



Jazz Air LP

Unaudited Consolidated Financial Statements
June 30, 2008

August 6, 2008

Management's Report

The accompanying unaudited interim consolidated financial statements of **Jazz Air LP** are the responsibility of management and have been approved by the Board of Directors of Jazz Air LP's general partner, Jazz Air Holding GP Inc. The 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 Directors of Jazz Air Holding GP Inc. reviews and approves the Partnership's unaudited interim consolidated financial statements and recommend their approval by the Board of Directors.

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

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

Jazz Air LP
 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	123,673	122,781
Accounts receivable – trade and other (note 5)	90,429	83,348
Spare parts, materials and supplies (note 2)	38,196	37,587
Prepaid expenses	10,751	8,560
Total current assets	263,049	252,276
Property and equipment	223,176	225,387
Intangible assets	6,300	7,083
Other assets	29,798	33,756
	522,323	518,502
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	227,026	212,959
Current portion of obligations under capital leases	2,280	2,119
Total current liabilities	229,306	215,078
Long-term debt	114,214	113,475
Obligations under capital leases	18,467	19,069
Other long-term liabilities	59,495	58,838
	421,482	406,460
Partners' Capital	100,841	112,042
	522,323	518,502

Economic dependence (note 5)
Contingencies (note 10)

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

Jazz Air LP

Unaudited Consolidated Statements of Partners' Capital

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



(expressed in thousands of Canadian dollars)

	Partners' capital \$	Accumulated earnings \$	Contributed surplus \$	Accumulated other comprehensive income \$	Distributions \$	Total \$
Balance – December 31, 2006	422,075	192,518	–	–	(530,928)	83,665
Adjusted opening balance due to new accounting policies adopted regarding financial instruments	–	–	–	(409)	–	(409)
Balance – December 31, 2006, restated	422,075	192,518	–	(409)	(530,928)	83,256
Change in fair value during the period	–	–	–	1,270	–	1,270
Distributions	–	–	–	–	(61,776)	(61,776)
Units held by unit based compensation plans	(6,145)	–	4,505	–	–	(1,640)
Accretion related to the initial long-term incentive plan	–	–	2,541	–	–	2,541
Accretion related to the ongoing long-term incentive plan	–	–	273	–	–	273
Net income for the period	–	75,849	–	–	–	75,849
Balance – June 30, 2007	415,930	268,367	7,319	861	(592,704)	99,773
Change in fair value during the period	–	–	–	(1,019)	–	(1,019)
Distributions	–	–	–	–	(62,689)	(62,689)
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
Net income for the period	–	74,805	–	–	–	74,805
Balance – December 31, 2007	415,875	343,172	8,546	(158)	(655,393)	112,042
Change in fair value during the period	–	–	–	(627)	–	(627)
Distributions	–	–	–	–	(61,776)	(61,776)
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
Adjustment to opening balance (note 9)	–	–	(5,946)	–	–	(5,946)
Net income for the period	–	57,665	–	–	–	57,665
Balance – June 30, 2008	413,779	400,837	4,179	(785)	(717,169)	100,841

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

Jazz Air LP

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 units and earnings per unit)

	Three months ended June 30,		Six months ended June 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Operating revenue (note 5)				
Passenger	406,668	372,984	800,581	735,215
Other	3,137	2,336	5,585	4,281
	409,805	375,320	806,166	739,496
Operating expenses (note 5)				
Salaries and wages	72,973	71,340	147,496	140,211
Benefits	13,938	12,878	28,551	27,162
Aircraft fuel	115,239	81,485	208,427	152,244
Depreciation and amortization	8,064	5,652	15,113	11,005
Food, beverage and supplies	4,127	4,241	7,593	7,882
Aircraft maintenance materials, supplies and services	36,646	27,768	66,858	57,336
Airport and navigation fees	49,988	50,432	98,817	96,968
Aircraft rent	30,184	32,905	59,864	67,460
Terminal handling services	22,142	22,594	55,406	52,436
Other	27,687	26,124	54,867	50,556
	380,988	335,419	742,992	663,260
Operating income	28,817	39,901	63,174	76,236
Non-operating income (expenses)				
Interest revenue	984	1,957	2,270	3,463
Interest expense	(2,116)	(2,101)	(4,228)	(4,177)
Gain on disposal of property and equipment	6	2	8	6
Other	–	791	–	321
Foreign exchange loss	(292)	–	(574)	–
Unrealized loss on asset backed commercial paper (note 3)	–	–	(2,985)	–
	(1,418)	649	(5,509)	(387)
Net income for the periods	27,399	40,550	57,665	75,849
Weighted average number of units	122,011,029	122,314,531	122,080,953	122,446,379
Earnings per unit, basic and fully diluted	\$0.22	\$0.33	\$0.47	\$0.62

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

Jazz Air LP

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 for the periods	27,399	40,550	57,665	75,849
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	885	1,072	(211)	1,232
Reclassification of net realizable (gains) losses on derivatives designed as cash flow hedges to income	(316)	(9)	(416)	38
Comprehensive income	27,968	41,613	57,038	77,119

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

Jazz Air LPUnaudited 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 for the periods	27,399	40,550	57,665	75,849
Charges (credits) to operations not involving cash				
Depreciation and amortization	8,064	5,652	15,113	11,005
Amortization of prepaid aircraft rent and related fees	482	452	963	897
Gain on disposal of property and equipment	(6)	(2)	(8)	(6)
Unit based compensation	811	628	1,579	929
Deferred charges, prepaid aircraft rent and related fees	96	–	(122)	–
Foreign exchange	370	(126)	534	(126)
Unrealized loss on asset backed commercial paper	–	–	2,985	–
Other	–	–	(1,906)	–
Net change in prepaid interest expense	246	(12)	390	(58)
Funding of unit based compensation plan, net of forfeitures	44	(1,640)	(2,095)	(1,640)
	37,506	45,502	75,098	86,850
Net changes in non-cash working capital balances related to operations (note 4)	957	2,876	(817)	(1,583)
	38,463	48,378	74,281	85,267
Financing activities				
Decrease in obligations under capital leases	(539)	(93)	(1,054)	(93)
Priority distributions to the Jazz Air Income Fund	–	–	(913)	(80)
Distributions	(30,888)	(30,888)	(61,776)	(64,020)
	(31,427)	(30,981)	(63,743)	(64,193)
Investing activities				
Additions to property and equipment	(5,400)	(5,070)	(9,864)	(12,106)
Decrease in long-term receivables	–	–	210	210
Proceeds on disposal of property and equipment	6	2	8	6
	(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
Cash payments of interest	2,579	2,496	5,205	4,875
Cash receipts of interest	1,173	2,022	2,589	3,653
Cash and cash equivalents comprise:				
Cash	75,907	2,600	75,907	2,600
Temporary investments	47,766	141,449	47,766	141,449

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

Jazz Air LP

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

Jazz operates a regional airline in Canada and the United States. Effective January 1, 2006, the Partnership entered into a Capacity Purchase Agreement (“CPA”) with Air Canada whereby Air Canada purchases the aircraft capacity flown under the tradename “Air Canada Jazz” on the routes specified by Air Canada. Air Canada receives all passenger and cargo revenue related to passenger seats and cargo services sold on scheduled flights operated by the Partnership pursuant to the CPA and Air Canada pays 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 general partner of Jazz is Jazz Air Holding GP Inc. (“Jazz GP”), which holds an economic interest of 0.000000814%, or one Partnership Unit.

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

Jazz has historically experienced 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.

2 Summary of significant accounting policies

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

In the opinion of management, these interim 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 interim financial statements have been prepared using the same policies and methods of computation as the annual audited consolidated financial statements of Jazz Air LP for the year ended December 31, 2007.

Operating revenue

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse the Partnership for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, Determining Whether an Arrangement Contains a Lease, the Partnership has concluded that a component of its revenue under the CPA is rental income inasmuch as the CPA identifies the “right of use” of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is \$39,912 for the three months ended June 30, 2008 (three months ended June 30, 2007 - \$39,203) and \$79,824 for the six months ended June 30, 2008 (six months ended June 30, 2007 - \$78,471). This amount was recorded in passenger revenue of the Partnership’s consolidated statements of income.

Jazz Air LP

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)

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 standards

In the first quarter of 2008, 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 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 Jazz's financial position and performance and the nature and extent of risk arising from financial instruments to which Jazz is exposed and how Jazz manages these risks. Disclosure recommended by the new handbook sections have been included in note 8 of these unaudited interim consolidated financial statements.

Capital disclosures

Section 1535, *Capital Disclosures*, establishes disclosure requirements about Jazz's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate Jazz's objectives, policies and processes for managing capital. Disclosures recommended by the new handbook section have been included in note 7 of these unaudited 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. Jazz's accounting policy for inventories is consistent with measurement requirements, as Jazz 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 (three months ended June 30, 2007 - \$8,396) and \$19,150 for the six months ended June 30, 2008 (six months ended June 30, 2007 - \$17,575).

Changes in accounting estimates

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

Jazz Air LP

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 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 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, Jazz's 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 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 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 \$3,852 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 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 \$1,682 is included in other assets.

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

4 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	(11,923)	(9,029)	(7,081)	(17,907)
Decrease (increase) in spare parts, materials and supplies	1,480	(3,846)	(609)	(5,547)
Decrease (increase) in prepaid expenses	(512)	1,114	(2,191)	(1,179)
Increase (decrease) in accounts payable and accrued liabilities	15,715	16,115	14,353	26,118
Increase (decrease) in other long-term liabilities	(3,803)	(1,478)	(5,289)	(3,068)
	957	2,876	(817)	(1,583)

Jazz Air LP

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 Economic dependence

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

	Three months ended June 30,		Six months ended June 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Operating revenue				
Air Canada	406,653	372,694	800,500	734,994
Operating expenses				
Air Canada	11,155	13,478	21,846	26,749
Air Canada Capital Ltd.	21,760	23,618	43,303	48,104
ACGHS Limited Partnership	13,797	13,717	34,735	30,711

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 tradename of "Air Canada Jazz" on routes specified by Air Canada. The CPA has a term of ten years and is renewable for two additional periods of five years. Under this agreement, the Partnership is required to provide Air Canada the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance and airport operations for such flights and Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays the Partnership for the capacity provided.

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 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 LP

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

Margin adjustment

With respect to each calendar year subsequent to January 1, 2006, during the remaining term of the CPA, if the annual margin for flights provided under the CPA is greater than 14.09%, Jazz 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. This margin adjustment for the three months ended June 30, 2008 of \$nil (three months ended June 30, 2007 - \$1,691) and for the six months ended June 30, 2008 of \$nil (six months ended June 30, 2007 - \$1,769) 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 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 the named party.

6 Post-employment expenses

The Partnership has recorded pension and other post-employment future benefit expenses for the three months ended June 30, 2008 of \$4,988 (three months ended June 30, 2007 - \$4,202) and \$9,560 for the six months ended June 30, 2008 (six months ended June 30, 2007 - \$8,396).

Jazz Air LP

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 Capital disclosures

Jazz's capital consists of cash, cash equivalents, long-term debt, and Partners' Capital (excluding accumulated other comprehensive income).

Jazz'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, Jazz 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. Jazz 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, Jazz may adjust the amount of cash distributions to the Fund, borrow funds and/or may issue debt.

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 of Jazz.

Jazz 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.

Jazz'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	\$123,673	n/a

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

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

Jazz Air LP

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)

8 Financial instruments

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 rate 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 \$115,000 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 \$898 (by Jazz) would have resulted.

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

Market risk

As described in note 3, 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, 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. With respect to investments in ABCP, refer to note 3.

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 and 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, 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 \$150,000 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.

Jazz Air LP

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)

8 Financial instruments (continued)

Currency risk

Jazz 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. 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.

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 3 for discussion on determination of fair value of ABCP).

Carrying value of financial instruments

	As at June 30, 2008 \$	As at December 31, 2007 \$
Held for trading	125,355	127,370
Loans and receivables	90,847	83,976
Other financial liabilities	341,240	326,434

9 Adjustment to Partners' Capital

Partners' capital has been adjusted to reflect previously unrecorded long-term liabilities related to post-employment future benefits in the amount of \$5,946 which were assumed on inception of the Partnership.

10 Contingencies

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

Jazz Air LP

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 Contingencies (continued)

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 Partnership.

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

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

In aircraft and engine financing or leasing agreements, Jazz typically indemnifies the financing parties, trustees acting on their behalf and other related parties and/or lessors against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and 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, Jazz typically provides indemnities in respect of certain tax consequences.

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

The maximum amount payable, if any, under the foregoing indemnities cannot be reasonably estimated. The Partnership 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).