Jazz Air LP

Consolidated Financial Statements
December 31, 2008 and 2007

PRICEWATERHOUSECOOPERS

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February 10, 2009

Auditors' Report

To the Directors of Jazz Air Holding GP Inc.

We have audited the consolidated balance sheets of **Jazz Air LP** as at December 31, 2008 and 2007 and the consolidated statements of partners' capital, income, comprehensive income and cash flows for the years ended December 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants
Halifax, Nova Scotia

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February 10, 2009

Management's Report

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

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

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

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

Jazz Air LP

Consolidated Balance Sheets

As at December 31, 2008 and 2007

(expressed in thousands of Canadian dollars)

	2008 $	2007 $
Assets		
Current assets		
Cash and cash equivalents	131,685	122,781
Accounts receivable – trade and other (note 13)	71,618	83,348
Spare parts, materials and supplies (note 2)	46,150	37,587
Prepaid expenses	12,905	8,560
Total current assets	262,358	252,276
Property and equipment (note 3)	219,028	225,387
Intangible assets (note 4)	6,300	7,083
Other assets (note 5)	29,072	33,756
	516,758	518,502
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	207,342	212,959
Current portion of obligations under capital leases (note 8)	2,837	2,119
Total current liabilities	210,179	215,078
Long-term debt (note 7)	114,729	113,475
Obligations under capital leases (note 8)	20,581	19,069
Other long-term liabilities (note 9)	55,672	58,838
	401,161	406,460
Partners' Capital	115,597	112,042
	516,758	518,502

Economic dependence (note 13)
Commitments (note 14)
Contingencies (note 21)
Subsequent event (note 22)

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

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

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

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

Jazz Air LP

Consolidated Statements of Partners' Capital

For the years ended December 31, 2008 and 2007

(expressed in thousands of Canadian dollars)

	Partners' capital $	Retained earnings (deficit) Accumulated earnings $	Retained earnings (deficit) Distributions $	Contributed surplus $	Accumulated other comprehensive income $	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	(530,928)	-	(409)	83,256
Change in fair value during the year	-	-	-	-	251	251
Priority distributions to the Jazz Air Income Fund ("Fund")	-	-	(913)	-	-	(913)
Distributions	-	-	(123,552)	-	-	(123,552)
Units held by unit based compensation plans (note 16)	(6,200)	-	-	4,505	-	(1,695)
Accretion related to the initial long-term incentive plan	-	-	-	3,494	-	3,494
Accretion related to the ongoing long-term incentive plan	-	-	-	547	-	547
Net income for the year	-	150,654	-	-	-	150,654
Balance - December 31, 2007	415,875	343,172	(655,393)	8,546	(158)	112,042
Change in fair value during the year	-	-	-	-	(3,028)	(3,028)
Distributions	-	-	(123,552)	-	-	(123,552)
Units held by unit based compensation plans (note 16)	(205)	-	-	(1,626)	-	(1,831)
Accretion related to the initial long-term incentive plan (note 16)	-	-	-	1,850	-	1,850
Accretion related to the ongoing long-term incentive plan (note 16)	-	-	-	1,224	-	1,224
Adjustment to opening balance (note 20)	-	-	-	(5,946)	-	(5,946)
Net income for the year	-	134,838	-	-	-	134,838
Balance - December 31, 2008	415,670	478,010	(778,945)	4,048	(3,186)	115,597

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

Jazz Air LP

Consolidated Statements of Income

For the years ended December 31, 2008 and 2007

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

	2008 $	2007 $
Operating revenue (note 13)		
Passenger	1,622,850	1,487,087
Other	13,439	8,302
	1,636,289	1,495,389
Operating expenses (note 13)		
Salaries and wages	292,647	284,041
Benefits	52,563	51,121
Aircraft fuel	430,216	320,463
Depreciation and amortization	30,409	24,307
Food, beverage and supplies	14,795	16,221
Aircraft maintenance materials, supplies and services	129,533	119,486
Airport and navigation fees	199,419	198,249
Aircraft rent	127,758	126,999
Terminal handling services	107,345	99,403
Other	103,333	101,940
	1,488,018	1,342,230
Operating income	148,271	153,159
Non-operating income (expenses)		
Interest revenue	4,138	7,035
Interest expense	(8,505)	(8,389)
Gain on disposal of property and equipment	182	16
Foreign exchange loss	(6,263)	(300)
Unrealized loss on asset backed commercial paper (note 6)	(2,985)	(867)
	(13,433)	(2,505)
Net income for the years (note 10)	134,838	150,654
Weighted average number of units	122,075,475	122,288,242
Earnings per unit, basic and diluted	$1.10	$1.23

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

Jazz Air LP

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2008 and 2007

(expressed in thousands of Canadian dollars)

	2008 $	2007 $
Net income for the years	134,838	150,654
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	(2,408)	64
Reclassification of net realizable (gains) losses on derivatives designed as cash flow hedges to income	(620)	187
Comprehensive income	131,810	150,905

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

Jazz Air LP

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(expressed in thousands of Canadian dollars)

	2008 $	2007 $
Cash provided by (used in)		
Operating activities		
Net income for the years	134,838	150,654
Charges (credits) to operations not involving cash		
Depreciation and amortization	30,409	24,307
Amortization of prepaid aircraft rent and related fees	1,928	1,820
Gain on disposal of property and equipment	(182)	(16)
Unit based compensation	3,074	2,156
Foreign exchange loss (gain)	4,090	(947)
Unrealized loss on asset backed commercial paper	2,985	867
Other	(1,383)	(1,849)
Funding of unit based compensation plan, net of forfeitures	(1,831)	(1,695)
	173,928	175,297
Net changes in non-cash working capital balances related to operations (note 12)	(18,025)	(31,530)
	155,903	143,767
Financing activities		
Decrease in obligations under capital leases (note 8)	(2,265)	(706)
Priority distributions to the Jazz Air Income Fund	(913)	(80)
Distributions	(123,552)	(125,796)
	(126,730)	(126,582)
Investing activities		
Additions to property and equipment	(20,661)	(23,679)
Decrease in long-term receivables	210	210
Proceeds on disposal of property and equipment	182	16
Cash equivalents reclassified to other assets, net of fair value adjustment (note 6)	-	(5,816)
	(20,269)	(29,269)
Net change in cash and cash equivalents during the years	8,904	(12,084)
Cash and cash equivalents - Beginning of years	122,781	134,865
Cash and cash equivalents - End of years	131,685	122,781
Cash payments of interest	10,747	10,350
Cash receipts of interest	4,481	7,018
Cash and cash equivalents comprise		
Cash	28,851	122,781
Term deposits and fixed income securities	102,834	-

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

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

1 Nature of 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 Significant accounting policies

a) Basis of presentation

These consolidated financial statements of the Partnership are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the year. Actual results could differ from those estimates.

b) Principles of consolidation

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

c) Variable Interest Entities

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

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

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

2 Significant accounting policies (continued)

d) Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less. The weighted average interest rate on investments as at December 31, 2008 is 1.62% (2007 - nil).

e) Operating revenue

Under the CPA, the Partnership is paid to provide services to Air Canada as explained in notes 1 and 13. The related fees payable by Air Canada are recognized in revenue as the capacity is provided. Incentive payments and margin adjustments as described in note 13 are recognized, respectively, as increases in, and reductions of, passenger revenue based on management estimates during the year.

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

The CPA provides for a monthly payment for an amount per aircraft designed to reimburse the Partnership for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, *Determining Whether an Arrangement Contains a Lease*, the Partnership has concluded that a component of its revenue under the CPA is rental income since 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 $159,647 for the year ended December 31, 2008 (2007 - $156,500). This amount was recorded in passenger revenue of the Partnership's consolidated statements of income.

f) Employee future benefits

The significant policies related to employee future benefits, consistent with Section 3461, *"Employee Future Benefits"* of the Canadian Institute of Chartered Accountants ("CICA") Handbook relating to Jazz's defined benefit pension plan for its pilots, the supplemental executive retirement plan for Jazz executives, and the Other Employee Future Benefits are as follows:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.
- The cost of the Other Employee Future Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation.
- The expected return on plan assets is based on the long-term expected rate of return on plan assets and the fair value of the plan assets. It is reasonably possible that management's estimate of the long-term rate of return may change as management continues to assess future investments and strategies and as a result of changes in financial markets.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. This period is currently 19 years for the pension plan and 14 years for the supplemental executive retirement plan.
- Cumulative unrecognized net actuarial gains and losses of the defined benefit pension plan and the supplemental executive retirement plan in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets at the beginning of the year are amortized over the average remaining service periods of active members expected to receive benefits under the plan (currently 19 years for the pension plan and 14 years for the supplemental executive retirement plan).
- The fiscal year-end date is December 31 and the measurement date of the plan's assets and obligations is December 31, in prior years the measurement date was November 30. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations for the Other Employee Future Benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).

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

2 Significant accounting policies (continued)

g) Unit based compensation plans

Initial long-term incentive plan

Jazz has made certain commitments in connection with the granting of units of the Fund ("Fund Units") to key executives as a one-time special award to recognize their efforts in connection with the completion of the initial public offering of the Jazz Air Income Fund ("Offering") and to provide them with incentive compensation under an Initial Long-Term Incentive Plan ("Initial LTIP"). On February 9, 2007, ACE Aviation Holdings Inc. ("ACE") transferred 638,223 Fund Units to a trust for the purpose of funding the Initial LTIP. Under the terms of the Initial LTIP, 50% of the Fund Units granted are subject to vesting conditions based on performance and the remaining 50% are time based and vested on December 31, 2008. Vesting is conditional on the approval of the board of directors. Performance based Fund Units vest (1/3 per year) if the distributable cash target established by the board of directors, on behalf of Jazz GP, for the year is met. The Distributable cash targets were met in each of the years, including the year ended December 31, 2008 and the related units vested.

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

Ongoing long-term incentive plan

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

h) Financial instruments

Financial instruments are classified as follows:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For Jazz, the measured amount generally corresponds to cost. Allowances for doubtful accounts are established by management, on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.
- Accounts payable, credit facilities, and bank loans are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost, net of transaction costs, using the effective interest rate method. For Jazz, the measured amount generally corresponds to cost.

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

2 Significant accounting policies (continued)

i) Hedges

Jazz applies hedge accounting to its interest rate swaps and treats them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.

j) Property and equipment

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 5 - 20% estimated average residual values.

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

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

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

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

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

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

k) Intangible assets

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

l) Impairment of long-lived assets

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets.

Indefinite life assets are subject to annual impairment tests under GAAP or when events or circumstances indicate a potential impairment. Any impairment would be recognized as an expense in the period of impairment.

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

2 Significant accounting policies (continued)

m) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction. Foreign exchange losses of $6,263 for the year ended December 31, 2008 (2007 - $300) were included in non-operating income/expense.

n) Aircraft lease payments

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

o) Maintenance and repairs

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

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

p) Income taxes

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

q) Earnings per unit

Earnings per unit are calculated on a weighted average number of units outstanding basis. Fund Units held under the various unit based compensation plans reduce the weighted average number of outstanding Partnership Units from the date they are contributed to the plan.

Changes in accounting policies

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.

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

2 Significant accounting policies (continued)

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 19 of these consolidated financial statements.

Capital disclosures

Section 1535, *Capital Disclosures,* establishes disclosure requirements regarding 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 18 of these 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 year ended December 31, 2008, the cost of inventories recognized as expense was $37,277 (2007 - $34,357).

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 CPA. 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 $436 for the year ended December 31, 2008.

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Jazz will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. Jazz has created an implementation team, which consists of internal resources and an external consultant. A changeover plan is being established to convert to the new standards within the allotted timeline and consist of the following phases:

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

2 Significant accounting policies (continued)

- Raise awareness and initial assessment – this phase involves performing a high level impact assessment to identify key IFRS areas that are likely to affect Jazz. Each accounting standard is reviewed under IFRS and is ranked as high, medium or low priority based on the differences from Canadian GAAP. Also, all relevant employees and board members are made aware of the changeover and the relevant timelines. Jazz completed this phase in the third quarter of 2008.

- Detailed assessment - each section is reviewed and analyzed for accounting or disclosure differences between Canadian GAAP and IFRS. Once differences have been identified they are reviewed for potential impacts to existing accounting policies, information systems and business processes. An action plan is then developed for each impact area. This phase is currently underway.

- Implementation and review – the action plan developed in the detailed assessment phase is implemented to create, as necessary, new accounts, system changes, process changes and financial statement models. Accounting policies are approved, including transition elections in IFRS 1 (First time adoption of IFRS).

Based on initial review, the major differences between Canadian GAAP and IFRS that are likely to impact Jazz include, but are not limited to:

- IFRS 1 – provides entities with a number of optional and mandatory exemptions upon initial adoption of the standards. The exemption choices are being analyzed and Jazz will implement those determined to be most appropriate.

- Property, plant and equipment – International Accounting Standards (“IAS”) 16 requires an entity to break an asset down to its significant parts upon initial measurement and depreciate assets based on the useful life of the significant individual components as opposed to the assets as a whole. This could have an impact on the way significant parts of the aircraft are tracked and depreciated. Also, significant maintenance events must be broken out as a component of the initial cost and depreciated over the life of the maintenance event. The cost of the maintenance event will then be re-capitalized and this cycle will continue over the life of the asset.

- Impairment of assets – IAS 36 uses a one step approach for both testing and measurement of impairment, with assets’ carrying values compared directly with the higher of fair value less costs to sell or value in use (which uses discounted cash flows). This may potentially result in more write-downs where carrying values of assets under Canadian GAAP were tested for impairment on an undiscounted cash flow basis.

- Recognition of leases – unlike Canadian GAAP, IAS 17 does not provide prescriptive measurements on lease contracts. As a result all lease contracts will need to be reviewed to determine if they are operating or capital leases based on whether or not management feels substantially all of the risks and rewards incidental to ownership have been transferred.

- Accounting for defined benefit pension plans and other future employee benefits - IAS 19 requires the past service costs of defined benefit plans to be recognized on an accelerated basis with vested past service costs expensed immediately and unvested past service costs recognized on a straight line basis until the benefits become vested. Under Canadian GAAP, past service costs are generally amortized on a straight line basis over the average remaining service period. In addition, actuarial gains and losses are permitted to be recognized directly through equity under IAS 19 rather than through the income statement. For other future employee benefits, all actuarial gains and losses, as well as all past service costs, must be recognized immediately with no amortization option.

In addition to the sections noted above, there are generally more extensive presentation and disclosure requirements under IFRS compared to Canadian GAAP. These will be noted in the detailed analysis and will result in additional data collection where required.

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

3 Property and equipment

	As at December 31, 2008		
	Cost $	Accumulated amortization $	Net $
Flight equipment	188,899	42,199	146,700
Facilities	15,815	2,662	13,153
Equipment	31,177	14,490	16,687
Leaseholds	37,699	14,561	23,138
Assets under capital leases	23,201	3,851	19,350
	296,791	77,763	219,028

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

The net book value of the property and equipment pledged as collateral related to the credit facility at December 31, 2008 was $199,678 (2007 - $203,190). Amortization expense related to property and equipment of $28,926, was recorded for the year ended December 31, 2008 (2007 - $22,019).

Property and equipment were acquired at an aggregate cost of $nil for the year ended December 31, 2008 (2007 - $23,201) by means of capital leases.

4 Intangible assets

	As at December 31, 2008		
	Cost $	Accumulated amortization $	Net $
Indefinite life assets			
Jazz tradename	1,700	-	1,700
Operating license	4,600	-	4,600
Finite life assets			
Employee contracts	6,028	6,028	-
	12,328	6,028	6,300

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

4 Intangible assets (continued)

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

During the year ended December 31, 2008, the Partnership recorded amortization of $783 (2007 - $1,588).

5 Other assets

	As at December 31, 2008 $	2007 $
Promissory note receivable, non-interest bearing, repayable in equal annual instalments over 10 years	419	628
Prepaid aircraft rent and related fees, net of accumulated amortization	26,644	28,539
Asset backed commercial paper (note 6)	2,009	4,589
	29,072	33,756

6 Asset backed commercial paper

As at December 31, 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.

Given the disruption in the third party sponsored ABCP market, a quoted market value of the investment is not available. Based on the Restructuring of the Canadian Third-Party Structured ABCP (the “Plan”), which was initially approved June 5, 2008 by the Ontario Superior Court of Justice and subsequently the Ontario Court of Appeal, it has been determined that Jazz’s ABCP investment will be exchanged for Master Asset Vehicle 3 (“MAV3”) Ineligible Asset (“IA”) tracking notes. The MAV3 IA notes will have a maturity date equal to one year plus the longest maturity of the related ineligible asset and will maintain exposure to the existing underlying assets. On December 24, 2008, the investors committee issued a press release confirming an agreement had been finalized with all key stakeholders regarding the funding of the margin facilities for ABCP. Pursuant to the terms of the agreement, the governments, together with certain participants in the restructuring plan will provide, in aggregate, $4,450,000 of additional margin facilities to support the Plan. Subsequent to December 31, 2008, a motion was brought forward to the Ontario Superior Court of Justice and the closing process was approved. Thereafter, Jazz received its MAV3 IA notes. Jazz does not believe the fair value of these notes is materially different than the current carrying value of the ABCP.

Management has reviewed available investment reports and found that 69% of the portfolio’s notional amount is rated ‘investment grade’ and there has been one default of the underlying assets since inception of the trust, which represents 0.27% of the total trust value. Accordingly, management has used current market information and other factors at December 31, 2008 to estimate the fair value of the investment. This was done by analyzing potential outcomes and discounting the expected future cash flows

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

6 Asset backed commercial paper (continued)

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. 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 performance of the underlying assets as well as the market value once trading of the new notes begins. There is no assurance that the value of the investment will not decline further; therefore, the estimated value of the investment in ABCP may change in subsequent periods. It has been determined that no additional adjustment to fair value is required at this time as there has been no change in the expected recovery of the underlying assets and in the discount rates used in the present value calculation. 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 $2,009 is included in other assets.

The net foreign exchange gain recorded on the investment since inception, up to the period ended December 31, 2008, was $45.

7 Long-term debt

The following provides a breakdown of Jazz's authorized and outstanding credit facilities:

	Authorized $	Drawn at December 31, 2008 $	Drawn at December 31, 2007 $
Revolving term facility [(a)]	35,000	-	-
Term facility [(b)]	115,000	115,000	115,000
Prepaid interest [(c)]	-	(213)	(767)
Unamortized commitment fee [(c)]	-	(58)	(758)
	150,000	114,729	113,475

(a) The revolving term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at December 31, 2008, there were no borrowings under the revolving term facility, however, the available credit, after deducting letters of credit, bears interest at 0.50%.

Letters of credit

Jazz has issued irrevocable letters of credit in the aggregate amount of $3,382. This amount reduces the available credit under the revolving term facility and bears interest at 2.875%.

(b) The term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at December 31, 2008, of borrowings under the term facility, $114,400 were in the form of bankers' acceptances with a 90 day term and an effective interest rate of 5.45%. A further $600 was in the form of prime rate advances bearing interest at 5.50%. As at December 31, 2008 Jazz had entered into interest rate swap agreements with third parties in respect of $115,000 of debt which has effectively resulted in a fixed interest rate of 7.09% until February 2, 2009 and 5.98% until February 2, 2010.

(c) Long term debt is presented net of prepaid interest and unamortized financing charges.

Borrowings under the credit facilities are secured by substantially all the present and future assets of Partnership. The continued availability of the credit facilities is subject to the Partnership's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants.

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

8 Obligations under capital leases

Jazz has entered into capital leases related to aircraft and ground equipment. The obligations are as follows:

	2008 $	2007 $
Year ended December 31, 2008	-	3,910
2009	4,796	3,910
2010	4,796	3,910
2011	4,764	3,884
2012	4,367	3,554
2013	4,341	-
Thereafter	8,008	10,039
Total minimum lease payments	31,072	29,207
Less: Amount representing interest (at rates ranging from 8.755% to 9.450%)	7,654	8,019
Present value of net minimum capital lease payments	23,418	21,188
Less: Current portion	2,837	2,119
Obligations under capital leases	20,581	19,069

A significant portion of the lease payments is payable in US dollars. Interest of $1,895 (2007 - $791) relating to capital lease obligations has been included in aircraft rent.

9 Other long-term liabilities

	As at December 31, 2008 $	2007 $
Accrued pension benefit liability (note 17)	(396)	4,810
Accrued other future employee benefit liability (note 17)	6,991	-
Accrued termination benefits, non-current portion	-	59
Deferred operating lease inducements, non-current portion	49,077	53,969
	55,672	58,838

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

10 Future income taxes

The net deductible temporary difference represented by the differences between the tax bases and carrying values of the Partnership's assets and liabilities at December 31, 2008 approximated $482,717 (2007 - $494,718).

11 Partnership Units

Partnership Units

The Partnership may issue an unlimited number of units.

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

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

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

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

Distribution of units to the public is prohibited.

Allocation of income

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

Distributions

No partner shall have any right to withdraw any amount or receive any distribution from the Partnership unless authorized by applicable law and agreed to by Jazz GP. Jazz GP shall determine the amount and timing of any distributions. As at December 31, 2008, Jazz had distributions payable to the Fund of $10,296 (2007 - $10,296)

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

11 Partnership Units (continued)

Units issued and fully paid

	December 31, 2008	December 31, 2007
General Partner		
Jazz Air Holding GP Inc.		
Units outstanding	1	1
Limited Partners		
Jazz Air Trust (the "Trust")		
Units outstanding - Beginning of year	122,865,143	25,000,000
Exchanged by ACE for Fund Units under shareholder liquidity agreement	-	97,226,920
Exchanged by ACE for Fund Units and contributed to a trust to fund Initial LTIP	-	638,223
Units outstanding - End of year	122,865,143	122,865,143
ACE Aviation Holdings Inc.		
Units outstanding - Beginning of year	-	97,865,143
Exchanged by ACE for Fund Units under shareholder liquidity agreement	-	(97,226,920)
Exchanged by ACE for Fund Units and contributed to a trust to fund Initial LTIP	-	(638,223)
Units outstanding - End of year	-	-
Fund Units held to fund unit based compensation plans (note 16)	(749,882)	(728,290)
Total units outstanding - End of year	122,115,261	122,136,854

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

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

12 Statement of cash flows - supplementary information

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

	2008 $	2007 $
Decrease (increase) in accounts receivable - trade and other	11,730	(12,007)
Decrease (increase) in spare parts, materials and supplies	(8,563)	(10,177)
Decrease (increase) in prepaid expenses	(4,345)	210
Increase (decrease) in accounts payable and accrued liabilities	(7,732)	1,414
Increase (decrease) in other long-term liabilities	(9,115)	(10,970)
	(18,025)	(31,530)

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

13 Economic dependence

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

	2008 $	2007 $
Operating revenue		
Air Canada	1,622,589	1,485,963
Operating expenses		
Air Canada	46,425	49,197
Air Canada Capital Ltd.	92,583	91,413
ACGHS Limited Partnership	64,870	59,534

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

	As at December 31, 2008 $	 2007 $
Accounts receivable		
Air Canada	58,353	71,173
ACGHS Limited Partnership	169	55
Accounts payable and accrued liabilities		
Air Canada	58,752	63,604
Air Canada Capital Ltd.	9,405	7,584
ACGHS Limited Partnership	14,777	13,461
ACE Aviation Holdings Inc.	528	557

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 with the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance, and airport operations for such flights. 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 fees, on a monthly basis, for the capacity provided. These fees consist of a number of variable components based on different metrics, including block hours flown, cycles (which are 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 with current rates 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 $668,557 for the year ended December 31, 2008 (2007 - $556,740).

The fees which are related to controllable costs are paid on the first day of each month based on estimates for that month which are reconciled at the end of the month for actual amounts and which are paid no later than the 30th day of the following month. Pass-through costs are reimbursed by Air Canada 30 days following the month in which they were incurred.

Pursuant to the terms of the CPA, the Partnership and Air Canada agreed to re-set detailed rates (subject to the terms of the contract, including the controllable target margin requirements) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011.

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

13 Economic dependence (continued)

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. Rates under the CPA have been established so as to achieve a controllable target margin of 14.09% for the Partnership, excluding incentive and pass-through revenue, and before the deduction of profit sharing expenses paid to employees as a result of performance achievements 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%, after deducting employee profit sharing expenses, 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, including employee profit sharing expenses; however, it excludes incentive and pass-through revenue. This margin adjustment for the year ended December 31, 2008 of $nil (2007 - $4,574) 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, which is wholly owned by Air Canada, 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.

14 Commitments

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

		As at December 31, 2008	
		Other third parties $	Air Canada and its subsidiaries $
Year ending December 31,	2009	13,451	144,394
	2010	11,839	119,133
	2011	9,090	101,805
	2012	5,658	98,412
	2013	5,095	96,659
	Thereafter	37,096	739,485

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

Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to the Partnership. Future minimum lease payments that will arise under these leases are listed in the above table under the heading “Air Canada and its subsidiaries”.

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

15 Post-employment expenses

The Partnership has recorded pension and other future employee benefit expenses for the year ended December 31, 2008 of $18,049 (2007 - $16,884).

16 Unit based compensation

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

	December 31, 2008		December 31, 2007	
	Initial LTIP	Ongoing LTIP	Initial LTIP	Ongoing LTIP
Number of Fund Units granted	638,223	472,542	638,223	201,438
Number of Fund Units forfeited	(64,201)	(59,259)	(6,000)	-
	574,022	413,283	632,223	201,438
Number of Fund Units vested	(237,423)	-	(105,371)	-
Number of Fund Units outstanding, end of year	336,599	413,283	526,852	201,438
Weighted average remaining life (years)	Nil	1.55	1.00	2.00
Cost of units purchased during the year (1)	$ -	$2,178	$ -	$1,695
Weighted average fair value per Fund Unit on date of grant	$8.55	$8.14	$8.55	$8.42
Compensation expense for the year	$1,850	$1,224	$1,609	$547

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

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

During the year, the Fund granted 271,104 Units under the Ongoing LTIP. The weighted average fair value of these Units was $8.03.

17 Pension and other future employee benefits

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

The Partnership also maintains Other (non-pension) Employee Future Benefits. The Other Employee Future Benefits include medical and dental benefits provided to Jazz employees on long-term disability and Workplace Safety Insurance Board ("WSIB"). These benefits cease to be provided when the employee reaches age 65. The sick leave gratuity benefits represent the payout of sick leave accruals upon or just prior to retirement for eligible employees. The self-insured WSIB benefits are in respect of self-insured benefits provided to Ontario Jazz employees.

The total expense for the Partnership's defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which the Partnership is obligated to make defined contributions only, for the year ended December 31, 2008 is $7,097, and for the year ended December 31, 2007 is $6,474.

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

17 Pension and other future employee benefits (continued)

Total cash payments made in 2008 for registered pension plans were $18,797, which includes cash payments for the Registered Defined Benefit Plan of $11,962 (year ended December 31, 2007 - $16,607; $10,345 for the Registered Defined Benefit Plan). Total cash payments made in 2008 for the Other Employee Future Benefits were $733.

The most recent actuarial valuations of the defined pension benefit plans for funding purposes were as of January 1, 2008 and the next funding valuation will be as of January 1, 2009.

Information about the Partnership's defined benefit plans and other future employee benefits in aggregate, is as follows:

	Pension Benefits		Other Future Employee Benefits
	2008 (1)	2007 (2)	2008 (3)
	$	$	$
Change in benefit obligation			
Benefit obligation, beginning of year(3)	105,308	95,541	5,946
Current service cost	8,963	9,978	1,410
Interest cost	6,712	5,383	368
Plan participants' contributions	6,284	5,549	-
Benefits paid	(2,297)	(3,106)	(733)
Actuarial (gain) loss	(25,965)	(8,037)	995
Benefit obligation, end of year	99,005	105,308	7,986
Change in plan assets			
Fair market value of plan assets, beginning of year	90,147	76,526	-
Actual return on plan assets	(21,317)	953	-
Employer contribution	19,427	10,225	733
Plan participants' contributions	6,283	5,549	-
Benefits paid	(2,297)	(3,106)	(733)
Fair market value of plan assets, end of year	92,243	90,147	-
Funded status, end of year	(6,762)	(15,161)	(7,986)
Employer contributions after measurement date	-	4,969	-
Unamortized net actuarial loss	7,158	5,382	995
Accrued benefit asset (liability)	396	(4,810)	(6,991)

(1) 2008 – Based on a measurement date of December 31, 2008
(2) 2007 – Based on a measurement date of November 30, 2007
(3) 2007 -The initial obligation of $5,946 as at December 31, 2007 has been recognized retrospectively as an adjustment to Partners Capital – see note 20

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

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

17 Pension and other future employee benefits (continued)

Plan assets consist of the following:

	Pension Benefits	
	2008 $	2007 $
Canadian equity	35%	35%
Debt securities	33%	38%
International equity	28%	24%
Short-term and other	4%	3%
	100%	100%

The plan's assets are invested in a balanced fund and include no significant investment in the Fund, if any, at the measurement date, December 31, 2008 or November 30, 2007.

Weighted average assumptions used to determine the accrued benefit liability:

	Pension		Other Future Employee Benefits
	2008 $	2007 $	2008 $
Discount rate to determine accrued benefit obligations	7.10%	5.75%	7.10%
Discount rate to determine the pension and benefit cost	5.75%	5.00%	5.60
Rate of compensation increase	4.00 - 5.00%	4.00 - 5.00%	4.00 - 5.00
Expected return on plan assets	6.40%	6.00%	n/a
Health care inflation - Select to determine accrued benefit obligation	n/a	n/a	6.5%
Health care inflation - Select to determine pension and benefit cost	n/a	n/a	7.1%

The health care inflation assumption was graded down in and after 2012 to 4.5% per annum

The Partnership's net defined benefit pension plan and other future employee benefits expense is as follows:

	Pension		Other Future Employee Benefits
	2008 $	2007 $	2008 $
Components of expense			
Current service cost (including provision for plan expenses)	8,963	9,978	1,410
Interest cost	6,712	5,383	368
Actual return on plan assets	21,317	(953)	-
Actuarial (gain) loss	(25,965)	(8,037)	995
Costs arising in the period	11,027	6,371	2,773
Differences between costs arising in the period and costs recognized in the period in respect of:			
Return on plan assets	(27,772)	(4,050)	-
Actuarial (gain) loss	25,996	8,074	(995)
Net periodic pension and benefit cost recognized	9,251	10,395	1,778

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

18 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 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 with 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	0.79	0.78
Coverage Ratio	>3.5x	15.72	17.09
Minimum Cash Balance (2)	$60,000	$131,685	$122,781

(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.

19 Financial instruments

Jazz's financial instruments consist of cash and cash equivalents, accounts receivable, promissory note receivable, ABCP, accounts payable and accrued liabilities, obligations under capital leases 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, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

19 Financial instruments (continued)

Interest rate risk

Investments included in Jazz's cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Jazz's objective is to maintain these balances in highly liquid investments. As at December 31, 2008, Jazz's investments consisted of bankers' acceptances and bank deposit notes issued by five Schedule 1 banks. 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 settling these contracts early. Jazz entered into an interest rate swap agreement with third parties in respect of $115,000 of debt which has effectively resulted in a fixed interest rate of 7.09% until February 2, 2009. If Jazz had settled these contracts at December 31, 2008, a payment of $472 by Jazz would have resulted.

In the first quarter of 2008, Jazz entered into a second interest swap agreement with a third party in respect of $57,500 of debt. 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 December 31, 2008, a payment of $1,500 by Jazz would have resulted.

In the third quarter of 2008, Jazz entered into a third interest swap agreement with a third party in respect of $57,500 of debt. This swap becomes effective February 2, 2009 and effectively results in a fixed interest rate of 5.73% for the related portion of the credit facility extension, maturing on February 1, 2010. If Jazz had settled these contracts at December 31, 2008, a payment of $1,214 by Jazz would have resulted.

A 1% change in the interest rate would not have a significant impact on the net income of Jazz.

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. Jazz manages the credit risk on cash and cash equivalents by ensuring that 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 prohibit investment in all third party and bank sponsored ABCP, despite any changes on the credit rating on such issues. With respect to investments in ABCP, refer to note 6.

The amount of accounts receivable disclosed in the balance sheet of $71,618 is net of allowances for bad debts of $4, estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. Approximately 82% of receivables are with one company, Air Canada. Accordingly, Jazz is directly affected by the financial and operational strength of Air Canada. 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 maintain sufficient liquidity to meet liabilities when due, as well as to demonstrate compliance with liquidity covenants on financing contracts. Jazz monitors its cash balances and cash flows generated from operations to meet requirements. For discussion on timing of cash flows under the CPA with Air Canada refer to note 13 – Economic Dependence. As at December 31, 2008, the Partnership had $31,168 in unutilized balance of the credit facilities available and cash and cash equivalents of $131,685. As at December 31, 2008, the Partnership had authorized credit facilities of $150,000 and drawings of $115,000, against the facilities. Letters of credit totalling approximately $3,382 (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.

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

19 Financial instruments (continued)

Credit facilities are in place until February 2, 2010 and are provided by a syndicate that consists of seven institutional lenders, including two US financial institutions which are currently subject to US government relief under the Troubled Assets Relief Program. Jazz will have to refinance its available credit facilities, and given current market conditions, it is anticipated that such financing may occur at terms that are less favorable than current terms. Such financing may cause Jazz to reduce or suspend cash distributions or reduce cash available for planned capital expenditures. Jazz is evaluating options to raise cash to refinance all or part of its existing debt. These include, but are not limited to, establishing a replacement bank credit facility, sale and leaseback of owned aircraft which have current market value in excess of carrying value, application of current cash balances, and potential reduction of cash distributions paid.

Currency risk

Jazz receives revenue and incurs expenses in US and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variations. Jazz manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and in particular, obligations under capital leases, which are long-term and so are subject to larger unrealized gains or losses. Jazz minimizes its currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US dollar denominated assets was $41,890 and US denominated liabilities was $56,491 at December 31, 2008. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $146.

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 based on the immediate or short-term maturities of these financial instruments. Due to current market conditions and related increases in risk premiums on credit facilities, management has estimated the fair value of the credit facilities at December 31, 2008 to be $110,000. Financial assets included in the balance sheet include ABCP with an estimated fair value of $2,009 (see note 6 for discussion on determination of fair value of ABCP).

Carrying amounts and fair values

The fair values of financial assets and liabilities, together with the carrying amounts included in the consolidated balance sheets, are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount $	Fair Value $	Carrying Amount $	Fair Value $
Financial assets				
Held for trading				
Cash and cash equivalents	131,685	131,685	122,781	122,781
Asset backed commercial paper	2,009	2,009	4,589	4,589
Loans and receivables				
Accounts receivable	71,618	71,618	83,348	83,348
Promissory note	419	419	628	628
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities (includes current portion of obligations under capital leases)	199,883	199,883	203,922	203,922
Distributions payable	10,296	10,296	11,208	11,208
Long-term debt	114,729	110,000	113,475	113,475
Obligations under capital leases	20,581	20,581	19,017	19,017

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

20 Adjustment to Partners' Capital

Partners' capital has been adjusted to reflect previously unrecorded long-term liabilities related to non-pension future employee benefits in the amount of $5,946 which were assumed on inception of the Partnership, but only recorded in the second quarter of 2008.

21 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. These counterclaims are being vigorously contested by Jazz 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 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 essentially 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. Jazz 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).

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.

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

21 Contingencies (continued)

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).

22 Subsequent event

Jazz has successfully reached an agreement with Air Canada regarding the establishment of new rates for controllable costs that will become payable by Air Canada under the CPA in the next three-year period (2009 to 2011, inclusive). The new rates are retroactive to January 1, 2009.