



Jazz Air Income Fund

Unaudited Consolidated Financial Statements
June 30, 2008

August 6, 2008

Management's Report

The accompanying unaudited interim consolidated financial statements of **Jazz Air Income Fund** are the responsibility of management and have been approved by the Board of Trustees. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The unaudited interim 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 Trustees reviews and approves the Fund's unaudited interim consolidated financial statements and recommended their approval by the Board of Trustees.

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

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

Jazz Air Income Fund
 Unaudited Consolidated Balance Sheets
 As at June 30, 2008 and December 31, 2007



(expressed in thousands of Canadian dollars)

	June 30, 2008 \$	December 31, 2007 \$
Assets		
Current assets		
Cash and cash equivalents	123,823	122,874
Accounts receivable – trade and other (note 7)	90,429	82,435
Spare parts, materials and supplies (note 2)	38,196	37,587
Prepaid expenses	10,751	8,560
Total current assets	263,199	251,456
Property and equipment	223,176	225,387
Intangible assets (note 3)	896,382	912,269
Other assets	29,798	33,756
	1,412,555	1,422,868
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	216,730	201,750
Current portion of obligations under capital leases	2,280	2,119
Distributions payable	10,296	10,296
Total current liabilities	229,306	214,165
Long-term debt	114,214	113,475
Obligations under capital leases	18,467	19,069
Future income tax	65,883	74,545
Other long-term liabilities	59,495	58,838
	487,365	480,092
Unitholders' Equity	925,190	942,776
	1,412,555	1,422,868

Economic dependence (note 7)

Contingencies (note 11)

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Unitholders' Equity

For the six-month period ended June 30, 2008 and the year ended December 31, 2007



(expressed in thousands of Canadian dollars)

	Unitholders' capital \$	Accumulated earnings \$	Contributed surplus \$	Accumulated other comprehensive income \$	Distributions \$	Total \$
Balance – December 31, 2006	246,174	15,392	–	–	(19,983)	241,583
Adjusted opening balance, due to new accounting policies adopted regarding financial instruments	–	–	–	(409)	–	(409)
Balance – December 31, 2006, restated	246,174	15,392	–	(409)	(19,983)	241,174
Change in fair value during the period	–	–	–	1,270	–	1,270
Issuance of 638,223 Jazz Units	5,457	–	–	–	–	5,457
Issuance of 50,000,000 Jazz Units	401,500	–	–	–	–	401,500
Issuance of 47,226,920 Jazz Units	387,733	–	–	–	–	387,733
Distributions	–	–	–	–	(45,427)	(45,427)
Fund Units held by unit based compensation plans	(6,145)	–	4,505	–	–	(1,640)
Accretion related to the initial long-term incentive plan	–	–	159	–	–	159
Accretion related to the ongoing long-term incentive plan	–	–	61	–	–	61
Net loss for the period	–	(25,749)	–	–	–	(25,749)
Balance – June 30, 2007	1,034,719	(10,357)	4,725	861	(65,410)	964,538
Change in fair value during the period	–	–	–	(1,019)	–	(1,019)
Distributions	–	–	–	–	(61,776)	(61,776)
Fund Units held by unit based compensation plans	(55)	–	–	–	–	(55)
Accretion related to the initial long-term incentive plan	–	–	953	–	–	953
Accretion related to the ongoing long-term incentive plan	–	–	274	–	–	274
Redemption of 1,077 Fund Units tendered by Unitholders	(8)	–	–	–	–	(8)
Net income for the period	–	39,869	–	–	–	39,869
Balance – December 31, 2007	1,034,656	29,512	5,952	(158)	(127,186)	942,776
Change in fair value during the period	–	–	–	(627)	–	(627)
Distributions	–	–	–	–	(61,776)	(61,776)
Fund Units held by unit based compensation plans	(2,096)	–	–	–	–	(2,096)
Accretion related to the initial long-term incentive plan	–	–	954	–	–	954
Accretion related to the ongoing long-term incentive plan	–	–	625	–	–	625
Net income for the period	–	45,334	–	–	–	45,334
Balance – June 30, 2008	1,032,560	74,846	7,531	(785)	(188,962)	925,190

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Income

For the three and six month periods ended June 30, 2008 and 2007



(expressed in thousands of Canadian dollars, except Fund Units and earnings per Fund Unit)

	Three months ended June 30,		Six months ended June 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Operating revenue (note 7)				
Passenger	406,668	125,185	800,581	125,185
Other	3,137	736	5,585	736
	409,805	125,921	806,166	125,921
Operating expenses (note 7)				
Salaries and wages	72,973	24,075	147,496	24,075
Benefits	13,938	3,965	28,551	3,965
Aircraft fuel	115,239	27,805	208,427	27,805
Depreciation and amortization	18,589	6,232	36,163	6,232
Food, beverage and supplies	4,127	1,511	7,593	1,511
Aircraft maintenance materials, supplies and services	36,646	9,196	66,858	9,196
Airport and navigation fees	49,988	16,876	98,817	16,876
Aircraft rent	30,184	10,502	59,864	10,502
Terminal handling services	22,142	6,979	55,406	6,979
Other	27,475	9,354	54,867	9,354
	391,301	116,495	764,042	116,495
Operating income	18,504	9,426	42,124	9,426
Fund's proportionate share of net earnings	–	18,227	–	25,464
Interest revenue	1,011	661	2,327	667
Interest expense	(2,116)	(693)	(4,228)	(693)
Gain on disposal of property and equipment	6	1	8	1
Foreign exchange loss	(292)	–	(574)	–
Unrealized loss on asset backed commercial paper (note 4)	–	–	(2,985)	–
Other	–	185	–	185
	(1,391)	18,381	(5,452)	25,624
Income before future income taxes	17,113	27,807	36,672	35,050
Provision for (recovery of) future income taxes	(6,456)	60,799	(8,662)	60,799
Net income (loss) for the periods	23,569	(32,992)	45,334	(25,749)
Weighted average number of Fund units	122,009,951	122,314,531	122,079,875	79,458,203
Earnings (loss) per Fund Unit, basic and fully diluted	\$0.19	(\$0.27)	\$0.37	(\$0.32)

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Comprehensive Income
For the three and six month periods ended June 30, 2008 and 2007



(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Net income (loss) for the periods	23,569	(32,992)	45,334	(25,749)
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	885	1,072	(211)	1,232
Reclassification of net realized (gains) losses on derivatives designated as cash flow hedges to income	(316)	(9)	(416)	38
Comprehensive income (loss)	24,138	(31,929)	44,707	(24,479)

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Cash Flows

For the three and six month periods ended June 30, 2008 and 2007



(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the periods	23,569	(32,992)	45,334	(25,749)
Charges (credits) to operations not involving cash				
Equity in net earnings of the Partnership	–	(18,227)	–	(25,464)
Depreciation and amortization	18,589	6,232	36,163	6,232
Cash distributions from the Partnership earned	–	20,592	–	35,131
Amortization of prepaid aircraft rent and related fees	482	149	963	149
Gain on disposal of property and equipment	(6)	(1)	(8)	(1)
Unit based compensation	811	220	1,579	220
Deferred charges, prepaid aircraft rent and related fees	96	–	(122)	–
Foreign exchange	370	(126)	534	(126)
Future income taxes	(6,456)	60,799	(8,662)	60,799
Unrealized loss on asset backed commercial paper (note 4)	–	–	2,985	–
Other	–	–	(1,906)	–
Net change in prepaid interest expense	246	688	390	688
Funding of unit based compensation plan, net of forfeitures	44	(1,640)	(2,095)	(1,640)
	37,745	35,694	75,155	50,239
Net changes in non-cash working capital balances related to operations (note 6)	745	2,811	(1,730)	(5,662)
	38,490	38,505	73,425	44,577
Financing activities				
Repayment of obligations under capital leases	(539)	(38)	(1,054)	(38)
Distributions	(30,888)	(30,888)	(61,776)	(36,954)
	(31,427)	(30,926)	(62,830)	(36,992)
Investing activities				
Increase in cash on consolidation of subsidiary	–	138,096	–	138,096
Additions to property and equipment	(5,400)	(1,607)	(9,864)	(1,607)
Decrease in long-term receivables	–	–	210	–
Proceeds on disposal of property and equipment	6	1	8	1
	(5,394)	136,490	(9,646)	136,490
Net change in cash and cash equivalents during the periods	1,669	144,069	949	144,075
Cash and cash equivalents – Beginning of periods	122,154	19	122,874	13
Cash and cash equivalents – End of periods	123,823	144,088	123,823	144,088
Cash payments of interest	2,579	54	5,205	54
Cash receipts of interest	1,200	705	2,646	705
Cash and cash equivalents comprise:				
Cash	76,057	2,639	76,057	2,639
Temporary investments	47,766	141,449	47,766	141,449

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements
For the period ended June 30, 2008



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

1 Nature of operations and economic dependence

Jazz Air Income Fund (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 Maisonneuve Boulevard West, Montreal Québec, H4A 3T2. The Fund has been established to acquire and hold, directly or indirectly, investments in Jazz Air LP (the “Partnership”) and its general partner Jazz Air Holding GP Inc. (“Jazz GP”), a regional airline, and such other investments as the board of Trustees of the fund (the “Trustees”) may determine. Reference to the Fund in the following notes to the consolidated financial statements refers to, as the context may require, the Fund and its subsidiaries Jazz Air Trust (the “Trust”) and the Partnership collectively, the Fund and one or more of its subsidiaries, one or more of the Fund’s subsidiaries or the Fund itself.

The Partnership operates a regional airline in Canada and the United States. Effective January 1, 2006, the Partnership entered into a Capacity Purchase Agreement (“CPA”) with Air Canada whereby Air Canada purchases the aircraft capacity flown under the tradename “Air Canada Jazz” and 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 the Partnership for the capacity. The Partnership is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being the primary source of revenue, these entities currently provide significant services to the Partnership. In addition, Air Canada and its subsidiaries provide a substantial portion of the aircraft financing for the Partnership.

The Partnership 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. The Partnership has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. The Partnership revenues under the CPA do not fluctuate significantly with passenger load factors.

2 Summary of significant accounting policies

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the requirements of Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751, “Interim Financial Statements”. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited restated consolidated financial statements of the Fund for the year ended December 31, 2007.

In the opinion of management, these unaudited interim consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as otherwise indicated hereunder, these unaudited interim consolidated financial statements have been prepared using the same policies and methods of computation as the restated annual consolidated financial statements of the Fund for the year ended December 31, 2007.

Principles of consolidation

These unaudited interim consolidated financial statements include the accounts of the Fund and from May 24, 2007, the consolidated accounts of the Partnership, the variable interest entity for which the Fund is the primary beneficiary. Prior to May 24, 2007, the Fund accounted for its investment in the Partnership under the equity method. All inter-company and inter-entity balances and transactions are eliminated.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

2 Summary of significant accounting policies (continued)

Operating revenue

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse the Fund for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, Determining Whether an Arrangement Contains a Lease, the Fund 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 \$39,912 for the three months ended June 30, 2008 and \$79,824 for the six months ended June 30, 2008 (period from May 24, 2007 to June 30, 2007 - \$13,068). This amount was recorded in passenger revenue of the Fund’s consolidated statements of income.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Changes in accounting policies

In the first quarter of 2008, the Fund 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.

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’s financial position and performance and the nature and extent of risk arising from financial instruments to which the Fund is exposed and how the Fund manages these risks. Disclosure recommended by the new handbook sections have been included in note 10 of these interim consolidated financial statements.

Capital disclosures

Section 1535, *Capital Disclosures*, establishes disclosure requirements about the Fund’s capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the Fund’s objectives, policies and processes for managing capital. Disclosures recommended by the new handbook section have been included in note 9 of these interim consolidated financial statements.

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’s accounting policy for inventories is consistent with measurement requirements, as the Fund values spare parts, materials and supplies at the lower of cost, determined on a first-in, first-out basis, and net realizable value. For the three months ended June 30, 2008, the cost of inventories recognized as expense was \$8,951 and \$19,150 for the six months ended June 30, 2008 (period from May 24, 2007 to June 30, 2007 - \$2,738).

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

2 Summary of significant accounting policies (continued)

Changes in accounting estimates

In the second quarter of 2008, the Fund changed its 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 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 \$396 for the three and six months ended June 30, 2008.

3 Investment in the Partnership and Jazz GP

On February 2, 2006, the Fund owned 25,000,000 limited partnership units of the Partnership ("Partnership Units") or 20.3% of the Partnership at a net cost of \$246,174. ACE Aviation Holdings Inc. ("ACE") held 97,865,143 Partnership Units or 79.7% of the Partnership.

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 the Fund'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 the same date, ACE also exchanged an additional 25,000,000 Partnership Units for 25,000,000 Fund Units in accordance with terms of the Investor Liquidity Agreement. On March 30, 2007, ACE exchanged its remaining 47,226,920 Partnership Units for an equivalent amount of Fund Units. On May 24, 2007, ACE distributed 12,000,000 Fund Units to its shareholders through a special distribution. Immediately following this distribution, ACE's ownership of the Fund went from 58.8% to 49.0%. On October 22, 2007, ACE disposed of a further 35,500,000 Fund Units, bringing ACE's ownership to 20.1%, the minimum level required under the Securityholders' Agreement to appoint a majority of the board of directors of Jazz GP.

On January 24, 2008, 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 Fund Units and therefore retains no ownership interest in the Fund.

From February 2, 2006, up to and including May 23, 2007, the Fund accounted for its investment in the Partnership under the equity method and recorded its proportionate share of the Partnership's net earnings, calculated on the same basis as if they had been consolidated, taking into account the increase in ownership as step acquisitions under the purchase method of accounting for investments on the date on which they occurred. Under the equity method, distributions declared and paid by the Partnership reduced the carrying value of the investment.

As a result of the May 24, 2007 transaction, the Partnership is consolidated, as a variable interest entity in the accounts of the Fund and accordingly, as of May 24, 2007, the Fund has changed its basis of accounting for its investment in the Partnership from the equity method to consolidation.

The difference between the purchase price and the net book value of the Partnership's assets is allocated to the fair value of identifiable assets, including intangible assets with finite and indefinite lives in excess of the book value.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

3 Investment in the Partnership and Jazz GP (continued)

	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
<i>Allocated as follows:</i>					
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

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 \$5,946.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements
For the period ended June 30, 2008



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

3 Investment in the Partnership and Jazz GP (continued)

Prior to consolidation, the following table details the carrying value of the investment:

	May 23, ⁽¹⁾ 2007 \$	December 31, 2006 \$
23,500,000 Fund Units acquired on February 2, 2006, 1,500,000 Fund Units acquired on February 27, 2006, net of issue costs of \$3,826	246,174	246,174
638,223 Partnership Units exchanged by ACE for 638,223 Fund Units and contributed to the Fund's Initial LTIP on February 9, 2007	5,457	—
25,000,000 Partnership Units exchanged by ACE for 25,000,000 Fund Units and distributed to ACE shareholders on March 14, 2007	200,750	—
25,000,000 Partnership Units exchanged by ACE for 25,000,000 Fund Units on March 14, 2007	200,750	—
47,226,920 Partnership Units exchanged by ACE for 47,226,920 Fund Units on March 30, 2007	387,733	—
Proportionate share of the Partnership's net earnings from February 2, 2006 to December 31, 2006	15,459	15,459
Proportionate share of the Partnership's net earnings from January 1, 2007 to March 31, 2007	7,237	—
Proportionate share of the Partnership's net earnings from April 1, 2007 to May 23, 2007	18,227	—
Proportionate share of the Partnership's other comprehensive income from January 1, 2007 to May 23, 2007	861	—
Distributions declared by the Partnership from February 2, 2006 to May 23, 2007	(44,818)	(19,983)
Priority distributions	(80)	(80)
	1,037,750	241,570

(1) Immediately prior to consolidation

For the period from January 1, 2007 to May 23, 2007, the Fund recognized, in its equity earnings, amortization of \$12,424 (\$10,954 – for the year ended December 31, 2006) of the value attributed to the CPA.



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

4 Asset backed commercial paper

As at June 30, 2008, 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 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 the Fund'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, the Fund's investment will maintain exposure to the existing underlying assets. As at the date of these financial statements, August 6, 2008, the 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 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 \$3,852 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 the Fund's operations, financial covenants or ability to meet obligations as they come due. The Fund is not accruing interest on this investment.

The carrying value of this investment of \$1,682 is included in other assets.

The net foreign exchange loss recorded on the investment since inception, up to the period ended June 30, 2008, was \$282.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements
For the period ended June 30, 2008



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

5 Distributions

The Fund declared a distribution for the month ended June 30, 2008 of \$0.0838 per Fund Unit (June 30, 2007 - \$0.0838 per Fund Unit). The distribution of \$10,296 (2007 - \$10,296) is payable July 15, 2008 to Unitholders of record on June 30, 2008.

Distributions declared to the Unitholders of record on the last business day of each month during the months ended June 30, 2008 and 2007 aggregated to approximately \$61,776 and \$45,427, respectively, as follows:

	June 30, 2008		June 30, 2007	
	Amount \$	Amount per Fund Unit \$	Amount \$	Amount per Fund Unit \$
January	10,296.0	0.0838	2,095.0	0.0838
February	10,296.0	0.0838	2,148.0	0.0838
March	10,296.0	0.0838	10,296.0	0.0838
April	10,296.0	0.0838	10,296.0	0.0838
May	10,296.0	0.0838	10,296.0	0.0838
June	10,296.0	0.0838	10,296.0	0.0838
	61,776.0	0.5028	45,427.0	0.5028

6 Statement of cash flows – supplementary information

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

	Three months ended June 30,		Six months ended June 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Decrease (increase) in accounts receivable – trade and other	(12,135)	(5,831)	(7,994)	(14,224)
Decrease (increase) in spare parts, materials and supplies	1,480	(2,230)	(609)	(2,230)
Decrease (increase) in prepaid expenses	(512)	(250)	(2,191)	(250)
Increase (decrease) in accounts payable and accrued liabilities	15,715	11,582	14,353	11,502
Increase (decrease) in other long-term liabilities	(3,803)	(460)	(5,289)	(460)
	745	2,811	(1,730)	(5,662)

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements
For the period ended June 30, 2008



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

7 Economic dependence

The transactions between Air Canada and its subsidiaries and the Fund are summarized in the table below.

	Three months ended June 30, 2008 \$	Six months ended June 30, 2008 \$	Period from May 24, 2007 to June 30, 2007 \$
Operating revenue			
Air Canada	406,653	800,500	124,858
Operating expenses			
Air Canada	11,155	21,846	4,535
Air Canada Capital Ltd.	21,760	43,303	7,581
ACGHS Limited Partnership	13,797	34,735	4,029

The following balances with Air Canada and its subsidiaries are included in the financial statements:

	As at June 30, 2008 \$	As at December 31, 2007 \$
Accounts receivable		
Air Canada	78,707	71,173
ACGHS Limited Partnership	169	55
Accounts payable and accrued liabilities		
Air Canada	81,693	63,604
Air Canada Capital Ltd.	7,704	7,584
ACGHS Limited Partnership	14,641	13,461

Capacity Purchase Agreement

The Partnership is party to the CPA with Air Canada, whereby Air Canada purchases the capacity of certain specified aircraft crewed and operated by the Partnership under the trade name 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.

The Partnership is paid, on a monthly basis, fees for the capacity provided. The fees consist 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. Current rates are in effect until December 31, 2008. 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 costs required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue. Pass-through costs amounted to \$171,979 for the three months ended June 30, 2008 and \$330,032 for the six months ended June 30, 2008 (for the three months ended June 30, 2007 - \$139,453 and six months ended June 30, 2007 - \$270,560).

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

7 Economic dependence (continued)

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 the Partnership a 14.09% 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 margin for flights provided under the CPA is greater than 14.09%, the Partnership will pay Air Canada an amount equal to 50% of the margin exceeding 14.09%. 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. The margin adjustment for the three and six months ended June 30, 2008 of \$nil (period from May 24, 2007 to June 30, 2007 - \$967) 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.

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.

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 the named party.

8 Post-employment expenses

The Fund has recorded pension and other post-employment future benefit expenses for the three months ended June 30, 2008 of \$4,988 and \$9,560 for the six months ended June 30, 2008 (period from May 24, 2007 to June 30, 2007 - \$1,468).

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

9 Capital disclosures

The Fund's capital consists of cash, cash equivalents, long-term debt, and Unitholders' Equity (excluding accumulated other comprehensive income).

The Fund's objective when managing capital is to maximize long-term Unitholder value by:

- maintaining a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations; and
- providing a return to Unitholders by delivering monthly cash distributions.

In managing its capital structure, the Fund monitors performance throughout the year to ensure anticipated cash distributions, working capital requirements and maintenance capital expenditures are funded from operations, available cash on deposit and where applicable bank borrowings. The Fund will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the Fund may adjust the amount of cash distributions to Unitholders, issue debt and/or issue, redeem or repurchase (issuers bid offer) units.

The amount of cash distributions is determined by reference to available operating cash flows, net of property and equipment acquisition costs and adjustments made in reference to the definition of distributable cash in the limited partnership agreement.

The Fund monitors capital using a number of financial metrics, including (but not limited to):

- The Leverage Ratio defined as long-term debt ⁽¹⁾ to earnings before interest, taxes, depreciation, amortization, and other non-operating income and expense (EBITDA);
- The Coverage Ratio defined as EBITDA to interest expense (defined as interest on capital leases, security deposits and the credit facility); and
- Minimum Cash Balance.

The Fund's measure of distributable cash and EBITDA may not be comparable to similar measures presented by other entities.

The following table illustrates the financial ratios calculated on a trailing twelve-month basis:

	Measure Targets	2008	2007
Leverage Ratio	<2.0x	0.82	0.75
Coverage Ratio	>3.5x	15.21	17.56
Minimum Cash Balance ⁽²⁾	\$60,000	\$123,823	n/a

⁽¹⁾ Debt includes amounts related to term facility, letters of credit and capital leases.

⁽²⁾ This is a continuous measurement covenant. The Fund has been in compliance since the related agreement was entered into during the fourth quarter of 2007.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

9 Capital disclosure (continued)

As a result of the Canadian income trust taxation legislation passed in June 2007 and effective January 1, 2011, the Fund is subject to certain capital growth restrictions referred to as “normal growth” equity rules. These rules limit the amount of Unitholders’ capital that can be issued by the Fund in each of the next three years, based on the Fund’s market capitalization on October 31, 2006, as follows:

	Cumulative
Normal growth capital allowed in:	
2008	\$139,200
2009	\$185,600
2010	\$232,000

If the maximum equity growth allowed is exceeded, the Fund may be subject to taxation prior to 2011.

In addition to growth capital restrictions, the Fund monitors its ownership levels, to the extent possible given the practical limitations, regarding beneficial ownership information. The Trust Indenture, under which the Fund was created, provides that no more than 49.9% of the Units of the Fund can be held by non-residents of Canada. The potential impact to the Fund of breaching this threshold could be the loss of mutual fund trust status, and being subject to taxation for the entire fiscal year in which the breach occurred. On the basis of information supplied by the transfer agent, at June 30, 2008, the Fund’s best estimate of the ownership level by non-residents was 18%.

10 Financial instruments

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

The Fund, 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 the Fund’s cash and cash equivalents earn interest at prevailing and fluctuating market rates. In the normal course of business, the Fund is exposed to interest rate fluctuation risk as a result of variable interest rate on long-term debt. The Fund 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. The Fund has elected to designate its interest rate swaps as cash flow hedges and has no intention of early settling these contracts. The Fund 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. If the Fund had settled these contracts at June 30, 2008, a payment of \$898 (by the Fund) would have resulted.

In the first quarter of 2008, the Fund entered into a second interest swap agreement with a third party for \$57,500. 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 the Fund had settled these contracts at June 30, 2008, it would have received a payment of \$112.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

10 Financial instruments (continued)

Market risk

As described in note 4, the ABCP is marked-to-market at each period end and is therefore subject to market fluctuations.

Credit risk

In accordance with its investment policy, the Fund 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, the Fund amended its investment policy during the third quarter of 2007 to disallow investment in all third party and bank sponsored ABCP. With respect to investments in ABCP, refer to note 4.

The amount of accounts receivable disclosed in the balance sheet of \$90,429 is net of allowances for bad debts, estimated by management based on prior experience its 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, given such a significant concentration of receivables from one company, a certain amount of credit risk exists. The Fund does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

The Fund's objective is to have sufficient liquidity to meet liabilities when due, as well as to maintain compliance with liquidity covenants on financing contracts. The Fund 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 \$150,000 and drawings of \$115,000, against the facilities. Letters of credit totalling approximately \$3,151 (December 31, 2007 - \$2,708) 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

The Fund incurs revenue and expenses in U.S. and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variations. The Fund 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, The Fund's management considers there is no significant exposure to currency risk.

Fair value of financial instruments

The carrying amounts reported in the balance sheet for accounts receivable, bank 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 their carrying value as they carry interest at floating rates. Financial assets included in the balance sheet include ABCP with an estimated fair value of \$1,682 (see note 4 for discussion on determination of fair value of ABCP).

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

10 Financial instruments (continued)

Carrying value of financial instruments

	As at June 30, 2008 \$	As at December 31, 2007 \$
Held for trading	125,505	127,463
Loans and receivables	90,847	83,063
Other financial liabilities	341,241	325,521

11 Contingencies

The Fund Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interest of the Fund and in connection with that duty, will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee will be entitled to indemnification from the Fund in respect of the exercise of the Trust's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all Unitholders, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

In February 2006, the Partnership commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after the Partnership 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 the Partnership and Air Canada alleging various violations of competition law, including that the Partnership 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, the Partnership commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to the Partnership's 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 the Partnership and Air Canada making allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. The Partnership maintains that Porter's counterclaims in both jurisdictions are without merit and are being vigorously contested in court.

Various other lawsuits and claims that have arisen in the normal course of business are pending by and against the Partnership and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of the Fund.

Jazz GP 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. The 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 Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended June 30, 2008



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

11 Contingencies (continued)

The Partnership enters into real estate leases or operating agreements, which grant a license to the Partnership 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 the Partnership as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to the Partnership'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, the Partnership 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 and engine financing or leasing agreements, the Partnership 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 engines 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 and engine financing or leasing transactions, including those structured as leveraged leases, the Partnership typically provides indemnities in respect of certain tax consequences.

When the Partnership, as a customer, enters into technical service agreements with service providers, primarily service providers who operate an airline as their main business, the Partnership 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, if any, under the foregoing indemnities cannot be reasonably estimated. The Fund carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities).