0.0838	10,296	0.0838
June	10,296	0.0838	10,296	0.0838
	61,776	0.5028	45,427	0.5028

In accordance with the limited partnership agreement of Jazz, priority distributions are to be made to the Fund in order to cover the Fund's operating expenses. During the six months ended June 30, 2008, no priority distributions were declared by Jazz, as no material operating expenses were incurred by the Fund. Priority distributions in the amount of $0.9 million declared in 2007 were paid to the Fund in the first quarter of 2008.

In 2007, 95% of Jazz's distributions represented taxable income generated from Jazz's operations and 5% represented a return of capital. On the basis of past experience, management expects the percentage breakdown for 2008 to be approximately 95% in respect of taxable income and 5% in respect of return of capital (refer to section 1.1 – Caution regarding forward-looking information).

Distributions earned by the Fund resulting from its investment in LP Units and distributions payable by the Fund to its Unitholders are recorded when declared.

Units

As at June 30, 2008, and as at the date of this report, August 6, 2008, the Fund had 122,864,066 and 122,864,037 Units issued and outstanding, respectively, compared to 122,143,880 Units issued and outstanding at June 30, 2007.

Earnings per Unit

The Fund's basic and fully diluted earnings per Unit, before future income tax, amounted to $0.14 for the three months ended June 30, 2008 ($0.23 for the three months ended June 30, 2007) and $0.30 for the six months ended June 30, 2008 ($0.44 for the six months ended June 30, 2007).

The Fund's basic and fully diluted earnings (loss) per Unit, after future income tax, amounted to $0.19 for the three months ended June 30, 2008 ($(0.27) for the three months ended June 30, 2007) and $0.37 for the six months ended June 30, 2008 ($(0.32) for the six months ended June 30, 2007).

2.3 Off balance sheet arrangements and guarantees

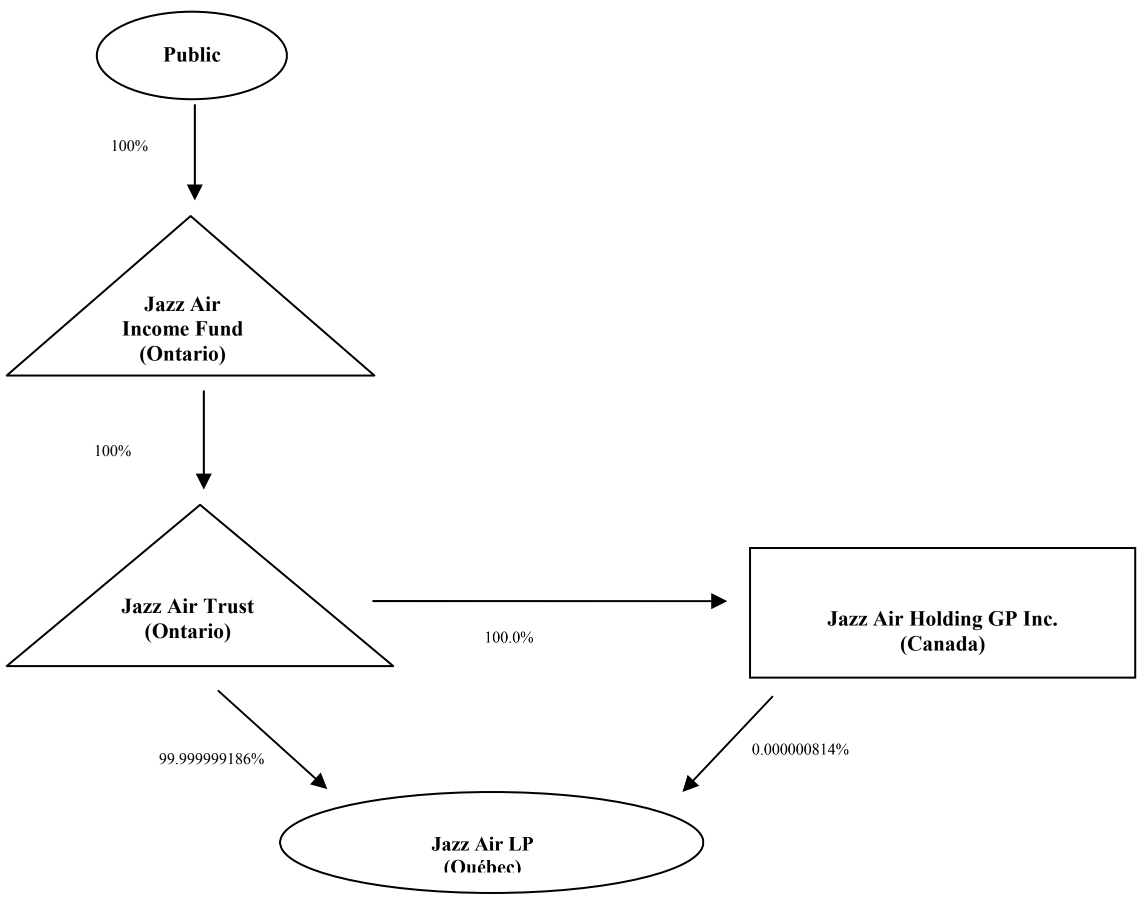
Credit Facilities made available to Jazz upon the closing of the Fund's initial public offering on February 2, 2006 ("IPO") by a syndicate of lenders are secured by a first priority security interest and hypothec over the present and after-acquired personal and certain real property of Jazz, subject to certain exclusions and permitted liens. Jazz's obligations in respect of the Credit Facilities are also guaranteed by each of the Trust and Jazz GP, with the Trust providing a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations, and with Jazz GP providing a pledge of its interests in Jazz as security for its guarantee obligations. The Fund also provides certain covenants in favour of the lenders pursuant to a collateral covenant agreement. Any failure by the Fund to comply with the covenants contained in this agreement would constitute an event of default in respect of the Credit Facilities.

As at June 30, 2008, Jazz had authorized credit facilities of $150.0 million and drawings of $115.0 million against the facilities.

Letters of credit totalling approximately $3.2 million (December 31, 2007 - $2.7 million) have been issued as security for groundhandling 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.

2.4 Organizational structure

The following chart illustrates, on a simplified basis, the structure of the Fund (including the jurisdictions of establishment/ incorporation of the various entities) and the indirect investment by the Fund in Jazz as at June 30, 2008.



3. JAZZ AIR LP

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada's domestic and transborder market presence and strategy. Jazz and Air Canada are parties to a CPA pursuant to which Air Canada currently purchases substantially all of Jazz's fleet capacity based on predetermined rates. Under the CPA, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 874 departures per weekday to 57 destinations in Canada and 29 destinations in the United States with an operating fleet of 133 Covered Aircraft as of June 30, 2008. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes.

Under the CPA, Jazz operates flights on behalf of Air Canada at set rates paid to Jazz based on a variety of different metrics that are substantially independent of passenger load factor. Air Canada controls and is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising and customer service handling at certain airports staffed or administered directly by Air Canada. As such, Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft on the schedule specified by Air Canada.

Under the CPA, Jazz is paid fees based on a variety of different metrics, including Block Hours flown, cycles (number of take-offs and landings) and passengers carried in addition to certain variable and fixed aircraft ownership rates. In addition, Jazz is entitled to repayment of certain pass-through costs, including fuel, navigation, landing and terminal fees and certain other costs. Jazz is also eligible to receive incentive payments for successfully achieving certain performance levels on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction.

3.1 Productive capacity management strategy

Productive capacity management represents capital expenditures required to sustain operations. Under the current operations, this is defined as supporting an operating fleet of 137 aircraft with 133 Covered Aircraft and 4 aircraft committed to charter operations. Capital expenditures are made in support of ongoing fleet requirements, such as aircraft communication systems, cockpit standardization, regulatory compliance, maintenance information systems infrastructure and facilities leasehold improvements.

3.2 Non-GAAP financial measures

Jazz uses certain non-GAAP financial measures, described below, to analyze operating performance. These measures are not recognized for financial statement presentation under Canadian GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is a non-GAAP financial measure commonly used throughout all industries to view operating results before interest expense, interest income, depreciation and amortization, gains and losses on property and equipment and other non-operating income and expense.

Standardized Distributable Cash

Standardized distributable cash is a non-GAAP measure recommended by the CICA in order to provide a consistent and comparable measurement of distributable cash across entities.

Standardized distributable cash is defined as cash flows from operating activities, as reported in accordance with GAAP, less adjustments for:

- total capital expenditures as reported in accordance with GAAP; and
- restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of standardized distributable cash.

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indication of financial performance. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

Distribution Policy

The Credit Facilities of Jazz contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations on paying distributions. The terms of the Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz to holders of record of LP Units during any twelve-month period from exceeding the aggregate distributable cash of Jazz during such period. Distributions by Jazz are also prohibited upon the occurrence and continuance of an event of default under the Credit Facilities. As at June 30, 2008, Jazz is in compliance with all conditions of the Credit Facilities.

Jazz intends to make equal cash monthly distributions to the holders of LP Units of record on the last business day of each month, net of estimated cash amounts required for interest expense and maintenance capital expenditures and other obligations of Jazz. In accordance with the limited partnership agreement of Jazz, priority distributions are to be made to the Trust and the Fund in order to cover their operating expenses. The Fund will reimburse Jazz from the proceeds of a priority distribution once paid by Jazz.

Distributions payable to the holders of LP Units are recorded when declared.

The board of directors of Jazz GP will periodically review cash distributions in order to take into account Jazz's current and prospective performance.

The following table provides a reconciliation of EBITDA and distributable cash of Jazz to operating income:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2008 $	Three months ended June 30, 2007 $	Six months ended June 30, 2008 $	Six months ended June 30, 2007 $
Operating income	28,817	39,901	63,174	76,236
Depreciation and amortization	8,064	5,652	15,113	11,005
EBITDA	36,881	45,553	78,287	87,241
EBITDA margin (%) (1)	*9.0*	*12.1*	*9.7*	*11.8*
EBITDA	36,881	45,553	78,287	87,241
Non-operating income (expenses)	(1,418)	649	(5,509)	(387)
Maintenance capital expenditures (2)	(5,400)	(5,070)	(9,864)	(12,106)
Distributable cash	30,063	41,132	62,914	74,748
Distributions declared	30,888	30,888	61,776	61,776
Payout ratio (3)	102.7%	75.1%	98.2%	82.6%
Distributable cash (per proforma LP Unit) (4)	0.24	0.33	0.51	0.61
Distributions declared (per proforma LP Unit) (4)	0.25	0.25	0.50	0.50

(1) EBITDA margin is calculated as EBITDA divided by operating revenues.
(2) Refer to Section 8.3 for further discussion.
(3) The payout ratio is calculated as distributions declared divided by distributable cash.
(4) Calculated on a proforma basis to include 122,865,144 LP Units for the periods presented.

Reconciliation of cash flows from operating activities to standardized distributable cash and distributable cash is as follows:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2008 $	Three months ended June 30, 2007 $	Six months ended June 30, 2008 $	Six months ended June 30, 2007 $
Cash flows from operating activities	38,463	48,378	74,281	85,267
Maintenance capital expenditures, net of gain on disposal	(5,394)	(5,068)	(9,856)	(12,100)
Standardized distributable cash	33,069	43,310	64,425	73,167
Change in non-cash operating working capital (1)	(957)	(2,876)	817	1,583
Amortization of prepaid aircraft rent and related fees (1)	(482)	(452)	(963)	(897)
Deferred charges, prepaid aircraft rent and related fees (1)	(96)	–	122	–
Unit based compensation (1)	(811)	(628)	(1,579)	(929)
Net change in prepaid interest (1)	(246)	12	(390)	58
Funding of unit based compensation, net of forfeitures (1)	(44)	1,640	2,095	1,640
Foreign exchange gain (loss) (1)	(370)	126	(534)	126
Unrealized loss on Asset Backed Commercial Paper ("ABCP") (1)	–	–	(2,985)	–
Other (1)	–	–	1,906	–
Distributable cash	30,063	41,132	62,914	74,748
Distributions declared	30,888	30,888	61,776	61,776
Payout ratio – distributions declared/ standardized distributable cash	*93.4%*	*71.3%*	*95.9%*	*84.4%*
Payout ratio – distributions declared/ distributable cash	*102.7%*	*75.1%*	*98.2%*	*82.6%*

Cumulative – since IPO (2)	2008	2007
Standardized distributable cash	363,378	252,016
Distributable cash	340,139	200,691
Distributions declared	283,537	159,985
Standardized distributable cash payout ratio	*78.0%*	*63.5%*
Distributable cash payout ratio	*83.4%*	*79.7%*

(1) These items are adjustments made in reference to the definition of distributable cash in the limited partnership agreement of Jazz and relate to timing differences.

(2) The period covered is from February 2, 2006, the IPO date.

The following table provides disclosure regarding the relationship between cash flows from operating activities and net income, and historical distributed cash amounts.

(expressed in thousands of Canadian dollars) (unaudited)	**Three months ended June 30, 2008**	**Six months ended June 30, 2008**	**Year ended December 31, 2007**	**Period from February 2, 2006 to December 31, 2006 (1)**
Cash flows from operating activities	38,463	74,281	143,767	202,297
Net income	27,399	57,665	150,654	129,639
Cash distributions declared relating to the period	30,888	61,776	123,552	98,209
Excess of cash flows from operating activities over cash distributions declared	7,575	12,505	20,215	104,088
Excess (shortfall) of net income over cash distributions declared	(3,489)	(4,111)	27,102	31,430
Payout ratios				
Distributions declared/cash flows from operating activities	80.3%	83.2%	85.9%	48.5%
Distributions declared/net income	112.7%	107.1%	82.0%	75.8%

(1) Period covered is post February 2, 2006, the IPO date.

Cash distributions declared during the three months ended June 30, 2008, exceeded net income primarily as a result of an increase in maintenance material costs related to heavy checks, increased heavy maintenance outsourcing, and increased salaries, wages and benefits due to additional FTE's and overtime to support ongoing heavy maintenance requirements.

Cash distributions declared during the six months ended June 30, 2008 exceeded net income primarily as a result of increased maintenance expense and salaries, wages and benefits, as discussed above, and a $3.0 million non-cash fair value adjustment related to ABCP (refer to Section 9 – Financial Instruments and Risk Management).

4. QUARTERLY HIGHLIGHTS

- Operating revenue of $409.8 million and $806.2 million for the three and six months ended June 30, 2008, an increase of 9.2% and 9.0%, respectively, over the same periods in 2007.

- Operating income of $28.8 million and $63.2 million for the three and six months ended June 30, 2008, compared to $39.9 million and $76.2 million for the same periods in 2007, a decrease of 27.8% and 17.1%, respectively.

- EBITDA of $36.9 million and $78.3 million for the three and six months ended June 30, 2008, a decrease of $8.7 million or 19.0%; and $8.9 million or 10.2%, respectively, over the same periods in 2007.

- Distributable cash of $30.1 million and $62.9 million for the three and six months ended June 30, 2008, compared to $41.1 million and $74.7 million for the same periods in 2007, a decrease of $11.0 million and $11.8 million, respectively.

- Controllable Cost per Available Seat Mile (Controllable CASM) of 14.68¢ and 14.56¢ for the three and six months ended June 30, 2008, compared to 13.39¢ and 14.07¢ for the same periods in 2007, an increase of 9.6% and 3.5%, respectively.

5. RESULTS OF OPERATIONS – SECOND QUARTER ANALYSIS

The following table compares the results of operations of Jazz for the second quarter of 2008 to the second quarter of 2007.

(expressed in thousands of Canadian dollars, except earnings per unit) (unaudited)	For the three months ended June 30, 2008 $	For the three months ended June 30, 2007 $	Change $	Change %
Operating revenue	409,805	375,320	34,485	9.2
Operating expenses				
Salaries, wages and benefits	86,911	84,218	2,693	3.2
Aircraft fuel	115,239	81,485	33,754	41.4
Depreciation and amortization	8,064	5,652	2,412	42.7
Aircraft maintenance	36,646	27,768	8,878	32.0
Airport and navigation fees	49,988	50,432	(444)	(0.9)
Aircraft rent	30,184	32,905	(2,721)	(8.3)
Terminal handling	22,142	22,594	(452)	(2.0)
Other	31,814	30,365	1,449	4.8
Total operating expenses	380,988	335,419	45,569	13.6
Operating income	28,817	39,901	(11,084)	(27.8)
Non-operating income (expenses)				
Net interest expense	(1,132)	(144)	(988)	(686.1)
Gain on disposal of property and equipment	6	2	4	200.0
Foreign exchange (loss) gain	(292)	791	(1,083)	(136.9)
	(1,418)	649	(2,067)	(318.5)
Net income for the period	27,399	40,550	(13,151)	(32.4)
Earnings per Unit, basic and fully diluted	0.22	0.33	(0.11)	(33.3)

5.1 Comparison of results – Second Quarter 2008 versus Second Quarter 2007

For the second quarter of 2008, Jazz reported an operating income of $28.8 million, a decrease of $11.1 million compared to $39.9 million recorded in the second quarter of 2007. EBITDA was $36.9 million in the second quarter of 2008 compared to $45.6 million in the second quarter of 2007, a decrease of $8.7 million or 19.0% (refer to "Non-GAAP Financial Measures" in section 3.2).

In the second quarter of 2008, total operating revenue increased by $34.5 million or 9.2%, as compared to the second quarter of 2007, which primarily reflects an increase in fuel costs. Fuel costs are included in pass-through costs under the CPA and recorded as revenue.

Operating expenses increased by $45.6 million or 13.6%, compared to the second quarter of 2007. Pass-through costs represented $32.5 million or 71.3% of the total increase in operating costs. Pass-through costs rose mostly as a result of the continuing rise in fuel prices. Controllable Costs represented $13.1 million or 28.7% of the total increase in operating costs, primarily as a result of increased costs related to aircraft maintenance, depreciation, salaries, wages and benefits and other expenses.

In the second quarter of 2008, non-operating expenses amounted to $1.4 million, an increase of $2.1 million from the second quarter 2007. The change is mainly attributable to increased net interest expense resulting from lower interest income and a foreign exchange loss, compared to a gain in 2007 as a result of the strengthening Canadian dollar against the US dollar.

Net income for the second quarter of 2008 was $27.4 million compared to $40.6 million recorded in the second quarter of 2007, a decrease of $13.2 million.

5.2 Revenue performance – Second Quarter 2008 versus Second Quarter 2007

Operating Revenue

Operating revenue increased from $375.3 million in the second quarter of 2007 to $409.8 million in the second quarter of 2008, representing an increase of 9.2%. The increase in revenue can be attributed to a $32.5 million increase in pass-through costs under the CPA.

For the three-month period ended June 30, 2008, performance incentives payable by Air Canada to Jazz under the CPA amounted to $4.0 million or 1.7% of Jazz's Scheduled Flights Revenue. For the same period in 2007, performance incentives under the CPA amounted to $4.6 million or 2.0% of Jazz's Scheduled Flights Revenue.

Other revenue increased from $2.3 million in the second quarter of 2007 to $3.1 million in the second quarter of 2008. Other revenue is derived from charter flights and other sources such as groundhandling services.

Key statistical information is as follows:

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	Variance (absolute)	Variance (%)
Number of Departures for the Period Ended	73,197	72,344	853	1.2
Block Hours for the Period Ended	100,095	99,989	106	0.1
Billable Block Hours	100,860	100,318	542	0.5
Sector Passengers	2,513,677	2,499,958	13,719	0.5
Revenue Passenger Miles (RPMs) (000's)	1,045,842	1,097,921	(52,079)	(4.7)
Available Seat Miles (ASMs) (000's)	1,423,318	1,463,064	(39,746)	(2.7)
Passenger Load Factor (%)	73.5	75.0	(1.5)	(2.0)
Total Operating Expenses ($000's)	380,988	335,419	45,569	13.6
Cost per Available Seat Mile (CASM) (¢)	26.77	22.93	3.84	16.7
Cost per Available Seat Mile Excluding Aircraft Fuel (¢)	18.67	17.36	1.31	7.5
Controllable Cost per Available Seat Mile (¢)	14.68	13.39	1.29	9.6
Number of Operating Aircraft (end of period) (1)	137	134	3	2.2

(1) Refer to Section 14 – Fleet.

5.3 Cost performance – Second Quarter 2008 versus Second Quarter 2007

Operating Expenses

Total operating expenses increased from $335.4 million in the second quarter of 2007 to $381.0 million in the second quarter of 2008, an increase of $45.6 million or 13.6%. For the second quarter of 2008, compared to the second quarter of 2007:

- salaries, wages and benefits increased by $2.7 million due to: increased maintenance FTE's and additional overtime to support the ongoing heavy maintenance requirements for $1.8 million; additional FTE's related to flight operations and inflight to support increased Block Hours for $0.6 million; and wage and scale increases as a result of collective agreements and additional FTE's in other areas for $0.3 million;

- aircraft fuel costs increased by $33.8 million due to an increase of $36.8 million in fuel price, as the base price for jet fuel has risen versus 2007, offset by a $3.0 million decrease in fuel usage related to various fuel consumption reduction initiatives;

- depreciation and amortization expense increased by $2.4 million due to increased capital expenditures on flight and ground equipment, the addition of capital leases, and a change in accounting estimates during the second quarter of 2008 for aircraft and certain flight equipment;

- aircraft maintenance increased by $8.9 million as a result of: an increase in maintenance material cost related to heavy checks for $4.0 million; increased heavy maintenance outsourcing for $2.6 million; other unplanned events to engines for $0.9 million; an increase in Block Hours flown for $0.8 million; and $0.6 million related to other;

- airport and navigational fees decreased by $0.4 million due to a general rate increase in airport fees for $1.0 million, offset by a decrease in navigational fees for $1.4 million as a result of changes in aircraft deployment and increased transborder flying;

- aircraft rent decreased by approximately $2.7 million, mainly due to lower US dollar exchange rates and new lease arrangements with respect to certain aircraft;

- terminal handling costs decreased by $0.5 million due to a decrease in de-icing by $0.2 million and a $0.3 million rate decrease as a result of changes in aircraft deployment by station; and

- other expenses increased by $1.4 million due to increased training in pilot and maintenance areas for $0.9 million and an increase in other general overhead expenses for $0.5 million.

Jazz's costs fall into two principal categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and aircraft rent, which are borne by Jazz, but for which Jazz indirectly recovers amounts from Air Canada in respect of these costs through the fees it charges Air Canada under the CPA.

The following table presents Jazz's operating costs in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	**For the three months ended June 30, 2008** **$**	**For the three months ended June 30, 2007** **$**	**Change** **$**	**Change** **%**
Pass-through cost items				
Fuel	114,756	81,522	33,234	40.8
Navigational fees	18,984	20,449	(1,465)	(7.2)
Airport user fees	30,983	29,967	1,016	3.4
De-icing (1)	2,052	2,166	(114)	(5.3)
Terminal handling (1)	2,586	2,346	240	10.2
Other (2)	2,618	3,003	(385)	(12.8)
Total pass-through costs	171,979	139,453	32,526	23.3
Controllable Cost items				
Salaries, wages and benefits	86,911	84,218	2,693	3.2
Aircraft maintenance, materials and supplies	36,646	27,768	8,878	32.0
Aircraft rent and other ownership costs	30,184	32,905	(2,721)	(8.3)
Other terminal handling services (1)	17,504	18,082	(578)	(3.2)
Depreciation	8,064	5,652	2,412	42.7
Other (2)	29,700	27,341	2,359	8.6
Total Controllable Costs (3)	209,009	195,966	13,043	6.7
Total Operating Costs	380,988	335,419	45,569	13.6

(1) Included in terminal handling – refer to Section 5 Results of Operations.
(2) Included in other – refer to Section 5 Results of Operations.
(3) Included costs relating to operations that were not covered under the CPA, such as charter.

5.4 Operating margin performance – Second Quarter 2008 versus Second Quarter 2007

(in thousands of Canadian dollars) (unaudited)	For the three months ended June 30, 2008				For the three months ended June 30, 2007			
	Revenue $	Expenses $	Operating Margin $	Operating Margin %	Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	230,708	206,404	24,304	10.5	228,884	194,806	34,078	14.9
Pass-throughs	171,979	171,979	–	–	139,453	139,453	–	–
Incentives	3,981	–	3,981	100.0	4,647	–	4,647	100.0
Other	3,137	2,605	532	17.0	2,336	1,160	1,176	50.3
	409,805	380,988	28,817	7.0	375,320	335,419	39,901	10.6

The Controllable Adjusted Actual Margin for the second quarter of 2008 was 10.53%, which is under the target margin as established under the CPA of 14.09% (refer to Section 10 – Economic Dependence) by 356 basis points, or approximately $8.2 million. This compares to the second quarter of 2007 Controllable Adjusted Actual Margin of 14.89%, which was approximately $1.8 million better than the target margin of 14.09%.

During the second quarter of 2008, Controllable Costs related to the CPA were primarily affected by increased heavy maintenance related costs and increased training expenses. Refer to Section 5.2 for discussion on the quarter-over-quarter change in operating revenue and Section 5.3 for discussion on quarter-over-quarter change in operating expenses.

During the second quarter, Jazz earned 73% of the incentives available under the CPA, or $4.0 million, versus last year's incentives of 86% or $4.6 million. Incentives earned in the second quarter of 2008 were lower, primarily as a result of the consequential impact of inclement weather conditions leading to lower on-time performance, as compared to the same period in 2007.

The margin on other revenue was derived from charter flights and other sources such as ground handling services.

6. RESULTS OF OPERATIONS – YEAR-TO-DATE ANALYSIS

The following table compares the results of operations of Jazz for the six months ended June 30, 2008 to the six months ended June 30, 2007.

(expressed in thousands of Canadian dollars, except earnings per unit) (unaudited)	For the six months ended June 30, 2008 $	For the six months ended June 30, 2007 $	Change $	Change %
Operating revenue	806,166	739,496	66,670	9.0
Operating expenses				
Salaries, wages and benefits	176,047	167,373	8,674	5.2
Aircraft fuel	208,427	152,244	56,183	36.9
Depreciation and amortization	15,113	11,005	4,108	37.3
Aircraft maintenance	66,858	57,336	9,522	16.6
Airport and navigation fees	98,817	96,968	1,849	1.9
Aircraft rent	59,864	67,460	(7,596)	(11.3)
Terminal handling	55,406	52,436	2,970	5.7
Other	62,460	58,438	4,022	6.9
Total operating expenses	742,992	663,260	79,732	12.0
Operating income	63,174	76,236	(13,062)	(17.1)
Non-operating income (expenses)				
Net interest expense	(1,958)	(714)	(1,244)	(174.2)
Gain on disposal of property and equipment	8	6	2	33.3
Foreign exchange (loss) gain	(574)	321	(895)	(278.8)
Unrealized loss on Asset Backed Commercial Paper	(2,985)	–	(2,985)	(100.0)
	(5,509)	(387)	(5,122)	(1,323.5)
Net income for the period	57,665	75,849	(18,184)	(24.0)
Earnings per Unit, basic and fully diluted	0.47	0.62	(0.15)	(24.2)

6.1 Comparison of results – Year-to-date 2008 versus Year-to-date 2007

For the first half of 2008, Jazz reported an operating income of $63.2 million, a decrease of $13.1 million compared to $76.2 million recorded in the first half of 2007. EBITDA was $78.3 million in the first half of 2008 compared to $87.2 million in the first half of 2007, a decrease of $8.9 million or 10.2% (refer to “Non-GAAP Financial Measures” in section 3.2).

In the first half of 2008, total operating revenue was up $66.7 million or 9.0%, as compared to the first half of 2007, which reflects a 3.1% increase in the Block Hours flown over the same period in 2007 and an increase in pass-through costs, including fuel costs, under the CPA and recorded as revenue.

Operating expenses increased by $79.7 million or 12.0% compared to the first half of 2007. Pass-through costs represented $59.5 million or 74.6% of the total increase in operating costs. Pass-through costs rose mostly as a result of the continuing rise in fuel prices and increased de-icing costs due to inclement weather conditions. Controllable Costs represented $20.3 million or 25.4% of the total increase in operating costs, primarily as a result of increased costs related to aircraft maintenance, depreciation, salaries, wages and benefits and other expenses.

Non-operating expenses were $5.5 million in the first half of 2008, an increase of $5.1 million from the first half of 2007. The change is mainly attributable to increased net interest expense resulting from lower interest income; a foreign exchange loss, compared to a gain in 2007 as a result of the strengthening Canadian dollar against the US dollar; and a $3.0 million fair value adjustment related to ABCP (refer to Section 9 – Financial Instruments and Risk Management).

Net income for the first half of 2008 was $57.7 million compared to $75.8 million recorded in the first half of 2007, a decrease of $18.2 million.

6.2 Revenue performance – Year-to-date 2008 versus Year-to-date 2007

Operating Revenue

Operating revenue increased from $739.5 million in the first half of 2007 to $806.2 million in the first half of 2008, representing an increase of 9.0%. The increase in revenues can be attributed to a 3.1% increase in Block Hours flown and a $59.5 million increase in pass-through costs.

For the first half of 2008, performance incentives payable by Air Canada to Jazz under the CPA amounted to $7.9 million or 1.7% of Jazz's Scheduled Flights Revenue. For the same period in 2007, performance incentives payable by Air Canada to Jazz amounted to $7.7 million or 1.7% of Jazz's Scheduled Flights Revenue.

Other revenue increased from $4.3 million in the first half of 2007 to $5.6 million in the first half of 2008. Other revenue is derived from charter flights and other sources such as groundhandling services.

Key statistical information is as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007	Variance (absolute)	Variance (%)
Number of Departures for the Period Ended	143,450	139,027	4,423	3.2
Block Hours for the Period Ended	201,183	195,146	6,037	3.1
Billable Block Hours	206,207	198,029	8,178	4.1
Sector Passengers	4,923,921	4,743,552	180,369	3.8
Revenue Passenger Miles (RPMs) (000's)	2,091,131	2,075,965	15,166	0.7
Available Seat Miles (ASMs) (000's)	2,835,318	2,791,001	44,317	1.6
Passenger Load Factor (%)	73.8	74.4	(0.6)	(0.8)
Total Operating Expenses ($000's)	742,992	663,260	79,732	12.0
Cost per Available Seat Mile (CASM) (¢)	26.20	23.76	2.44	10.3
Cost per Available Seat Mile Excluding Aircraft Fuel (¢)	18.85	18.31	0.54	2.9
Controllable Cost Per Available Seat Mile (¢)	14.56	14.07	0.49	3.5
Number of Operating Aircraft (end of period) (1)	137	134	3	2.2

(1) Refer to Section 14 - Fleet

6.3 Cost performance – Year-to-date 2008 versus Year-to-date 2007

Operating Expenses

Total operating expenses increased from $663.3 million in the first half of 2007 to $743.0 million in the first half of 2007, an increase of 12.0%. For the first half of 2008, compared to the first half of 2007:

- salaries, wages and benefits increased by $8.7 million due to: increased maintenance FTE's and additional overtime to support the ongoing heavy maintenance programs for $3.6 million; additional FTE's related to flight operations and inflight to support increased Block Hours for $3.1 million; and wage and scale increases as a result of collective agreements and additional FTE's in other areas for $2.0 million;

- aircraft fuel costs increased by $56.2 million due to an increase of $55.7 million in fuel price, as the base price for jet fuel has risen versus 2007 and a $0.5 million increase in fuel usage related to Block Hour increases offset by reduced fuel burn due to consumption reduction initiatives;

- depreciation and amortization expense increased by $4.1 million due to increased capital expenditures on flight and ground equipment, the addition of capital leases, and a change in accounting estimates for aircraft and certain flight equipment;

- aircraft maintenance increased by $9.5 million as a result of: an increase in maintenance material cost related to heavy checks for $4.7 million; increased heavy maintenance outsourcing for $2.8 million; an increase in Block Hours flown for $2.0 million; other unplanned events to engines for $1.3 million; and $0.6 million related to other; offset by a reduction in a valuation provision for Dash 8 rotable inventory for $1.9 million;

- airport and navigational fees increased by $1.8 million due to a general rate increase in airport fees for $2.6 million, offset by a decrease in navigational fees for $0.8 million as a result of changes in aircraft deployment and increased transborder flying;

- aircraft rent decreased by approximately $7.6 million, mainly due to lower US dollar exchange rates and new lease arrangements with respect to certain aircraft;

- terminal handling costs increased by $3.0 million due primarily to an increase in de-icing; and

- other expenses increased by $4.0 million due to increased training in pilot and maintenance areas for $1.4 million, and an increase in other general overhead expenses for $2.6 million.

Jazz's costs fall into two principal categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and aircraft rent, which are borne by Jazz but for which Jazz indirectly recovers amounts from Air Canada in respect of these costs through the fees it charges Air Canada under the CPA.

The following table presents Jazz's operating costs in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	**For the six months ended June 30, 2008** **$**	**For the six months ended June 30, 2007** **$**	**Change** **$**	**Change** **%**
Pass-through cost items				
Fuel	207,500	152,084	55,416	36.4
Navigational fees	38,145	38,937	(792)	(2.0)
Airport user fees	60,629	57,997	2,632	4.5
De-icing (1)	13,665	10,647	3,018	28.3
Terminal handling (1)	5,474	5,035	439	8.7
Other (2)	4,619	5,860	(1,241)	(21.2)
Total pass-through costs	330,032	270,560	59,472	22.0
Controllable cost items				
Salaries, wages and benefits	176,047	167,373	8,674	5.2
Aircraft maintenance, materials and supplies	66,858	57,336	9,522	16.6
Aircraft rent and other ownership costs	59,864	67,460	(7,596)	(11.3)
Terminal handling services (1)	36,267	36,754	(487)	(1.3)
Depreciation	15,113	11,005	4,108	37.3
Other (2)	58,811	52,772	6,039	11.4
Total Controllable Costs (3)	412,960	392,700	20,260	5.2
Total Operating Costs	742,992	663,260	79,732	12.0

(1) Included in terminal handling – refer to Section 6 Results of Operations
(2) Included in other – refer to Section 6 Results of Operations
(3) Included costs relating to operations that were not covered under the CPA, such as Charter

6.4 Operating margin performance – Year to date 2008 versus Year to date 2007

(in thousands of Canadian dollars) (unaudited)	For the six months ended June 30, 2008 Revenue $	Expenses $	Operating Margin $	Operating Margin %	For the six months ended June 30, 2007 Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	462,660	408,467	54,193	11.7	456,920	390,622	66,298	14.5
Pass-throughs	330,032	330,032	–	–	270,560	270,560	–	–
Incentives	7,888	–	7,888	100.0	7,735	–	7,735	100.0
Other	5,586	4,493	1,093	19.6	4,281	2,078	2,203	51.5
	806,166	742,992	63,174	7.8	739,496	663,260	76,236	10.3

The Controllable Adjusted Actual Margin for the first half of 2008 was 11.71%, which is under the target margin, as established under the CPA of 14.09% (refer to Section 10 – Economic Dependence) by 238 basis points, or approximately $11.0 million. This compares to the first half of 2007 Controllable Adjusted Actual Margin of 14.51%, which was approximately $1.9 million better than the target margin of 14.09%.

During the first half of 2008, Controllable Costs related to the CPA were primarily affected by: increased heavy maintenance related costs; increased passenger inconvenience costs due to unfavorable weather conditions; and other cost increases. Refer to Section 6.2 for discussion on the period-over-period change in operating revenue and Section 6.3 for discussion on the period-over-period change in operating expenses.

During the first half of the year, Jazz earned 72% of the incentives available under the CPA or $7.9 million versus last year's incentives of 72% or $7.7 million. Incentives earned in the first half of 2008 were slightly higher primarily as a result of increased CPA revenue.

The margin on other revenue was derived from charter flights and other sources such as ground handling services.

7. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results, as well as major operating statistics, of Jazz:

(unaudited)	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Operating revenue ($000)	369,261	351,853	364,176	375,320	383,774	372,119	396,361	409,805
Operating expenses ($000)	330,031	319,140	327,841	335,419	342,881	336,089	362,004	380,988
Operating income ($000)	39,230	32,713	36,335	39,901	40,893	36,030	34,357	28,817
Total non-operating income (expense) ($000)	(122)	(791)	(1,036)	649	(1,186)	(932)	(4,091)	(1,418)
Net income ($000)	39,108	31,922	35,299	40,550	39,707	35,098	30,266	27,399
Net income per unit ($) [1]	0.32	0.26	0.29	0.33	0.33	0.29	0.25	0.22
Billable Block Hours	101,260	97,921	97,711	100,318	106,634	102,158	105,347	100,860
Revenue Passenger Miles (000’s)	1,084,533	981,799	978,044	1,097,921	1,164,504	1,025,108	1,045,289	1,045,842
Available Seat Miles (000’s)	1,481,410	1,358,765	1,327,937	1,463,064	1,550,787	1,398,828	1,412,000	1,423,318
Passenger Load Factor (%)	73.2	72.3	73.7	75.0	75.1	73.3	74.0	73.5
Cost per Available Seat Mile (CASM) (¢)	22.28	23.49	24.69	22.93	22.11	24.03	25.64	26.77
CASM, excluding fuel expense (¢)	16.53	18.39	19.36	17.36	16.64	18.06	19.04	18.67
Controllable CASM (¢)	12.81	14.26	14.82	13.39	12.88	13.80	14.44	14.68
Controllable Adjusted Actual Margin (%)	16.6	13.0	14.1	14.9	14.9	14.1	12.9	10.5
EBITDA ($000)	44,316	38,050	41,688	45,553	47,362	42,863	41,406	36,881
Distributable Cash ($000)	34,378	30,264	33,616	41,132	43,478	33,056	32,851	30,063

(1) The weighted average number of units used in the net income per unit calculation has been established by restating Jazz’s outstanding LP Units for the periods presented to 122,865,144.

8. THE STATEMENT OF FINANCIAL POSITION AND LIQUIDITY

The following table provides an overview of Jazz's cash flows for the periods indicated:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2008 $	Three months ended June 30, 2007 $	Six months ended June 30, 2008 $	Six months ended June 30, 2007 $
Cash provided by operating activities	38,463	48,378	74,281	85,267
Cash used in financing activities	(31,427)	(30,981)	(63,743)	(64,193)
Cash used in investing activities	(5,394)	(5,068)	(9,646)	(11,890)
Net change in cash and cash equivalents during the periods	1,642	12,329	892	9,184
Cash and cash equivalents – Beginning of periods	122,031	131,720	122,781	134,865
Cash and cash equivalents – End of periods	123,673	144,049	123,673	144,049

8.1 Cash provided by operating activities

Jazz continued to deliver positive cash flows from operations of $38.5 million and $74.3 million for the second quarter and first half of 2008, compared to $48.4 million and $85.3 million for the same periods in 2007. The decrease for the quarter and first half of 2008, primarily relates to a decrease in net income.

Management anticipates the future capital requirements for cash distributions and expected capital expenditures for ongoing maintenance and operations will be funded from operations (refer to Section 1.1 – Caution regarding forward-looking information).

8.2 Cash used in financing activities

Cash used in financing activities for the second quarter and first half of 2008 includes distributions to the holders of LP Units of Jazz of $30.9 million and $61.8 million, respectively, a priority distribution of $0.9 million to the Fund declared in 2007; and $0.5 million and $1.1 million, respectively, for repayment of obligations under capital leases.

Cash used in financing activities for the second quarter and the first half of 2007 include distributions to the holders of LP Units of Jazz of $30.9 million and $64.1 million, respectively, and $0.1 million in respect of the repayment of obligations under capital leases.

8.3 Cash used in investing activities

Second quarter and first half of 2008 investing activities included capital expenditures of $5.4 million and $9.6 million, respectively. Capital expenditures consisted of capital investments in the areas of maintenance information system replacement, replenishment of rotables to support the operational fleet, and other purchases to support the ongoing operations. Cash provided by investing activities included the collection of a long-term receivable of $0.2 million.

Second quarter and first half of 2007 investing activities included capital expenditures of $5.1 million and $12.1 million, respectively. Capital expenditures consisted of capital investments in the areas of information systems infrastructure, maintenance information system replacement, and cockpit standardization on the CRJ100 fleet. Cash provided by investing activities included a collection of long-term receivable of $0.2 million.

8.4 Liquidity and capital resources

(expressed in thousands of Canadian dollars) (unaudited)	June 30, 2008 $	December 31, 2007 $
Cash and cash equivalents	123,673	122,781
Total assets	522,323	518,502
Total long-term liabilities	192,176	191,382

Assets increased from December 31, 2007 as a result of an increase in accounts receivable and the acquisition of spare parts and materials to support the operational fleet, offset by a fair value adjustment related to the ABCP (refer to Section 9 – Financial Instruments and Risk Management). Long-term liabilities increased as a result of an increase in post-employment future benefits assumed on inception of the Partnership, but not previously recorded, offset by a decrease in obligations under capital leases and a reduction in deferred operating lease inducements and pension liabilities.

8.5 Debt and lease obligations

For further information on debt and lease obligations, refer to Section 8.5 of the restated Jazz Air Income Fund and Jazz Air LP 2007 MD&A dated February 19, 2008 and note 15 of the December 31, 2007 Jazz Air LP annual audited consolidated financial statements.

There have been no material changes to debt and lease obligations during the period.

The debt facilities also contain various financial covenants outlined as follows:

Ratio	Result
Leverage (Debt / EBITDA)	In compliance
Interest coverage (EBTDA / Interest expense)	In compliance
Adjusted leverage (1)	In compliance
Adjusted interest coverage (1)	In compliance

(1) Adjusted leverage and adjusted interest coverage ratios include the add-back of other non-CPA related facilities and aircraft lease expense.

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 the following financial covenants:

Covenant	Result
Minimum cash balance	In compliance
Tangible asset disposal	In compliance

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Jazz's financial instruments consist of cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, other liabilities and long-term debt.

Jazz, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, market risk, credit risk, liquidity risk and currency risk. Senior management is responsible for setting risk levels and reviewing risk management activities as necessary.

Interest rate risk

Investments included in Jazz's cash and cash equivalents earn interest at prevailing and fluctuating market rates. In the normal course of business, Jazz is exposed to interest rate fluctuation risk as a result of variable interest rate on long-term debt. Jazz uses interest rate swaps to hedge its exposure to changes in interest rates, swapping its credit facility variable interest rate payments for fixed interest rate payments. Jazz has elected to designate its interest rates swaps as cash flow hedges and has no intention of early settling these contracts. Jazz entered into an interest rate swap agreement with third parties for $115.0 million which has effectively resulted in a fixed interest rate of 7.09% until February 2, 2009. If Jazz had settled these contracts at June 30, 2008, a payment of $0.9 million (by Jazz) would have resulted.

In the first quarter of 2008, Jazz entered into a second interest swap agreement with a third party for $57.5 million. This swap becomes effective February 2, 2009 and effectively results in a fixed interest rate of 6.23% for the related portion of the credit facility extension, maturing on February 1, 2010. If Jazz had settled these contracts at June 30, 2008, it would have received a payment of $0.1 million.

Market risk

The ABCP is marked-to-market at each period end and is therefore subject to market fluctuations (see discussion on Asset Backed Commercial Paper below).

Credit risk

In accordance with its investment policy, Jazz invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 banks and commercial paper rated R-1 high. The credit risk on cash and cash equivalents is limited because the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. Given the disruption in the third party sponsored ABCP market, Jazz amended its investment policy during the third quarter of 2007 to disallow investment in all third party and bank sponsored ABCP.

The amount of accounts receivable disclosed in the balance sheet of $90.4 million is net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. Approximately 87% of receivables are with one company, Air Canada. Historically there have been no collection issues with Air Canada; however, with such a high concentration of receivables with one company, a certain amount of credit risk exists. Jazz does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Jazz's objective is to have sufficient liquidity to meet liabilities when due, as well as to maintain compliance with liquidity covenants on financing contracts. Jazz monitors its cash balances and cash flows generated from operations to meet requirements. As at June 30, 2008, the Partnership had authorized credit facilities of $150.0 million and drawings of $115.0 million, against the facilities. Letters of credit totalling approximately $3.2 million (December 31, 2007 - $2.7 million) have been issued as security for groundhandling 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.

Currency risk

Jazz receives revenue and incurs expenses in US and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variations. Jazz manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As this natural hedging effectively matches the revenue and expenses per operational currency, Jazz management considers there is no significant exposure to currency risk.

Asset Backed Commercial Paper

As at June 30, 2008, included in other assets is US dollar denominated, third-party sponsored, ABCP with an original cost of $5.8 million CDN. The ABCP had been 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, was not 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 that better match the maturity of that debt with the duration of the underlying assets to address the liquidity problem. It is management's intention to hold these notes to maturity or until a suitable trading market develops.

Given the disruption in the third party sponsored ABCP market, a quoted market value of the investment is not available. Based on the Proposed Restructuring of the Canadian Third-Party Structured ABCP (the "Plan"), which was approved June 5, 2008 by the Ontario Superior Court of Justice, it has been determined that Jazz's ABCP investment is ineligible for inclusion in either of Master Asset Vehicles 1 or 2 described in the Plan. As with other ineligible assets, the investment will be restructured on an individual basis and will not be pooled with other ABCP. Therefore, Jazz's investment will maintain exposure to the existing underlying assets. As at the date of this MD&A, August 6, 2008, approval of the Plan has been appealed to the Ontario Court of Appeal. If the Ontario Court of Appeal rejects the appeal and confirms the approval of the Plan, new floating rate notes will be issued with maturities and interest rates which are based on the respective maturities and interest rates of the underlying assets.

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 87% of the portfolio's notional amount is rated 'investment grade'. Accordingly, management has used current market information and other factors as at June 30, 2008 to estimate the fair value of the investment. This was done by analyzing potential outcomes and discounting the expected future cash flows according to the probability of recovery of principal and interest based on a maturity date that is in line with the expected conversion of the ABCP into the floating rate notes. It has been determined that no additional adjustment to fair value is required at this time. Based on management's assessment of the value of its investment in ABCP, a fair value loss of $3.9 million has been recorded to date. This amount has been recorded in other non-operating expenses. 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 the investment 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. This situation has had no impact on Jazz's operations, financial covenants or ability to meet obligations as they come due. Jazz is not accruing interest on this investment.

The carrying value of this investment of $1.7 million is included in other assets.

The net foreign exchange loss recorded on the investment since inception to the period ended June 30, 2008 was $0.3 million.

10. ECONOMIC DEPENDENCE

The CPA

The CPA 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 Covered Aircraft. The rates for these metrics are fixed for annual periods and vary by aircraft type. In addition, Air Canada is required to reimburse Jazz 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. Since these costs are required to operate the Covered Aircraft, the reimbursement of these costs are included in Jazz's revenue. Jazz 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 cost reimbursement, on the CPA services provided to Air Canada. Effective January 1, 2006, the CPA has a term of ten years and is renewable for two additional periods of five years.

Master Services Agreement

Under the Master Services Agreement dated September 24, 2004, between Jazz and Air Canada, Air Canada provides certain services to Jazz 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 Service Agreement.

Other

Air Canada provides certain supplies from third parties, primarily fuel, to the Partnership and subsequently collects payment 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 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 normal trade terms and have arisen from the services provided by Air Canada.

Jazz has a significant amount of transactions with Air Canada and its subsidiaries Air Canada Capital Ltd. and ACGHS Limited Partnership. Air Canada represents 99.2% and 99.3% of Jazz's operating revenues for the quarters ended June 30, 2008 and 2007, respectively. Approximately 12.3% and 15.1% of Jazz's operating expenses for the quarters ended June 30, 2008 and 2007, respectively, are incurred with Air Canada and its subsidiaries.

11. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Jazz's pension funding obligations from 2008 to 2012:

(expressed in thousands of Canadian dollars) (unaudited)	2008 $	2009 $	2010 $	2011 $	2012 $
Current service registered plans	9,100	9,500	9,900	10,200	10,600
Past service registered plans	5,200	5,200	3,400	2,000	1,700
Other pension arrangements	7,200	7,500	7,600	7,700	7,900
Projected pension funding obligations	21,500	22,200	20,900	19,900	20,200

The estimated pension funding requirements shown in the above table are in respect of the defined benefit and defined contribution pension arrangements sponsored by Jazz. The funding requirements for the Jazz pilots' registered defined benefit pension plan are estimated based on the January 1, 2008 actuarial valuation and an estimate of the pilot payroll over the projected period. The estimated funding requirements for a defined benefit supplemental executive retirement plan that Jazz sponsors for eligible employees are based on a funding policy adopted by Jazz during 2007. Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. (Refer to Section 1.1 – Caution regarding forward-looking information.)

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Section 1.1 – Caution regarding forward-looking information). The significant accounting policies of Jazz and the Fund are described in note 2 of the June 30, 2008 unaudited consolidated interim financial statements of Jazz Air Income Fund and Jazz Air LP.

Changes in accounting estimates

In the second quarter of 2008, the Fund and Jazz changed the estimate of both the useful life and the expected residual values of aircraft and certain flight equipment to coincide with the term of the capacity purchase agreement. The revised estimates better reflect the expected useful life of these assets to the Fund and Jazz and update 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 increasing depreciation expense by $0.4 million for the three and six months ended June 30, 2008.

13. ACCOUNTING POLICY CHANGES AND DEVELOPMENTS

Except as otherwise indicated hereunder the unaudited interim consolidated financial statements for June 30, 2008 for the Fund and Jazz have been prepared using the same policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2007 for the Fund and Jazz.

Change in accounting policies

In the first quarter of 2008, the Fund and Jazz adopted four new Handbook Sections issued by CICA. The adoption of these Handbook sections has had no material impact on the financial statements of the Fund or Jazz.

Financial instruments

Section 3862, *Financial Instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were included in Section 3861, *Financial Instruments – Disclosure and Presentation.* Where the disclosure requirements of this new standard have not been changed from the previous standard and have already been included in the annual financial statements, no additional disclosure has been provided.

Section 3863, *Financial Instruments – Presentation*, carries forward unchanged the presentation requirements of the previous Section 3861, *Financial Instruments – Disclosure and Presentation*.

These new standards require disclosures related to the significance of financial instruments on the Fund and Jazz's financial position and performance and the nature and extent of risk arising from financial instruments to which the Fund and Jazz are exposed and how they manage these risks.

Capital disclosures

Section 1535, *Capital Disclosures,* establishes disclosure requirements about the Fund and Jazz's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate their objectives, policies and processes for managing capital.

Inventories – Spare parts, material and supplies

Section 3031, *Inventories,* replaces the existing standard for inventories, Section 3030, and provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Fund and Jazz's accounting policy for inventories is consistent with measurement requirements, as they value spare parts, materials and supplies at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

14. FLEET

As at June 30, 2008, Jazz's operating fleet was made up of 137 operating aircraft, of which 73 were regional jets and 64 turboprop aircraft.

Jazz's operating fleet, at June 30, 2008, was as described below:

	Number of Operating Aircraft	Average Age of Operating Aircraft	Owned	Operating Lease	Capital Lease	Number of Operating Aircraft June 30, 2007
Canadair Regional Jet CRJ100	24	12.7	–	24	–	24 (1)
Canadair Regional Jet CRJ200	33	6.2	–	33	–	33
Canadair Regional Jet CRJ705	16	2.9	–	16	–	15
De Havilland DHC-8-300	28	18.1	19	2	7	26
De Havilland DHC-8-100	36	20.3	29	7	–	36
Total Operating Aircraft	137	13.0	48	82	7	134

(1) Excludes one CRJ100 aircraft that sustained damage in May 2007 and was deemed beyond economical repair.

All aircraft in Jazz's operating fleet as of June 30, 2008 are Covered Aircraft under the CPA except for two Dash 8-100 and two Dash 8-300 aircraft allocated for charter purposes.

15. PEOPLE

For the period ended June 30, 2008, Jazz had an average of 4,556 full time equivalent ("FTE") employees compared to an average of 4,405 FTE employees for the same period in 2007. This reflects a 3.4% increase from the first six months of 2007, as shown in the table below:

	Union	For the six months ended June 30, 2008	For the six months ended June 30, 2007	Change	Change %
Pilots	ALPA	1,367	1,329	38	2.9
Technical Services	CAW	842	804	38	4.7
Customer Service Agents	CAW	742	716	26	3.6
Flight Attendants	Teamsters	760	754	6	0.8
Management	–	486	456	30	6.6
Administrative and Technical Support	–	269	263	6	2.3
Dispatchers	CALDA	59	54	5	9.3
Crew Scheduling	CAW	31	29	2	6.9
		4,556	4,405	151	3.4

All collective agreements are in place until mid year 2009.

16. MATERIAL CHANGES

There have been no material changes to the information disclosed.

17. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures within the Fund and Jazz have been designed to provide reasonable assurance that all relevant information is identified to the Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of the Fund and Jazz's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Fund and Jazz's 2007 restated MD&A dated February 19, 2008, contains a statement that the President and Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO") have concluded that the Fund's disclosure controls and procedures are effective based upon an evaluation of these controls and procedures conducted at December 31, 2007.

The Fund filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of the Fund's 2007 annual filings. In those filings, the CEO and CFO certify, as required by Multilateral Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Fund's disclosure controls and procedures and the design of internal control over financial reporting. The CEO and CFO also certify the appropriateness of the financial disclosures in the Fund's interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO also certify the design of the Fund's disclosure controls and procedures and the design of internal control over financial reporting.

There has been no change in the Fund or Jazz's internal control over financial reporting that occurred during the second quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Fund or Jazz's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of trustees of the Fund and the board of directors of Jazz GP reviewed this MD&A, and the unaudited interim consolidated financial statements of Jazz and the Fund for the three months ended June 30, 2008, and the Fund's board of trustees and Jazz GP's board of directors approved these documents prior to their release.

18. OUTLOOK

The discussion that follows represents forward-looking information. Refer to section 1.1 – Caution regarding forward-looking information.

Based on the 2008 summer schedule and the estimate for November and December received from Air Canada, plus the Block Hours billed for the six months ended June 30, 2008 of 206,207, Jazz anticipates billing between 400,000 and 405,000 Block Hours for the year ending December 31, 2008.

Air Canada, Jazz's primary customer, announced on June 17, 2008, that it would reduce network domestic and transborder capacity by 2% and 13%, respectively, with the implementation of the fourth quarter 2008 and first quarter 2009 schedules, compared to the same period a year earlier. As a result, Jazz's flying will be reduced by approximately 5%, effective November 1, 2008 and subsequent periods subject to further revisions from Air Canada.

This decrease in Air Canada's need for Jazz's services necessitates a reduction of approximately 270 Jazz employees. It is anticipated that these reductions will be completed in fiscal 2008.

For the remainder of 2008, Jazz is expecting to incur increased salaries, wages and benefits, as well as increased maintenance material costs associated with heavy maintenance work. As a result of these increased costs, Jazz is anticipating to under-run the CPA target margin of 14.09%.

Based on the assumptions described above (in this section 18), and assuming no material increase in fuel or other costs incurred by Jazz in operating its business, management does not anticipate any changes to distributions.

19. RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Jazz, the industry, the structure of the Fund and current legal proceedings, refer to the Section entitled "Risk Factors" in Jazz Air Income Fund and Jazz Air LP's 2007 restated MD&A dated February 19, 2008 and the Fund's Annual Information Form dated March 28, 2008. There have been no material changes to the risk factors disclosed at that time.