Jazz Air Income Fund
and
Jazz Air LP

2008
Management's Discussion and Analysis
of Results of Operations and Financial Condition

February 10, 2009

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The following management's discussion and analysis of financial condition and results of operations ("MD&A") of Jazz Air Income Fund (the "Fund") and Jazz Air LP ("Jazz" or the "Partnership") is prepared as at February 10, 2009 and should be read in conjunction with the accompanying audited consolidated financial statements of Jazz Air Income Fund and the notes therein for the year ended December 31, 2008 and the accompanying audited consolidated financial statements of Jazz Air LP and the notes therein for the year ended December 31, 2008. The audited consolidated financial statements of Jazz Air Income Fund and Jazz Air LP are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

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

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

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

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

Caution regarding forward-looking information

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

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A and in, particular, the Risk Factors section of this MD&A. The forward-looking statements contained in this discussion represent Jazz's expectations as of February 10, 2009, and are subject to change after such date. However, Jazz disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

1. OVERVIEW

1.1 Jazz Air Income Fund

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated November 25, 2005 and amended by an amended and restated declaration of trust dated January 24, 2006 (the "Fund Declaration of Trust"). The Fund qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The principal and head office of the Fund is located at 1000 de la Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5. The Fund has been established to acquire and hold, directly or indirectly, investments in Jazz and its general partner Jazz Air Holding GP Inc. ("Jazz GP"), a regional airline, and such other investments as the trustees of the Fund (the "Trustees") may determine.

1.2 Jazz Air LP

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada's domestic and transborder market presence and strategy. Jazz and Air Canada are parties to the Capacity Purchase Agreement ("CPA"), pursuant to which Air Canada currently purchases substantially all of Jazz's fleet capacity based on predetermined rates. Under the CPA, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 817 departures per weekday to 56 destinations in Canada, and 30 destinations in the United States, with an operating fleet of 133 Covered Aircraft as of December 31, 2008. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes.

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

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

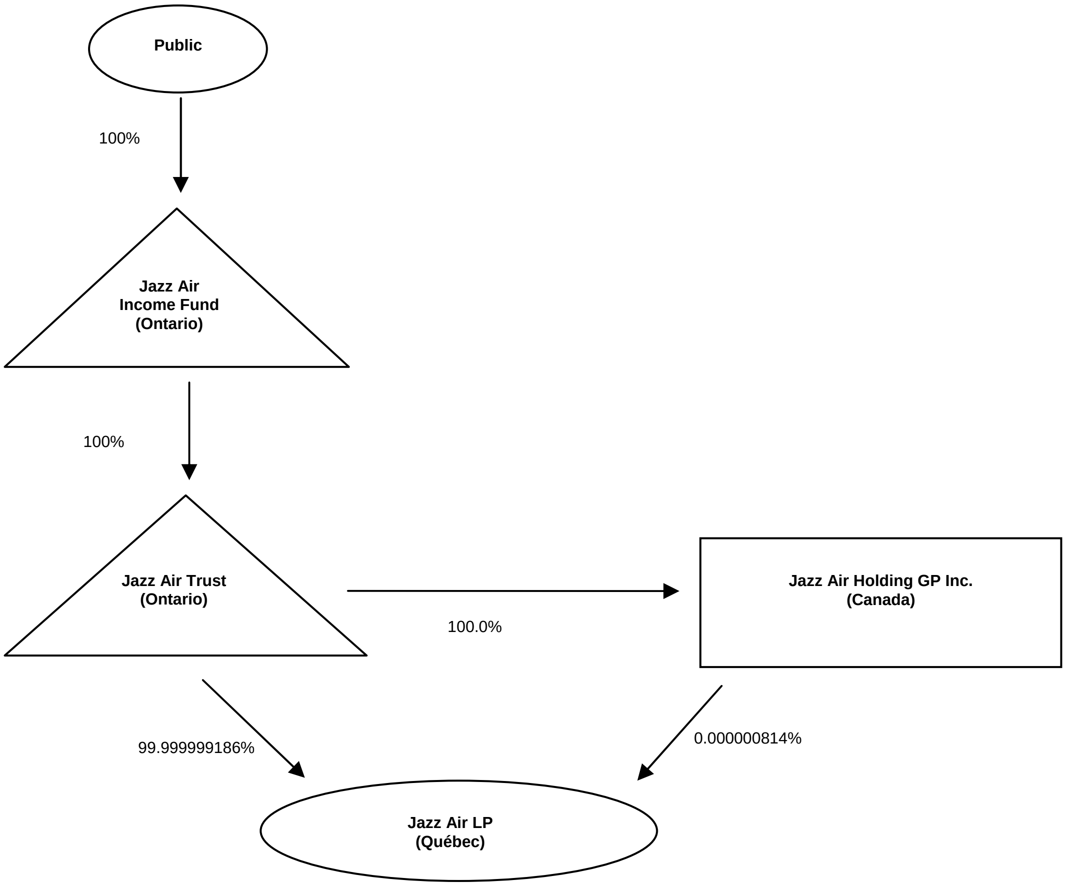
Pursuant to the terms of the CPA, Jazz and Air Canada agreed to re-set detailed rates (subject to the terms of the contract, including the controllable target margin requirements described generally in Section 10 – Economic Dependence) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. Subsequent to December 31, 2008, Jazz 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.

Jazz is directly affected by the financial and operational strength of Air Canada and its competitive position. For further discussion, please see Section 19 - Risk Factors.

Jazz has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Jazz revenues under the CPA do not fluctuate significantly with Passenger Load Factors (refer to Section 10 – Economic Dependence for further discussion of the CPA).

1.3 Organizational structure

The following chart illustrates, on a simplified basis, the structure of the Fund (including the jurisdictions of establishment and incorporation of the various entities) and the indirect investment by the Fund in Jazz as at December 31, 2008.



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

On May 28, 2008, ACE sold its remaining 11,726,920 Units and, to the knowledge of the Fund, presently retains no ownership interest in the Fund.

1.4 Distribution Policy

The Fund intends to make distributions of its available cash (based on distributions received indirectly from Jazz) to the holders of Units ("Unitholders") (refer to Caution regarding forward-looking information and Section 18 - Outlook). Any such distributions will be made to Unitholders of record on the last business day of each month, within 15 days of the end of each month, net of estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions or repurchases of Units, and any tax liability. Distributions to the Unitholders declared amounted to $30.9 million for the three months ended December 31, 2008 ($30.9 million for the three months ended December 31, 2007) and $123.6 million for the year ended December 31, 2008 (2007 - $107.2 million).

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

Jazz intends to make equal cash monthly distributions to the holders of LP Units of record on the last business day of each month, net of estimated cash amounts required for interest expense and maintenance capital expenditures and other obligations of Jazz (refer to Caution regarding forward-looking information and Section 18 – Outlook). In accordance with the limited partnership agreement of Jazz, priority distributions are to be made to the Fund in order to cover the Fund's operating expenses. During the year ended December 31, 2008, no priority distributions were declared by Jazz, as no material operating expenses were incurred by the Fund. Priority distributions in the amount of $0.9 million declared in 2007 were paid to the Fund in the first quarter of 2008. The Fund will reimburse Jazz from the proceeds of a priority distribution once paid by Jazz.

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

2. RECONCILIATION OF THE JAZZ AIR INCOME FUND CONSOLIDATED STATEMENT OF INCOME (LOSS)

	Year ended December 31, 2008		
(in thousands of Canadian dollars)	Jazz $	Fund $	Consolidated Statement $
Operating revenue	1,636,289	-	1,636,289
Operating expenses			
Salaries, wages and benefits	345,210	-	345,210
Aircraft fuel	430,216	-	430,216
Depreciation and amortization [(1)]	30,409	42,100	72,509
Aircraft maintenance	129,533	-	129,533
Airport and navigation fees	199,419	-	199,419
Aircraft rent	127,758	-	127,758
Terminal handling	107,345	-	107,345
Other	118,128	-	118,128
Total operating expenses	1,488,018	42,100	1,530,118
Operating income (loss)	148,271	(42,100)	106,171
Non-operating expenses			
Interest income (expense) [(2)]	(4,367)	98	(4,269)
Gain on disposal of property and equipment	182	-	182
Foreign exchange	(6,263)	-	(6,263)
Goodwill impairment loss [(3)]	-	(153,230)	(153,230)
Loss on ABCP	(2,985)	-	(2,985)
	(13,433)	(153,132)	(166,565)
Income (loss) before future income taxes [(4)]	134,838	(195,232)	(60,394)
Recovery of future income taxes	-	50,984	50,984
Net income (loss) for the year	134,838	(144,248)	(9,410)

[(1)] The additional amortization in the Fund relates to a certain intangible asset. The CPA asset (the rights of Jazz under the CPA) was allocated a fair value in the Fund's step purchase of the LP during 2007. The value of the CPA is amortized on a straight line basis over the life of the agreement.

(2) The Fund earns income from the timing difference of when the distribution payments are transferred from the LP's bank account to the Fund's bank account and when the Fund pays out distributions to Unitholders. Interest is also earned on the cumulative balance held in the Fund's bank account.

(3) Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. The Fund's goodwill arose as a result of its step purchase acquisition of the Partnership during 2007. A full valuation was performed by third party valuators in the fourth quarter of 2007 and, as a result, fair values were allocated to all assets and liabilities at that time. In accordance with Section 3064 of the CICA Handbook "*Goodwill and Intangible Assets*" goodwill is not amortized, rather, it is reviewed for impairment annually, or more frequently, if facts and circumstances warrant a review.

At December 31, 2008 the Fund performed an impairment test of goodwill to compare its carrying value to fair value. The impairment test is based on a two step process. In step one a fair value was determined using two different valuation methods, a market based approach and a Discounted Cash Flow ("DCF") approach. The market based approach derives a fair value based on the market capitalization of the Fund. The DCF approach analyzes future cash flows based on internally developed forecasts and then discounts them based on an industry average weighted average cost of capital. Step one showed a carrying value that exceeded fair value and as a result the Fund proceeded to perform step two.

Step two requires the fair value determined in step one to be allocated to each individual asset and liability (including any previously unrecognized intangible assets), as it would be in a business combination. After performing this allocation there was no remaining fair value to be allocated to goodwill and as a result the entire $153.2 million of goodwill was deemed to be impaired. The impairment loss has been recorded in non-operating expenses.

The circumstances that led to the impairment of goodwill are the challenges and uncertainties in the airline industry. The contributing factors are the deepening recession in 2009, which is expected to put pressure on airline passenger and cargo revenues, the volatility of fuel prices, foreign exchange rates and interest rates, the Fund's economic dependence on Air Canada and tight credit markets.

In determining fair value, management relies on a number of factors including operating results, business plans, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment.

(4) Beginning January 1, 2011 the Fund will become subject to income tax. The future tax expense or recovery is the change in the liability during the period based on the changes of temporary differences during the period. For further explanation see Section 12 – Critical Accounting Estimates.

3. PERFORMANCE INDICATORS

Jazz uses certain non-GAAP financial measures, described below, to evaluate operating performance, to measure compliance with debt covenants and to make decisions relating to distributions to unitholders. These measures are not recognized for financial statement presentation under Canadian GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is a non-GAAP financial measure commonly used throughout all industries to view operating results before interest expense, interest income, depreciation and amortization, gains and losses on property and equipment and other non-operating income and expense. Management believes EBITDA assists investors in comparing Jazz's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost. EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows.

Distributable Cash

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

Standardized Distributable Cash

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

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

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

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

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
(expressed in thousands of Canadian dollars)	$	$	$	$
Operating income	39,727	36,030	148,271	153,159
Depreciation and amortization	7,877	6,833	30,409	24,307
EBITDA	47,604	42,863	178,680	177,466
EBITDA margin (%) [(1)]	*12.1*	*11.5*	*10.9*	*11.9*
EBITDA	47,604	42,863	178,680	177,466
Non-operating expenses	(4,808)	(932)	(13,433)	(2,505)
Maintenance capital expenditures [(2)]	(5,399)	(8,875)	(20,661)	(23,679)
Distributable cash	37,397	33,056	144,586	151,282

(1) EBITDA margin is calculated as EBITDA divided by operating revenues.
(2) Refer to Section 8 for further discussion.

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

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
(expressed in thousands of Canadian dollars)	$	$	$	$
Cash flows from operating activities	32,616	4,346	155,903	143,767
Maintenance capital expenditures, net of gain on disposal	(5,225)	(8,875)	(20,479)	(23,663)
Standardized distributable cash	27,391	(4,529)	135,424	120,104
Change in non-cash operating working capital [1]	14,183	36,597	18,025	31,530
Amortization of prepaid aircraft rent and related fees [1]	(482)	(474)	(1,928)	(1,820)
Unit based compensation [1]	(770)	(613)	(3,074)	(2,156)
Funding of unit based compensation, net of forfeitures [1]	20	12	1,831	1,695
Foreign exchange gain (loss) [1]	(2,748)	662	(4,090)	947
Unrealized loss on Asset Backed Commercial Paper ("ABCP") [1]	-	(287)	(2,985)	(867)
Other [1]	(197)	1,688	1,383	1,849
Distributable cash	37,397	33,056	144,586	151,282
Distributions declared	30,888	30,888	123,552	123,552
Payout ratio - distributions declared/ standardized distributable cash	*112.7%*	*(682.0)%*	*91.2%*	*102.9%*
Payout ratio - distributions declared/ distributable cash	*82.6%*	*93.4%*	*85.5%*	*81.7%*

Cumulative – since IPO [2]

Standardized distributable cash	434,377	298,953
Distributable cash	421,811	277,225
Distributions declared	345,313	221,761
Standardized distributable cash payout ratio	*79.5%*	*74.2%*
Distributable cash payout ratio	*81.9%*	*80.0%*

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

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

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

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2008	Year ended December 31, 2008	Year ended December 31, 2007	Period from February 2, 2006 to December 31, 2006 [1]
Cash flows from operating activities	32,616	155,903	143,767	202,297
Net income	34,919	134,838	150,654	129,639
Cash distributions declared relating to the period	30,888	123,552	123,552	98,209
Excess of cash flows from operating activities over cash distributions declared	1,728	32,351	20,215	104,088
Excess of net income over cash distributions declared	4,031	11,286	27,102	31,430
Payout ratios				
Distributions declared/cash flows from operating activities	94.7%	79.2%	85.9%	48.5%
Distributions declared/net income	88.5%	91.6%	82.0%	75.8%

[1] Period covered is post February 2, 2006, the IPO date.

4. JAZZ FINANCIAL HIGHLIGHTS

Operating revenue of $392.7 million and $1,636.3 million for the three months and year ended December 31, 2008, an increase of 5.5% and 9.4%, respectively.

Operating income of $39.7 million and $148.3 million for the three months and year ended December 31, 2008, an increase of 10.3% and a decrease of 3.2%, respectively.

EBITDA of $47.6 million and $178.7 million for the three months and year ended December 31, 2008, an increase of $4.7 million or 11.1%; and an increase of $1.2 million or 0.7%, respectively.

Distributable cash of $37.4 million and $144.6 million for the three months and year ended December 31, 2008, an increase of $4.3 million and a decrease of $6.7 million, respectively.

Controllable Cost per Available Seat Mile (Controllable CASM) of 15.40¢ and 14.49¢ for the three months and year ended December 31, 2008, an increase of 11.6% and 5.9%, respectively.

Key Financial Information

(expressed in thousands of Canadian dollars, except earnings per unit)	Three months ended December 31, 2008	2007	Year ended December 31, 2008	2007	2006
	$	$	$	$	$
Revenue	392,684	372,119	1,636,289	1,495,389	1,381,207
Operating income	39,727	36,030	148,271	153,159	143,769
Net income	34,919	35,098	134,838	150,654	140,042
Cash and cash equivalents	131,685	122,781	131,685	122,781	134,865
Total assets	516,758	518,502	516,758	518,502	483,153
Long-term debt	114,729	113,475	114,729	113,475	115,000
Total long-term liabilities	190,982	191,382	190,982	191,382	186,693
EBITDA	47,604	42,863	178,680	177,466	165,031
Distributions declared	30,888	30,888	123,552	123,552	98,209
Distributable cash	37,397	33,056	144,586	151,282	136,519
Standardized distributable cash	27,391	(4,529)	135,424	120,104	157,589
Cash provided by operating activities	32,616	4,346	155,903	143,767	182,321
Per Proforma LP Unit [(1)]					
Operating income	0.32	0.29	1.21	1.25	1.17
Net income	0.28	0.29	1.10	1.23	1.14
Distributions declared	0.25	0.25	1.01	1.01	0.80
Distributable cash	0.30	0.27	1.18	1.23	1.11
Standardized distributable cash	0.22	(0.04)	1.10	0.98	1.28

(1) Calculated on a proforma basis to include 122,865,144 LP Units for the period presented.

5. RESULTS OF OPERATIONS – FOURTH QUARTER ANALYSIS

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

(expressed in thousands of Canadian dollars, except earnings per unit)	Three months ended December 31, 2008	Three months ended December 31, 2007	Change	Change
	$	$	$	%
Operating revenue	392,684	372,119	20,565	5.5
Operating expenses				
Salaries, wages and benefits	83,212	82,526	686	0.8
Aircraft fuel	89,464	83,435	6,029	7.2
Depreciation and amortization	7,877	6,833	1,044	15.3
Aircraft maintenance	30,474	29,925	549	1.8
Airport and navigation fees	47,950	48,687	(737)	(1.5)
Aircraft rent	36,456	28,717	7,739	26.9
Terminal handling	30,676	25,011	5,665	22.7
Other	26,848	30,955	(4,107)	(13.3)
Total operating expenses	352,957	336,089	16,868	5.0
Operating income	39,727	36,030	3,697	10.3
Non-operating income (expenses)				
Net interest expense	(1,174)	(260)	(914)	(351.5)
Gain on disposal of property and equipment	174	-	174	100.0
Foreign exchange loss	(3,808)	(385)	(3,423)	(889.1)
Unrealized loss on Asset Backed Commercial Paper	-	(287)	287	100.0
	(4,808)	(932)	(3,876)	(415.9)
Net income for the periods	34,919	35,098	(179)	(0.5)
Earnings per Unit, basic and diluted	0.28	0.29	(0.01)	(3.4)

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

Jazz reported operating income of $39.7 million, an increase of $3.7 million. EBITDA was $47.6 million, an increase of $4.7 million or 11.1% (refer to Section 3 - "Performance Indicators").

Total operating revenue increased by $20.6 million or 5.5%, which primarily reflects a higher US dollar exchange rate and an increase in fuel costs. Fuel costs are pass-through costs under the CPA and therefore also recorded as revenue.

Operating expenses increased by $16.9 million or 5.0%. Pass-through costs represented $6.8 million or 40.5% of the total increase in operating costs. Pass-through costs rose primarily as a result of higher fuel costs. Controllable Costs (includes costs related to operations not covered under the CPA) represented $10.0 million or 59.5% of the total increase in operating costs, which rose primarily as a result of increased costs related to depreciation, salaries, wages and benefits, and aircraft rent.

Non-operating expenses amounted to $4.8 million, an increase of $3.9 million. The change was mainly attributable to increased net interest expense and a foreign exchange loss arising as a result of the reduction in value of the Canadian dollar relative to the US dollar.

Net income was $34.9 million, a decrease of $0.2 million.

5.2 Revenue performance – Fourth Quarter 2008 versus Fourth Quarter 2007

Operating Revenue

Operating revenue increased from $372.1 million to $392.7 million in the fourth quarter of 2008, representing an increase of 5.5%. The increase in revenue can be primarily attributed to a $6.8 million increase in pass-through costs under the CPA, a higher US dollar exchange rate, no margin adjustment recorded in the quarter due to the year-to-date 2008 performance being below the target margin of 14.09%, (whereas, a margin adjustment was recorded in the fourth quarter of 2007) and annual rate increases made pursuant to the CPA.

For the three-month period ended December 31, 2008, performance incentives payable by Air Canada to Jazz under the CPA amounted to $3.6 million or 1.5% of Jazz's Scheduled Flights Revenue. For the same period in 2007, performance incentives under the CPA amounted to $4.0 million or 1.8% of Jazz's Scheduled Flights Revenue.

Other revenue increased from $1.4 million to $3.7 million. Other revenue is earned from charter flights and other sources such as groundhandling services.

Key statistical information is as follows:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Variance (absolute)	Variance (%)
Number of Departures for the Period Ended	67,552	70,259	(2,707)	(3.9)
Block Hours for the Period Ended	95,130	99,804	(4,674)	(4.7)
Billable Block Hours	98,232	102,158	(3,926)	(3.8)
Passengers	2,244,562	2,396,418	(151,856)	(6.3)
Revenue Passenger Miles (RPMs) (000's)	937,993	1,025,108	(87,115)	(8.5)
Available Seat Miles (ASMs) (000's)	1,319,052	1,398,828	(79,776)	(5.7)
Passenger Load Factor (%)	71.1	73.3	(2.2)	(3.0)
Total Operating Expenses ($000's)	352,957	336,089	16,868	5.0
Cost per Available Seat Mile (CASM) (¢)	26.76	24.03	2.73	11.4
Cost per Available Seat Mile Excluding Aircraft Fuel (¢)	19.98	18.06	1.92	10.6
Controllable Cost per Available Seat Mile (¢)	15.40	13.80	1.60	11.6
Number of Operating Aircraft (end of period) [1]	137	136	1	0.7

(1) Refer to Section 14 – Fleet.

5.3 Cost performance – Fourth Quarter 2008 versus Fourth Quarter 2007

Operating Expenses

Total operating expenses increased from $336.1 million to $353.0 million, an increase of $16.9 million or 5.0%.

- Salaries, wages and benefits increased by $0.7 million due to: increased maintenance FTE's necessary to support the ongoing heavy maintenance requirements, wage and scale increases under collective agreements and severance; offset by lower Block Hours for flight operations.

- Aircraft fuel costs increased by $6.0 million due to an increase of $12.2 million in fuel price; offset by a $6.2 million decrease in fuel usage related to Block Hours and various fuel consumption reduction initiatives.

- Depreciation and amortization expense increased by $1.0 million due to a change in accounting estimates implemented during the second quarter of 2008 for aircraft and certain flight equipment, and increased capital expenditures on flight equipment.

- Aircraft maintenance expense increased by $0.5 million as a result of: the effect of the increase in the US dollar exchange rate on certain material purchases, supplies and contracts for $5.1 million, an increase in other maintenance costs of $0.6 million; offset by insurance claim credits primarily related to aircraft engine events for $2.8 million, a reduction in Block Hours flown for $1.4 million, and collection of penalties applicable to certain supplier related contracts for $1.0 million.

- Airport and navigational fees decreased by $0.7 million due to a decrease in airport fees for $0.2 million and a decrease in navigational fees for $0.5 million as a result of a decrease in departures of 3.9%; offset by a general rate increase.

- Aircraft rent increased by $7.7 million mainly due to higher US dollar exchange rates, the addition of one CRJ705 and two new charter aircraft, and new lease arrangements with respect to certain aircraft.

- Terminal handling costs increased by $5.7 million due to an increase in de-icing costs and changes in aircraft deployment by station which resulted in rate increases.

- Other expenses decreased by $4.1 million due to a decrease in travel and training in pilot and maintenance areas, uniform purchases, and other general overhead expenses.

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

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

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2008 $	Three months ended December 31, 2007 $	Change $	Change %
Pass-through cost items				
Fuel	88,966	83,473	5,493	6.6
Navigational fees	18,223	18,795	(572)	(3.0)
Airport user fees	29,494	29,880	(386)	(1.3)
De-icing (1)	7,672	6,697	975	14.6
Terminal handling (1)	2,733	2,303	430	18.7
Other (2)	2,776	1,880	896	47.7
Total pass-through costs	149,864	143,028	6,836	4.8
Controllable Cost items				
Salaries, wages and benefits	83,212	82,526	686	0.8
Aircraft maintenance, materials and supplies	30,474	29,925	549	1.8
Aircraft rent and other ownership costs	36,456	28,717	7,739	26.9
Terminal handling services (1)	20,271	16,011	4,260	26.6
Depreciation	7,877	6,833	1,044	15.3
Other (2)	24,803	29,049	(4,246)	(14.6)
Total Controllable Costs (3)	203,093	193,061	10,032	5.2
Total Operating Costs	352,957	336,089	16,868	5.0

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

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

	Three months ended December 31, 2008				Three months ended December 31, 2007			
(in thousands of Canadian dollars)	Revenue $	Expenses $	Operating Margin $	Operating Margin %	Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	235,450	200,350	35,100	14.9	223,720	192,071	31,649	14.1
Pass-throughs	149,864	149,864	-	-	143,028	143,028	-	-
Incentives	3,621	-	3,621	100.0	4,016	-	4,016	100.0
Other	3,749	2,743	1,006	26.8	1,355	990	365	26.9
	392,684	352,957	39,727	10.1	372,119	336,089	36,030	9.7

The Controllable Adjusted Actual Margin was 14.91%, which is greater than the target margin as established under the CPA of 14.09% (refer to Section 10 – Economic Dependence) by 82 basis points, or approximately $1.9 million. This compares to the fourth quarter of 2007 Controllable Adjusted Actual Margin of 14.15%, which was approximately $0.1 million greater than the target margin of 14.09%.

CPA revenue increased by 5.2% or $11.7 million as a result of: no margin adjustment recorded in the quarter due to the year-to-date 2008 performance being below the target margin of 14.09% (a margin adjustment was recorded in the fourth quarter of 2007); annual rate increases made pursuant to the CPA and a higher US dollar exchange rate. CPA Controllable Costs increased by 4.3%, or $8.3 million, as a result of increases in all Controllable Cost expenses (refer to Section 5.3 for discussion on quarter-over-quarter changes in operating expenses). Quarter-over-quarter, the CPA generated an extra $3.4 million in the Controllable Adjusted Actual Margin.

Jazz earned 65% of the incentives available under the CPA, or $3.6 million, versus last year's incentives of 76% or $4.0 million. Incentives earned were lower, primarily as a result of the consequential impact of inclement weather conditions leading to lower on-time performance.

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

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

The following table compares the results of operations of Jazz for year ended December 31, 2008 to December 31, 2007.

(expressed in thousands of Canadian dollars, except earnings per unit)	Year ended December 31, 2008 $	Year ended December 31, 2007 $	Change $	Change %
Operating revenue	1,636,289	1,495,389	140,900	9.4
Operating expenses				
Salaries, wages and benefits	345,210	335,162	10,048	3.0
Aircraft fuel	430,216	320,463	109,753	34.2
Depreciation and amortization	30,409	24,307	6,102	25.1
Aircraft maintenance	129,533	119,486	10,047	8.4
Airport and navigation fees	199,419	198,249	1,170	0.6
Aircraft rent	127,758	126,999	759	0.6
Terminal handling	107,345	99,403	7,942	8.0
Other	118,128	118,161	(33)	(0.0)
Total operating expenses	1,488,018	1,342,230	145,788	10.9
Operating income	148,271	153,159	(4,888)	(3.2)
Non-operating income (expenses)				
Net interest expense	(4,367)	(1,354)	(3,013)	(222.5)
Gain on disposal of property and equipment	182	16	166	1,037.5
Foreign exchange loss	(6,263)	(300)	(5,963)	(1,987.7)
Unrealized loss on Asset Backed Commercial Paper	(2,985)	(867)	(2,118)	(244.3)
	(13,433)	(2,505)	(10,928)	(436.2)
Net income for the period	134,838	150,654	(15,816)	(10.5)
Earnings per Unit, basic and diluted	1.10	1.23	(0.13)	(10.6)

6.1 Comparison of results – 2008 versus 2007

Jazz reported operating income of $148.3 million, a decrease of $4.9 million. EBITDA was $178.7 million, an increase of $1.2 million or 0.7% (refer to Section 3 - “Performance indicators”).

Total operating revenue was up $140.9 million or 9.4%, which reflects a 1.0% increase in the Billable Block Hours and an increase in pass-through costs, including fuel costs, which under the CPA are recorded as revenue.

Operating expenses increased by $145.8 million or 10.9%. Pass-through costs represented $111.8 million or 76.7% of the total increase in operating costs. Pass-through costs rose primarily as a result of the rise in fuel prices and increased de-icing costs due to inclement weather conditions. Controllable Costs (includes costs related to operations not covered under the CPA) represented $34.0 million or 23.3% of the total increase in operating costs, which rose primarily as a result of increased costs related to aircraft maintenance, depreciation, and salaries, wages and benefits.

Non-operating expenses were $13.4 million in 2008, an increase of $10.9 million. The change is mainly attributable to increased net interest expense resulting from lower interest income, a foreign exchange loss arising as a result of the reduction in value of the Canadian dollar relative to the US dollar, and a fair value adjustment related to ABCP (refer to Section 9 – Financial Instruments and Risk Management).

Net income for 2008 was $134.8 million compared to $150.7 million recorded in 2007, a decrease of $15.8 million.

6.2 Revenue performance – 2008 versus 2007

Operating Revenue

Operating revenue increased from $1,495.4 million to $1,636.3 million, representing an increase of 9.4%. The increase in revenue can be primarily attributed to a 1.0% increase in Billable Block Hours, a $111.8 million increase in pass-through costs, no margin adjustment recorded due to the year-to-date 2008 performance being below the target margin of 14.09% (a margin adjustment was recorded in respect of 2007), and annual rate increases made pursuant to the CPA.

Performance incentives payable by Air Canada to Jazz under the CPA amounted to $15.7 million or 1.7% of Jazz's Scheduled Flights Revenue. For the same period in 2007, performance incentives payable by Air Canada to Jazz amounted to $16.7 million or 1.8% of Jazz's Scheduled Flights Revenue.

Other revenue increased from $8.3 million to $13.4 million. Other revenue is earned from charter flights and other sources such as groundhandling services.

Key statistical information is as follows:

	Year ended December 31, 2008	Year ended December 31, 2007	Variance (absolute)	Variance (%)
Number of Departures for the Year	286,820	284,949	1,871	0.7
Block Hours for the Year	401,041	401,134	(93)	(0.0)
Billable Block Hours	410,764	406,821	3,943	1.0
Sector Passengers	9,718,207	9,734,161	(15,954)	(0.2)
Revenue Passenger Miles (RPMs) (000's)	4,104,053	4,265,577	(161,524)	(3.8)
Available Seat Miles (ASMs) (000's)	5,657,022	5,740,616	(83,594)	(1.5)
Passenger Load Factor (%)	72.5	74.3	(1.8)	(2.4)
Total Operating Expenses ($000's)	1,488,018	1,342,230	145,788	10.9
Cost per Available Seat Mile (CASM) (¢)	26.30	23.38	2.92	12.5
Cost per Available Seat Mile Excluding Aircraft Fuel (¢)	18.70	17.80	0.90	5.1
Controllable Cost Per Available Seat Mile (¢)	14.49	13.68	0.81	5.9
Number of Operating Aircraft (end of year) [(1)]	137	136	1	0.7

(1) Refer to Section 14 - Fleet

6.3 Cost performance – 2008 versus 2007

Operating Expenses

Total operating expenses increased from $1,342.2 million to $1,488.0 million, an increase of 10.9%.

- Salaries, wages and benefits increased by $10.0 million due to: increased maintenance FTE's and additional overtime necessary to support the ongoing heavy maintenance programs for $3.5 million, additional Billable Block Hours and contractual increases related to flight operations and inflight for $2.2 million, wage and scale increases under collective agreements and additional FTE's in other areas for $3.2 million and severance for $1.1 million.

- Aircraft fuel costs increased by $109.8 million due to an increase of $119.1 million in fuel price, as the average base price for jet fuel has risen versus 2007; offset by a $1.3 million decrease in fuel usage related to changes in aircraft deployment, and reduced fuel burn of $8.0 million due to consumption reduction initiatives.

- Depreciation and amortization expense increased by $6.1 million due to increased capital expenditures on flight and ground equipment, the entering into of new capital leases, and a change in accounting estimate implemented during the second quarter of 2008 for aircraft and certain flight equipment.

- Aircraft maintenance increased by $10.0 million as a result of: an increase in maintenance material cost related to heavy checks for $2.8 million, increased heavy maintenance outsourcing for $2.8 million, other unplanned events to engines for $1.2 million, and $5.1 million in other maintenance materials, supplies and contracts; offset by a reduction in a valuation provision for Dash 8 rotable inventory for $1.9 million.

- Airport and navigational fees increased by $1.2 million due to an increase in airport fees for $3.3 million as a result of a general rate increase and changes in aircraft deployment; offset by a decrease in navigational fees for $2.1 million as a result of increased transborder flying as well as changes in aircraft deployment.

- Aircraft rent increased by approximately $0.8 million mainly due to the addition of one CRJ705 and two charter aircraft; offset by a lower US dollar exchange rate and new lease arrangements with respect to certain aircraft.

- Terminal handling costs increased by $7.9 million due primarily to an increase in de-icing costs for $3.4 million, and $4.5 million due to changes in aircraft deployment by station which resulted in rate increases.

- Other expenses were consistent with 2007.

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

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

(expressed in thousands of Canadian dollars)	Year ended December 31, 2008 $	Year ended December 31, 2007 $	Change $	Change %
Pass-through cost items				
Fuel	427,743	320,291	107,452	33.5
Navigational fees	76,254	78,620	(2,366)	(3.0)
Airport user fees	122,712	119,567	3,145	2.6
De-icing [(1)]	21,704	18,270	3,434	18.8
Terminal handling [(1)]	10,472	10,270	202	2.0
Other [(2)]	9,672	9,722	(50)	(0.5)
Total pass-through costs	668,557	556,740	111,817	20.1
Controllable cost items				
Salaries, wages and benefits	345,210	335,162	10,048	3.0
Aircraft maintenance, materials and supplies	129,533	119,486	10,047	8.4
Aircraft rent and other ownership costs	127,758	126,999	759	0.6
Terminal handling services [(1)]	75,169	70,863	4,306	6.1
Depreciation	30,409	24,307	6,102	25.1
Other [(2)]	111,382	108,673	2,709	2.5
Total Controllable Costs [(3)]	819,461	785,490	33,971	4.3
Total Operating Costs	1,488,018	1,342,230	145,788	10.9

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

6.4 Operating margin performance – 2008 versus 2007

	Year ended December 31, 2008				Year ended December 31, 2007			
(in thousands of Canadian dollars)	Revenue $	Expenses $	Operating Margin $	Operating Margin %	Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	938,643	809,193	129,450	13.8	913,617	780,771	132,846	14.5
Pass-throughs	668,557	668,557	-	-	556,740	556,740	-	-
Incentives	15,650	-	15,650	100.0	16,730	-	16,730	100.0
Other	13,439	10,268	3,171	23.6	8,302	4,719	3,583	43.2
	1,636,289	1,488,018	148,271	9.1	1,495,389	1,342,230	153,159	10.2

The Controllable Adjusted Actual Margin was 13.79%, which is less than the target margin, as established under the CPA of 14.09% (refer to Section 10 – Economic Dependence) by 30 basis points, or approximately $2.8 million. This compares to the year ended 2007 Controllable Adjusted Actual Margin of 14.54%, which was approximately $4.1 million greater than the target margin of 14.09%.

CPA revenue increased by 2.7% or $25.0 million, as a result of: no margin adjustment recorded due to the year-to-date 2008 performance being below the target margin of 14.09% (a margin adjustment was recorded in 2007), annual rate increases made pursuant to the CPA, increased Billable Block Hours, and a change in the fleet mix due to the addition of one CRJ705 in November 2007; offset by a lower US dollar exchange rate. CPA Controllable Costs increased by 3.6%, or $28.4 million as a result of increases in Controllable Cost expenses (refer to Section 6.3 for discussion on period-over-period change in operating expenses). Period-over-period, the CPA experienced a decrease of $3.4 million in the Controllable Adjusted Actual Margin.

Jazz earned 71% of the incentives available under the CPA or $15.7 million versus last year's incentives of 78% or $16.7 million. Incentives earned are lower, primarily as a result of the consequential impact of inclement weather conditions leading to lower on-time performance.

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

7. QUARTERLY FINANCIAL DATA

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

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Operating revenue ($000)	364,176	375,320	383,774	372,119	396,361	409,805	437,439	392,684
Operating expenses ($000)	327,841	335,419	342,881	336,089	362,004	380,988	392,069	352,957
Operating income ($000)	36,335	39,901	40,893	36,030	34,357	28,817	45,370	39,727
Total non-operating income (expense) ($000)	(1,036)	649	(1,186)	(932)	(4,091)	(1,418)	(3,116)	(4,808)
Net income ($000)	35,299	40,550	39,707	35,098	30,266	27,399	42,254	34,919
Net income per unit ($) [1]	0.29	0.33	0.33	0.29	0.25	0.22	0.34	0.28
Billable Block Hours	97,711	100,318	106,634	102,158	105,347	100,860	106,325	98,232
Revenue Passenger Miles (000's)	978,044	1,097,921	1,164,504	1,025,108	1,045,289	1,045,842	1,074,929	937,993
Available Seat Miles (000's)	1,327,937	1,463,064	1,550,787	1,398,828	1,412,000	1,423,318	1,502,652	1,319,052
Passenger Load Factor (%)	73.7	75.0	75.1	73.3	74.0	73.5	71.5	71.1
Cost per Available Seat Mile (CASM) (¢)	24.69	22.93	22.11	24.03	25.64	26.77	26.09	26.76
CASM, excluding fuel expense (¢)	19.36	17.36	16.64	18.06	19.04	18.67	17.29	19.98
Controllable CASM (¢)	14.82	13.39	12.88	13.80	14.44	14.68	13.54	15.40
Controllable Adjusted Actual Margin (%)	14.1	14.9	14.9	14.1	12.9	10.5	16.7	14.9
EBITDA ($000)	41,688	45,553	47,362	42,863	41,406	36,881	52,789	47,604
Distributable Cash ($000)	33,616	41,132	43,478	33,056	32,851	30,063	44,275	37,397

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

8. LIQUIDITY AND CAPITAL RESOURCES

The recent global financial crisis has tightened liquidity in the financial markets and has affected investor confidence in global equity markets, leading to significant declines in global market indices and negatively impacting the value of publicly-traded securities of many companies. Management has evaluated aspects of the Fund and the Partnership's business and financial condition that could be affected by these conditions as they currently exist. As at the date of this report, no material adverse consequences with respect to liquidity capacity have occurred.

Jazz continues to generate positive operating income and cash flows from operations. At December 31, 2008, the Partnership had $131.7 million in cash and cash equivalents on hand, representing an increase of $8.9 million or 7.3% from December 31, 2007. Despite the difficult credit market conditions, Jazz currently maintains the ability to generate sufficient cash flow to fund cash distributions, planned capital expenditures and to service its debt obligations. (Refer to Caution regarding forward-looking information.)

Assets decreased from December 31, 2007 as a result of a decrease in accounts receivable, offset by the acquisition of spare parts and materials necessary to support the operational fleet and by a fair value adjustment related to the ABCP (refer to Section 9 – Financial Instruments and Risk Management). Long-term liabilities decreased as a result of a reduction in deferred operating lease inducements and pension liabilities; offset by an increase in obligations under capital leases as a result of a higher foreign exchange rate, and an increase in post-employment future benefits assumed on inception of the Partnership, but only recorded in respect of the second quarter of 2008.

Summary of Cash Flows

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

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
(expressed in thousands of Canadian dollars)	$	$	$	$
Cash provided by operating activities	32,616	4,346	155,903	143,767
Cash used in financing activities	(31,543)	(31,280)	(126,730)	(126,582)
Cash used in investing activities	(5,225)	(8,875)	(20,269)	(29,269)
Net change in cash and cash equivalents during the periods	(4,152)	(35,809)	8,904	(12,084)
Cash and cash equivalents – Beginning of periods	135,837	158,590	122,781	134,865
Cash and cash equivalents – End of periods	131,685	122,781	131,685	122,781

Operating activities

Jazz continued to generate positive cash flows from operations of $32.6 million and $155.9 million for the fourth quarter and year ended 2008, compared to $4.3 million and $143.8 million for the same periods in 2007. The increase for the quarter and for the year 2008 primarily relates to a decrease in accounts receivable.

Financing activities

Cash used in financing activities for the fourth quarter and year ended 2008 included distributions to the holders of LP Units of Jazz of $30.9 million and $123.6 million, respectively, a priority distribution of $0.9 million to the Fund declared in 2007 and paid during the 2008 period, and $0.7 million and $2.3 million, respectively, for repayment of obligations under capital leases.

Cash used in financing activities for the fourth quarter and year ended 2007 include distributions to the holders of LP Units of Jazz of $30.9 million and $125.8 million, respectively, and $0.7 million related to the repayment of obligations under capital leases.

Investing activities

Fourth quarter and year ended 2008 investing activities included capital expenditures of $5.4 million and $20.7 million, respectively. Capital expenditures consisted of capital investments in maintenance information system replacement, replenishment of aircraft rotable parts to support the operational fleet, and other purchases to support the ongoing operations. Cash provided by investing activities included the collection of a long-term receivable of $0.2 million.

Fourth quarter and year ended 2007 investing activities included capital expenditures of $8.9 million and $23.7 million, respectively. Capital expenditures consist of capital investments in the areas of information systems infrastructure, maintenance information system replacement, and cockpit standardization on the CRJ100 fleet. Other amounts used in investing activities included $5.8 million that relates to asset backed commercial paper (refer to Section 9 – Financial Instruments and Risk Management). Cash provided by investing activities included a repayment of long-term receivable of $0.2 million.

Contractual obligations and other commitments

The table below provides for Jazz's principal cash debt payments and 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 for the years 2009 through to 2013 and thereafter.

(expressed in thousands of Canadian dollars)			Payments Due by Period				
	Total $	2009 $	2010 $	2011 $	2012 $	2013 $	After 5 years $
Term facility	115,000	-	115,000	-	-	-	-
Capital leases	31,072	4,796	4,796	4,764	4,367	4,341	8,008
Operating leases Air Canada and its subsidiaries (1)	1,299,888	144,394	119,133	101,805	98,412	96,659	739,485
Operating leases Other third parties	82,229	13,451	11,839	9,090	5,658	5,095	37,096
	1,528,189	162,641	250,768	115,659	108,437	106,095	784,589

(1) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Jazz. These leases are listed in the above table under the heading "Air Canada and its subsidiaries". For further discussion, refer to Section 10 – Economic Dependence.

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

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 $3.4 million. 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, $114.4 million were in the form of bankers' acceptances with a 90 day term and an effective interest rate of 5.45%. A further $0.6 million 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 $115.0 million 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 Jazz. The net book value of the property and equipment pledged as collateral related to the Credit Facilities at December 31, 2008 was $199.7 million (2007 - $203.2 million). Jazz's obligations in respect of the Credit Facilities are also guaranteed by each of the Trust and Jazz GP, with the Trust providing a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations, and with Jazz GP providing a pledge of its interests in Jazz as security for its guarantee obligations. The Fund also provides certain covenants in favour of the lenders pursuant to a collateral covenant agreement. Any failure by the Fund to comply with the covenants contained in this agreement would constitute an event of default in respect of the Credit Facilities.

The continued availability of the Credit Facilities is subject to Jazz's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants.

The Credit Facilities of Jazz contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations in respect of the payment of distributions. The terms of the Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz to holders of record of LP Units during any twelve-month period to the aggregate distributable cash of Jazz during such period. Distributions by Jazz are also prohibited upon the occurrence and continuance of an event of default under the Credit Facilities. As at December 31, 2008, Jazz is in compliance with all conditions of the Credit Facilities.

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

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

Jazz has entered into a common terms agreement for an aircraft lease which is also designed to cover potential future leases with the same company. The agreement contains the following financial covenants:

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

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. The Partnership 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.

Units

As at December 31, 2008, and as at the date of this report, February 10, 2009, the Fund had 122,864,012 Units issued and outstanding, compared to 122,864,066 Units issued and outstanding at December 31, 2007. The Fund's Units are publicly traded, whereas Jazz's Units are not, and are 100% owned, indirectly, by the Fund.

The Fund's basic and diluted earnings per Unit, before future income tax, amounted to $(1.05) for the three months ended December 31, 2008 ($0.22 for the three months ended December 31, 2007) and $(0.49) for the year ended December 31, 2008 ($0.88 for the year ended December 31, 2007).

The Fund's basic and diluted earnings per Unit, after future income tax, amounted to $(0.71) for the three months ended December 31, 2008 ($0.10 for the three months ended December 31, 2007) and $(0.08) for the year ended December 31, 2008 ($0.14 for the year ended December 31, 2007).

Off balance sheet arrangements and guarantees

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 most of the 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 generally excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, Jazz typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

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

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 excluding liabilities that arise from the service provider's gross negligence or willful misconduct.

Jazz has indemnification obligations to its directors and officers. Pursuant to such obligations, Jazz indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to Jazz.

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

Capital expenditures

Capital expenditures are incurred by Jazz to maintain, replace and add to its existing capital assets. Jazz separates its capital expenditures into three categories: leasehold improvements, (which include improvements made to leased aircraft) aircraft related (includes aircraft related communication, equipment and tooling, aircraft rotable parts and engines), and facilities and owned buildings.

	Capital Expenditures for the Year Ended December 31,		Planned Capital Expenditures for the Year Ended December 31,				
(expressed in thousands of Canadian dollars)	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $
Leasehold improvements	10,132	1,431	7,000	7,000	7,000	7,000	7,000
Aircraft related	13,102	19,062	16,000	16,000	16,000	16,000	16,000
Facilities and owned buildings	445	168	-	-	-	-	-
	23,679	20,661	23,000	23,000	23,000	23,000	23,000

For the year ended December 31, 2008, capital expenditures were $20.7 million (2007 - $23.7 million), which consisted mainly of leasehold improvements to the fleet, rotables and ramp/ground equipment. Based upon the current fleet composition and infrastructure requirements, management expects capital expenditures to be approximately $23.0 million for 2009 and annually until 2013. This expected average recurring level of capital expenditures will be largely offset by the depreciation expense covered under "Aircraft Ownership Payments" under the CPA and will be funded using Jazz's cash flows.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

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 rates swaps as cash flow hedges and has no intention of early settling these contracts. Jazz entered into an interest rate swap agreement with third parties in respect of $115.0 million 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 $0.5 million 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 $57.5 million 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 $1.5 million 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 $57.5 million 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 $1.2 million 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 in the third quarter of 2007 to prohibit investment in all third party and bank sponsored ABCP, despite any charges on the credit rating on such issues.

The amount of accounts receivable disclosed in the balance sheet of $71.6 million is net of allowances for bad debts, estimated by management based on prior experience and their 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 (see Section 19 - Risk Factors). 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. As at December 31, 2008, the Partnership had $31.2 million in unutilized balance of the credit facilities available and cash and cash equivalents of $131.7 million. As at December 31, 2008, the Partnership had authorized Credit Facilities of $150.0 million and drawings of $115.0 million, against the facilities. Letters of credit totalling approximately $3.4 million (December 31, 2007 - $2.7 million) have been issued as security for groundhandling and airport fee contracts, lease payments on rental space and certain employee benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

Currency risk

Jazz receives revenue and incurs expenses in US and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variations. Jazz manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. 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 $41.9 million and US denominated liabilities was $56.5 million 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 $0.1 million.

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 $5.8 million CDN. The ABCP had been classified as Held for Trading on initial recognition and is measured at fair value at each reporting date. The asset, which was set to mature on August 16, 2007, was not paid out due to liquidity problems experienced in the ABCP market.

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, $4,450.0 million 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 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 $3.9 million has been recorded to date. This amount has been recorded in other non-operating expenses. This estimate is subject to measurement uncertainty and is dependent on the 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 $2.0 million 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 $0.1 million.

10. ECONOMIC DEPENDENCE

The CPA

The CPA consists of a number of variable components based on certain different metrics, including Block Hours flown and cycles (number of take-offs and landings), number of passengers and number of Covered Aircraft. The rates for these metrics are fixed for annual periods and vary by aircraft type. In addition, Air Canada is required to reimburse Jazz for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. Since these costs are required to operate the Covered Aircraft, the reimbursement of these costs are included in Jazz's revenue. Jazz is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria. Rates under the CPA have been established so as to achieve a controllable target margin of 14.09% for Jazz, 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. Effective January 1, 2006, the CPA has a term of ten years and is renewable for two additional periods of five years.

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

Master Services Agreement

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

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

Other

Air Canada provides certain supplies from third parties, primarily fuel, to Jazz and subsequently collects payment from Jazz. 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, wholly owned by Air Canada, provides ground handling services to Jazz.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA. The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by Air Canada.

Jazz has a significant amount of transactions with Air Canada and its subsidiaries Air Canada Capital Ltd. and ACGHS Limited Partnership. Air Canada represented 99.2% and 99.4% of Jazz's operating revenues for the years ended December 31, 2008 and 2007, respectively. Approximately 13.7% and 14.9% of Jazz's operating expenses for the years ended December 31, 2008 and 2007, respectively, were incurred with Air Canada and its subsidiaries.

11. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Jazz's pension funding obligations from 2009 to 2012:

(expressed in thousands of Canadian dollars)	2009 $	2010 $	2011 $	2012 $	2013 $
Defined benefit pension plans, current service	9,500	9,600	9,800	10,100	10,300
Defined benefit pension plans, past service	4,500	2,700	1,300	1,000	-
Defined contribution pension plans	6,900	7,100	7,200	7,400	7,600
Projected pension funding obligations	20,900	19,400	18,300	18,500	17,900

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Jazz. Defined benefit pension plans include the Jazz pilots' registered defined benefit pension plan as well as an unregistered defined benefit supplemental executive retirement plan that Jazz sponsors for eligible employees. Defined contribution pension plans include a number of defined contribution pension arrangements that Jazz contributes to for its eligible employees.

The funding requirements for the Jazz pilots' registered pension plan are estimated based on the January 1, 2008 actuarial valuation and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the supplemental executive retirement plan are based on a funding policy adopted by Jazz and the January 1, 2008 actuarial valuation. The projected funding obligations shown in the above table assume no changes in the economic conditions and do not reflect the impact of the market downturn in 2008. Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. These projections are updated annually (refer to Caution regarding forward-looking information.)

As a result of the recent market turmoil, the financial position of the Jazz pilots' defined benefit pension plan and the supplemental executive retirement plan has deteriorated significantly during 2008. Based on preliminary estimates, the funding requirements for these two plans is expected to increase when the next funding valuation is prepared as of January 1, 2009. Our preliminary estimate of the increase in the 2009 required contributions is $4.2 million. The above table does not reflect any changes to required contributions for 2009 or later years that might arise from the January 1, 2009 valuations.

We also note that, in response to the recent economic turmoil, pension regulatory authorities in a number of jurisdictions in Canada (including the Office of the Superintendent of Financial Institutions, which regulates the Jazz pilots' registered pension plan) have announced potential funding relief measures. The details of these measures have not yet been finalized. As such, at this time, we do not know what impact, if any, these changes will have on the future required contributions.

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Caution regarding forward-looking information). The significant accounting policies of Jazz and the Fund are described in note 2 of the December 31, 2008 consolidated financial statements of Jazz Air Income Fund and Jazz Air LP.

Changes in accounting estimates

In the second quarter of 2008, the Fund and Jazz changed the estimate of both the useful life and the expected residual values of aircraft and certain flight equipment to coincide with the term of the capacity purchase agreement. The revised estimates better reflect the expected useful life of these assets to the Fund and Jazz and update the residual value to reflect both the changed useful life and current and expected market conditions for such aircraft. The changes have been applied prospectively. The change in the basis of depreciation had the effect of increasing depreciation expense $0.4 million for the year ended December 31, 2008.

Income taxes

The Fund is a mutual fund trust for income tax purposes. As a result, the Fund is only taxable on amounts not allocated to Unitholders. The Fund intends to comply with the provisions of the Income Tax Act that permit the deduction of distributions to Unitholders from taxable income and taxable capital gains.

The Fund provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and the tax values of assets and liabilities, using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

Future income taxes

Under the provisions of Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, the Fund, as a publicly traded income trust, is considered a specified investment flow-through and will become subject to income taxes commencing January 1, 2011. Prior to 2011, the Fund continues to qualify for special income tax treatment that permits a tax deduction by the Fund for distributions paid to its Unitholders. For accounting purposes, the Fund has computed future income tax based on temporary differences at the substantively enacted tax rate expected to apply for such periods. For periods prior to January 1, 2011, the Fund has not recognized any current income taxes or future income tax assets or liabilities on temporary differences expected to reverse prior to 2011 as the Trust is committed to distribute to its Unitholders all or virtually all of its taxable income that would otherwise be taxable in the Fund and the Fund intends to continue to meet the requirements of the Tax Act applicable to the Fund. Initially, the legislation imposed an income tax rate of 31.5% on Canadian public income trusts. The income tax rate was subsequently lowered in December 2007 to 29.5% for 2011 and 28% for 2012 and subsequent years.

The future income tax provision reflects the impact of the new legislation and the tax rate changes and accounts for the entire difference between the amount of the future income tax provision and the statutory income tax dollar amount of $nil.

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities at December 31, 2008, that are expected to reverse after 2010, are presented below:

	As at December 31, 2008 $	 2007 $
Future income tax assets		
Deferred lease inducements	10,701	11,030
Other	3,529	1,592
	14,230	12,622
Future income tax liabilities		
Intangibles	31,856	73,211
Property, plant and equipment – differences in net book value and undepreciated capital cost	5,935	13,956
	37,791	87,167
Net future income tax liability	23,561	74,545
Income tax expense (recovery) is comprised of:		
Future income tax recovery, exclusive of the effects of other components below	(8,080)	-
Future income tax recovery resulting from impairment of goodwill	(42,904)	-
Future income tax expense related to the substantive enactment of Bill C-52	-	83,810
Future income tax recovery related to the change in the taxation rate	-	(9,265)
Net future income tax (recovery) expense	(50,984)	74,545

Employee future benefits

The significant policies related to employee future benefits, consistent with Section 3461, *"Employee Future Benefits"* of the 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).

The following assumptions were used in valuing the benefit obligations under the plan and the employer's net periodic pension or benefit cost:

- The discount rate used to determine the pension and benefit obligation was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- Jazz's expected long-term rate of return on assets assumption is based on economic conditions as of the measurement date and the specific portfolio mix of plan assets. Management, in conjunction with its actuaries, reviews anticipated future long-term performance of individual asset categories and considers the asset allocation strategy adopted by Jazz. These factors are used to determine the average rate of expected return on the funds invested to provide for the pension plan benefits. While the review considers recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. This assumption may change as management continues to assess future investments and strategies and as a result of changes in financial markets.
- The health care inflation used to determine the Other Employee Future Benefits costs is determined from recent industry experience combined with long-term expectations. The weighted average health care inflation assumption used for the health care plans is 7.1% per annum grading down to 4.5% per annum in and after 2012.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, consequently increasing or decreasing the pension or benefit expense for future years. In accordance with Canadian GAAP, this difference is not recognized immediately as income or expense, but rather is amortized into income over future periods.

	Fiscal year ended December 31,	
	2008	2007
Weighted average assumptions used to determine accrued benefit obligation		
• Discount rate	7.10	5.75
• Rate of compensation increase	4.00 – 5.00	4.00 – 5.00
• Health care inflation – Select	6.5	n/a
• Health care inflation – Ultimate	4.5	n/a
• Year ultimate trend reached	2012	n/a
Weighted average assumptions used to determine pension and benefit costs		
• Discount rate	5.60 - 5.75	5.00
• Expected long-term rate of return on assets	6.40	6.00
• Rate of compensation increase	4.00 – 5.00	4.00 – 5.00
• Health care inflation – Select	7.1	n/a
• Health care inflation – Ultimate	4.5	n/a
• Year ultimate trend reached	2012	n/a

Intangibles

In the Fund, the value of the rights under the CPA has been derived from a fair value allocation based on an independent third party valuation at the time of purchase through step acquisitions. It is considered a long-lived asset with a finite life and is amortized over the remaining term, plus renewals of the agreement.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. The Fund’s goodwill arose as a result of its step purchase acquisition of the Partnership during 2007. A full valuation was performed by third party valuators in the fourth quarter of 2007 and, as a result, fair values were assigned to all assets and liabilities at that time.

In accordance with Section 3064 of the CICA Handbook *"Goodwill and Intangible Assets",* goodwill is not amortized; however, it is reviewed for impairment annually, or more frequently, if facts and circumstances warrant a review.

Management monitors the value of the intangibles to determine whether any impairments in their carrying value has occurred or whether their estimated life has changed.

Property and equipment

Property and equipment was originally recorded at cost. As at December 31, 2008 the net book value of Jazz's property and equipment was $219.0 million.

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. Improvements to owned aircraft are capitalized and amortized over the remaining service life of the aircraft. Improvements to aircraft on operating leases are amortized over the term of the lease.

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. Leasehold improvements are amortized over the lesser of the lease term or five years. Ground and computer equipment are depreciated over five years.

Aircraft depreciable life is determined through economic analysis, a review of existing fleet plans and comparisons to other airlines operating similar fleet types. Residual values are estimated based on Jazz's historical experience with regards to the sale of both aircraft and spare parts, as well as future based valuations prepared by independent third parties.

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.

Aircraft leases

Jazz has significant lease and sublease obligations for aircraft that are classified as operating leases and are not reflected as assets and liabilities on its balance sheet. In accordance with GAAP, tests were performed to determine the operating lease classification. Jazz's aircraft leases do not include any residual value guarantees.

13. ACCOUNTING POLICY CHANGES AND DEVELOPMENTS

Change in accounting policies

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

Financial instruments

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

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

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

Capital disclosures

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

Inventories – spare parts, material and supplies

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

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 the Fund and Jazz will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Fund and Jazz have 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:

- Raise awareness and initial assessment – this phase involves performing a high level impact assessment to identify key IFRS areas that are likely to affect the Fund and 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 employees and board members are made aware of the changeover and the relevant timelines. The Fund and Jazz completed this phase in the third quarter of 2008.

- Detailed assessment - each section is thoroughly 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 put into plan creating, 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 of the major differences between Canadian GAAP and IFRS that are likely to impact the Fund and 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 the Fund 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 incorporated into the model financial statements, and will result in additional data collection where required.

14. FLEET

As at December 31, 2008, Jazz's operating fleet was made up of 137 operating aircraft, of which 73 were regional jets and 64 turboprop aircraft.

Jazz's operating fleet, at December 31, 2008, was as described below:

	Number of Operating Aircraft	Average Age of Operating Aircraft	Owned	Operating Lease	Capital Lease	Number of Operating Aircraft December 31, 2007
Canadair Regional Jet CRJ100	24	13.2	-	-	24	24
Canadair Regional Jet CRJ200	33	6.7	-	-	33	33
Canadair Regional Jet CRJ705	16	3.4	-	-	16	16
De Havilland DHC-8-300	28	18.3	19	7	2	27
De Havilland DHC-8-100	36	20.7	29	-	7	36
Total Operating Aircraft	137	13.4	48	7	82	136

All aircraft in Jazz's operating fleet as of December 31, 2008 are Covered Aircraft under the CPA, except for two Dash 8-100 and two Dash 8-300 aircraft allocated for charter purposes.

15. PEOPLE

As at December 31, 2008, Jazz had 4,388 FTE employees compared to 4,535 FTE employees for 2007. This reflects a 3.2% decrease from 2007, as shown in the table below:

	Union	Year ended December 31, 2008	Year ended December 31, 2007	Change	Change %
Pilots	ALPA	1,301	1,359	(58)	(4.3)
Technical Services	CAW	861	832	29	3.5
Customer Service Agents	CAW	723	723	-	-
Flight Attendants	CFAU	693	784	(91)	(11.6)
Management	-	467	481	(14)	(2.9)
Administrative and Technical Support	-	253	270	(17)	(6.3)
Dispatchers	CALDA	60	56	4	7.1
Crew Scheduling	CAW	30	30	-	-
		4,388	4,535	(147)	(3.2)

An official notice and certification order from the Canadian Industrial Relations Board confirmed that effective September 5, 2008 the Canadian Flight Attendants Union ("CFAU") is the certified bargaining agent and now represents the Flight Attendant group.

All collective agreements are in place until mid year 2009.

16. MATERIAL CHANGES

During the period from December 31, 2008 to February 10, 2009, there have been no material changes to the information disclosed.

17. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

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

An evaluation of the design and effectiveness of the operation of the Fund and Jazz's disclosure controls and procedures has been conducted by management, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2008, the Fund and Jazz's disclosure controls and procedures, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of the Fund and Jazz's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of December 31, 2008.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

The Audit, Finance and Risk Committee of the board of trustees of the Fund and the board of directors of Jazz GP reviewed this MD&A, and the consolidated financial statements of Jazz and the Fund for December 31, 2008, and the Fund's board of trustees and Jazz GP's board of directors approved these documents prior to their release

18. OUTLOOK

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

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

Based on the schedule received from Air Canada, Jazz anticipates billing between 390,000 and 400,000 Block Hours for the twelve months ending December 31, 2009. The fiscal 2009 billing represents a reduction of approximately 3 to 5% of Billable Block Hours versus the twelve months ended December 31, 2008.

19. RISK FACTORS

19.1 Risks Relating to the Relationship with Air Canada

Dependence on Air Canada

Jazz is directly affected by the financial and operational strength of Air Canada and its competitive position. In the event of any decrease in the financial or operational strength of Air Canada, Jazz's ability to receive payments from Air Canada, and the amount of such payments, may be adversely affected. In addition, if Air Canada's competitive position is materially weakened, it could affect the utilization of the Covered Aircraft.

In the past, Air Canada has, like other network carriers, sustained significant operating losses and may sustain significant losses in the future. Air Canada's business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft;
- fuel costs, which since 2005 have increased to and fluctuated near or at historically high levels, constitute a significant portion of Air Canada's operating expenses;
- labour conflicts or disruptions can have a material adverse effect on Air Canada's business, results from operations and financial condition;
- the airline industry is highly competitive and subject to price discounting; and
- the risk factors described under "Risks Relating to the Industry".

Air Canada is the sole marketing agent for Jazz's Covered Aircraft capacity and is solely responsible for establishing schedule, routes, frequency and ticket prices for Jazz. To the extent Air Canada does not effectively and competitively market the routes serviced through Jazz, the utilization of the Covered Aircraft could be reduced with the result that Jazz's operating margin in dollar terms would be reduced.

In addition, Air Canada is responsible for establishing Jazz's operating plans for the Covered Aircraft, including schedules, Block Hours, departures, ASMs and load factors for each aircraft type included in the Covered Aircraft, and any changes thereto. Should such operating plans not be provided to Jazz on a timely basis in accordance with the CPA, Jazz's operations could be materially adversely affected.

Liquidity issues

Based on public filings made by Air Canada, Jazz understands that Air Canada concluded financing arrangements in December 2008 providing for funding of up to $503 million, which arrangements were entered into as part of the implementation of Air Canada's prior announced strategy of improving its short-term and long-term liquidity (through traditional and non-traditional means) in order to deal with the international economic downturn and resulting reduction in demand for air travel. There can be no assurance that these arrangements, and any other arrangements entered into by Air Canada, will provide sufficient liquidity. If the financial condition and liquidity of Air Canada deteriorates, Jazz will face intensified credit risks and increased risks relating to its condition and liquidity.

Termination of the CPA

Substantially all of Jazz's current revenues are received pursuant to the CPA with Air Canada which currently covers all of Jazz's existing operating fleet (except four Dash 8 aircraft as of March 28, 2008). The CPA will terminate on December 31, 2015 and is subject to renewal on terms to be negotiated for two additional periods of five years unless either party terminates the agreement by providing a notice not less than one year prior to December 31, 2015 or the end of the first renewal term. In addition, either party is entitled to terminate the CPA at any time upon the occurrence of an event of default. Events of default include, without limitation:

- bankruptcy or insolvency of the other party;
- suspension or revocation of Jazz's right to operate as a scheduled airline;
- any amounts payable by Air Canada or Jazz pursuant to the CPA are not paid when due, and such default continues for a period of 30 days after notice;
- failure by Air Canada or Jazz to comply with any of its obligations pursuant to the CPA and such default continues for a period of 30 days after notice;
- more than 50% of the Covered Aircraft fail to operate Scheduled Flights for more than seven consecutive days or 25% of the Covered Aircraft fail to operate Scheduled Flights for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any event of force majeure (including any cessation, slow-down, interruption of work or any other labour disturbance);
- failure by Jazz to meet certain performance criteria;
- a default by Jazz with respect to any material term, including the payment of any amount due, under any material agreement to which Jazz is a party if such default continues for more than the allotted period of grace, if any;
- a default by Air Canada or Jazz with respect to a material term of any other material agreement between Jazz and Air Canada and such default continues for more than the allotted period of grace, if any;
- failure by Jazz to maintain adequate insurance; and
- failure by Jazz to comply with Air Canada's audit and inspection rights.

If the CPA is terminated, Jazz's revenue and earnings would be significantly reduced or eliminated unless Jazz is able to enter into satisfactory substitute arrangements. There is no assurance that Jazz would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Jazz as the CPA.

Under the CPA, if a change of control of Jazz (other than in favour of the Fund) occurs without the consent of Air Canada, Air Canada may terminate the CPA. The existence of this right may limit Jazz's ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

The CPA provides that upon the expiry or termination of the CPA, other than termination as a result of a default by Jazz or Air Canada, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines shall automatically be terminated and Air Canada (or any affiliate of Air Canada) shall have the right to repossess the Covered Aircraft and the spare engines. There can be no assurance that Jazz will be able to find replacement aircraft. In the event that Jazz is able to find replacement aircraft, there can be no assurance that Jazz will be able to do so on terms as favourable as the terms of its current leases with Air Canada (or any affiliate of Air Canada). Unless Jazz is able to find replacement aircraft on reasonable terms, Jazz's ability to offer scheduled and charter flights to any carrier would be materially adversely affected, which would have a material adverse effect on Jazz's business, results from operations and financial condition.

In the event that the CPA is terminated as a result of Jazz's default, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines will not be automatically terminated. In such event, Jazz would remain liable for its obligations under the aircraft leases with no corresponding ability to earn income under the CPA to cover its aircraft lease obligations, which would have a material adverse effect on Jazz's business, results from operations and financial condition.

Access to airport facilities and slots

Upon the expiration or termination of the CPA, Jazz may lose access to airport facilities at key locations where Air Canada supplies facilities and other services to Jazz. Jazz may also lose access to such airport facilities should Air Canada not be able to secure such access to airport facilities in the future. Most of the airport facilities at Jazz's principal domestic destinations are leased by Air Canada from airport authorities. Under the CPA, Jazz is currently entitled to use these facilities to fulfill its obligations to Air Canada under the CPA. All of Jazz's airport takeoff or landing slots used for Scheduled Flights are under Air Canada's name. Upon the expiry or termination of the CPA, Jazz may lose access to those airport facilities, airport takeoff or landing slots and Jazz may have to enter into alternative arrangements to use the same or other airport facilities and slots at higher rates. There can be no assurance that Jazz would be able to have access to other airport facilities or slots or as to the terms upon which Jazz could do so.

Jazz's inability to have appropriate access to sufficient airport facilities or slots or the possibility to do so with a significant cost increase would have a material adverse effect on Jazz's business, results from operations and financial condition.

Reduced utilization levels

While the CPA requires Air Canada to meet certain minimum utilization levels for Jazz's aircraft, Air Canada determines, in its sole discretion, which routes Jazz flies. If Air Canada was unable to find sufficient capacity for its own aircraft or was able to operate at a competitive cost compared to Jazz or use other suppliers at competitive cost, or for any other reason, Air Canada could reduce Jazz's flights to the minimum utilization levels or could require Jazz to fly its aircraft on routes that may under-utilize Jazz's aircraft capacity or may make it more difficult for Jazz to reach incentive targets and thus Jazz may earn less revenue under the CPA. Though Jazz would still be guaranteed a minimum revenue, if its aircraft were underutilized by Air Canada, Jazz would lose the ability to recover a margin on the direct operating costs of flights that would otherwise have been realized had Jazz's aircraft been more fully utilized. Jazz would also lose the opportunity to earn incentive compensation. The minimum average daily utilization guarantee will not apply in the event Jazz fails to reach the minimum number of Block Hours due to its own default or an inability to supply sufficient capacity. The minimum average daily utilization guarantee for the 2009 calendar year is approximately 339,000 Block Hours.

Force Majeure

Air Canada's and Jazz's obligations under the CPA (other than any financial obligations) will be suspended if, and for so long as, any event of force majeure prevents a party from meeting its obligations pursuant to the CPA.

In addition, Air Canada and Jazz recognize that an event of force majeure may inadvertently result in one party being in default of a collective agreement to which it is a party. As a result of any event of force majeure that occurs during the term of the CPA, Air Canada and Jazz may decide to renegotiate certain terms of the CPA, including, without limitation, rates for the payment of fees by Air Canada, minimum capacity purchase guarantees as well as certain elements of the then current three-year, annual or seasonal operating plans and the long range fleet plan, including Block Hours and departures, ASMs, airports to which Jazz will operate and the number of Covered Aircraft. Such changes to the terms of the CPA, whether temporary or long-term, could have a material adverse effect on Jazz's business, results from operations and financial condition.

Replacement of services provided by Air Canada under the CPA and the MSA

Air Canada provides a number of important services to Jazz, including ticket sales, reservations and call center services, designator codes, information technology, de-icing services and glycol usage, fuel purchasing services as well as passenger, aircraft and traffic handling services. If the CPA is not renewed beyond its original term or subsequent renewal terms, or is otherwise terminated, Jazz would either need to provide these services internally or contract with third parties for such services. There can be no assurance that Jazz would be able to replace these services on a cost effective or timely basis. In addition, pursuant to the MSA, Air Canada provides certain services to Jazz for a fee. These services include insurance and tax services, corporate real estate services, environmental affairs services and legal services. If the MSA is terminated, Jazz would either need to provide these functions internally or contract with third parties for such functions. There can be no assurance that Jazz would be able to replace these services on a cost-effective or timely basis. Jazz's inability to replace these services on a cost effective or timely basis could have a material adverse effect on Jazz's business, results from operations and financial condition.

Changes in costs and fees

Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated controllable costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for each calendar year in the applicable period. Air Canada is responsible for scheduling and pricing the flights, and absorbs the risk of variations in ticket prices, passenger loads and fuel prices. The rates for some of these fees are fixed for each of the 2006 to 2008 calendar years and have been determined based on cost estimates for each of those calendar years and will only be revised in very particular circumstances by Jazz and Air Canada prior to then. If such controllable costs exceed Jazz's estimates, Jazz may realize decreased profits and even losses under the CPA, and may be unable to generate sufficient cash flow to pay its debts on time and Jazz may have to reduce its expansion plans. If any of these events occurs, Jazz's business, results from operations and financial condition could be materially adversely affected.

For the periods commencing 2009 and 2012, Jazz and Air Canada will establish rates for each of the succeeding three years. There can be no assurance that the estimates of the future costs will be accurate in any future reset. Such fees will also be measured against the median cost performance of a select group of United States regional airline operators between the twelve-month period ended June 30, 2007 and the twelve-month period ending December 31, 2009. If Jazz fails to maintain its cost performance on a comparative basis with such group, its margin for the period commencing January 1, 2010 could be reduced regardless of whether it meets its own cost estimates.

Air Canada Pilots Association (“ACPA”) Scope Clauses and Small Jets Settlement Agreement

Air Canada's collective bargaining agreement with ACPA and the Small Jets Settlement Agreement entered into among Air Canada, Jazz, ACPA and the Air Line Pilots Association ("ALPA") limit the number of regional jet aircraft which can be operated by Jazz under its CPA with Air Canada. The Small Jets Settlement Agreement also prevents Jazz from operating the CRJ705 aircraft if configured in excess of 75 seats, inclusive of all classes, and sets out a minimum ratio of ASMs flown by Air Canada compared to the CPA ASMs flown by Jazz. These restrictions may cause Air Canada to reduce the level of capacity it purchases from Jazz under the CPA, prevent Jazz from expanding its market share, or impede Jazz's fleet development which could significantly reduce Jazz's expected growth, revenue and earnings. Jazz cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Jazz.

Constraints on Jazz's ability to establish new operations

Subject to regulatory restrictions, the CPA does not preclude Jazz from entering into capacity purchase agreements with, or providing airline services to, other carriers as long as Jazz's ability to perform its obligations under the CPA is not impaired as a result. However, if Jazz enters into an agreement with another carrier to provide regional airline services (other than charter flights), whether on a capacity purchase or other economic basis, Air Canada will have the right to reduce the number of Covered Aircraft, on a one-for-one basis, by the number of aircraft to be operated under such other agreement, thereby reducing Jazz's ability to earn revenue from Air Canada.

Jazz does not directly benefit from any order of, or option to purchase, regional jet aircraft. As a result, in the event that Jazz desires to enter into capacity purchase agreements with, or provide airline services to, carriers other than Air Canada, Jazz may not be able to obtain in a timely manner the aircraft required to provide such services, unless Jazz is able to lease such aircraft or to obtain financing for such acquisition. There can be no assurance that Jazz's credit ratings will enable it to lease, or finance the acquisition of such aircraft, or do so at reasonable borrowing rates, which could prevent Jazz from entering into capacity purchase agreements with, or providing airline services to, carriers other than Air Canada, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

Exclusivity arrangements

Jazz does not benefit from exclusivity arrangements preventing Air Canada from allocating some or all of its regional capacity requirements internally or to another carrier under a capacity purchase agreement, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

Potential conflicts with Air Canada

Conflicts may arise between Air Canada and Jazz in a number of areas, including:

- Jazz's and Air Canada's respective rights and obligations under the CPA or other agreements between Jazz and Air Canada;
- the nature and quality of the services Air Canada provides to Jazz and the services Jazz provides to Air Canada;
- the terms of Air Canada's and Jazz's respective collective bargaining agreements;
- amendments to any of the existing agreements between Jazz and Air Canada, including the CPA; and
- reductions in the number of Covered Aircraft in accordance with the CPA.

Jazz may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Jazz.

Limited ability to participate in improved market conditions

While the capacity purchase business model and target margin reflected in the CPA reduce Jazz's financial risk and exposure to fluctuations for many of its potentially volatile costs, they also limit Jazz's potential to experience higher earnings growth from improved market conditions.

Star Alliance

The strategic and commercial arrangements with Star Alliance™ members provide Air Canada with important benefits, including code-sharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave the Star Alliance™ or otherwise be unable to meet its obligations thereunder, it could result in a negative impact on the network of Air Canada and Jazz and Jazz's business, results from operations and financial condition could be materially adversely affected.

19.2 Risks Relating to Jazz

Employees

Jazz's business is labour-intensive and requires large numbers of pilots, flight attendants, mechanics and other personnel. Jazz's business plan will require Jazz to locate, hire, train and retain new employees. There can be no assurance that Jazz will be able to locate, hire, train and retain the qualified employees that it needs to carry out its plans or replace departing employees. If Jazz is unable to hire and retain qualified employees at a reasonable cost, this could adversely affect its business, results from operations and financial condition.

Labour costs and labour relations

Labour costs constitute the largest percentage of Jazz's total operating costs that are borne by Jazz. There can be no assurance that the estimates of Jazz's future labour costs will be accurate. If such costs exceed Jazz's estimates, Jazz may realize decreased profits or even losses under the CPA. Most of Jazz's employees are unionized and new or modified collective bargaining agreements were concluded in 2003 and 2004. No strikes or lock-outs may lawfully occur until after the agreements expire in 2009. However, there can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in Jazz's service. Any labour disruption or work stoppage could adversely affect the ability of Jazz to conduct its operations and have a material adverse effect on its ability to carry out its obligations under the CPA and on its business, results from operations and financial condition. There can be no assurance that future agreements with employees' unions will be on terms in line with Jazz's expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Jazz.

If there is a labour disruption or work stoppage by any of the unionized work groups of Air Canada, there would also likely be a material adverse effect on Jazz's business, results from operations and financial condition.

If there is a labour disruption or work stoppage by any unionized work group of Air Canada which provides services to Jazz under the CPA, Jazz may lose access to such services and there can be no assurance that sufficient replacement services could be obtained or that replacement services could be obtained on a cost effective basis.

Condition to labour productivity enhancements

During the restructuring of Jazz's predecessor under the CCAA, one of the improvements made in the collective agreement with ALPA, representing Jazz's pilot group, was the implementation of productivity enhancements which require a minimum threshold of aircraft to be maintained in the fleet in order for the productivity enhancements to be available to Jazz. The productivity enhancements primarily relate to the work and scheduling provisions of the collective agreement which enables Jazz to schedule pilots for more hours in a given month at their normal hourly rate of pay. Failure by Jazz to maintain a minimum fleet of 125 aircraft after December 31, 2006 would result in a loss of the productivity enhancements, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

Leverage and restrictive covenants in current and future indebtedness

The ability of the Fund and Jazz to make distributions or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Jazz (including the Credit Facilities). The degree to which Jazz is leveraged could have important consequences to the Unitholders of the Fund, including: (i) that Jazz's ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited; (ii) that a significant portion of Jazz's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future distributions and causing taxable income for Unitholders of the Fund to exceed cash distributions; (iii) that certain of Jazz's borrowings will be at variable rates of interest, which exposes Jazz to the risk of increased interest rates; and (iv) that Jazz may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of distributable cash to interest rate variations.

In addition, the Credit Facilities contain numerous restrictive covenants limiting the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Jazz to create liens or other encumbrances, to pay distributions on the LP Units of Jazz LP or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facilities contain a number of financial covenants that require Jazz to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a termination of distributions by Jazz and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facilities, including any possible hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of Jazz would be sufficient to repay in full that indebtedness. Jazz will have to refinance its available credit facilities or other debt and there can be no assurance that Jazz will be able to do so or be able to do so on terms as favourable as those presently in place. If Jazz is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on Jazz's financial position, which may result in a reduction or suspension of cash distributions to Unitholders of the Fund and cause taxable income for Unitholders of the Fund to exceed cash distributions. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive that the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of the Fund to pay cash distributions and cause taxable income for Unitholders of the Fund to exceed cash distributions.

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to new public financing (if required by Jazz) has been negatively impacted by these events, which may impact the ability of Jazz to obtain financing in the future on favourable terms.

Reliance on key personnel

The success of Jazz depends on the abilities, experience, industry knowledge and personal efforts of senior management and other key employees of Jazz, including their ability to retain and attract skilled employees. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Jazz. Jazz's growth plans may put additional strain and demand on management and on Jazz's employees and produce risks in both productivity and retention levels. In addition, Jazz may not be able to attract and retain additional qualified management as needed in the future.

Risks relating to financial instruments

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Jazz’s financial instruments, see the discussion in section 9 “Financial Instruments and Risk Management”.

19.3 Risks Relating to the Industry

Economic and geopolitical conditions

Airline operating results are sensitive to economic and geopolitical conditions, which have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares it may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America, as well as geopolitical instability in various areas of the world, could have the effect of reducing demand for air travel. In addition, the recent increases, and any further increases, in the value of the Canadian dollar relative to the United States dollar could affect the desirability of transborder travel to Canada. Though, under the terms of the CPA any resulting reduction in passenger revenues is principally at Air Canada's risk, such an event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

In addition, fuel costs represent a major expense to air carriers. Since 2005, fuel prices have increased to and have fluctuated at near historically high levels. Should fuel prices remain at such levels or further increase, demand for air travel may decrease as a result of fuel surcharges added to airline fares and Air Canada may be unable to pass on any further increases to its customers through fuel surcharges. Though, under the terms of the CPA Jazz's fuel costs are reimbursed by Air Canada and any resulting reduction in passenger revenues is principally at Air Canada's risk, this could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

Impact of competition on Air Canada's need to utilize Jazz's services

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Jazz flies under the CPA. Competitors could rapidly enter markets Jazz serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Jazz's regional operations to Air Canada.

In addition to traditional competition among airlines, the industry faces competition from ground transportation alternatives. Video teleconferencing and other methods of electronic communication have also added a new dimension of competition to the industry as businesses travelers seek substitutes to air travel.

Impact of increased competition in the regional airline industry on Jazz's growth opportunities

Aside from the limitations under the CPA and the regulatory prohibition on cabotage, Jazz's ability to provide regional air service to a major United States airline is limited by existing relationships that all of the United States network airlines have with other regional operators. Additionally, most of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity.

In addition, new competitors may enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Jazz. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry.

Airline industry characterized by low gross profit margins and high fixed costs

The airline industry generally and scheduled service in particular are characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. Accordingly, a minor shortfall from Air Canada's expected revenue levels could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

Terrorist attacks

Terrorist attacks, such as the events of September 11, 2001, and subsequent terrorist activity, notably in the Middle East, Southeast Asia and Europe, have caused uncertainty in the minds of the traveling public. The occurrence of a major terrorist attack (whether domestic or international and whether involving Air Canada, Jazz, another carrier or no carrier at all) and increasingly restrictive security measures, such as the current restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Jazz's flights. Though, under the terms of the CPA any resulting reduction in passenger revenues and/or increases in insurance and security costs is principally at Air Canada's risk, such an event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

Epidemic diseases

An outbreak of an epidemic disease, such as influenza (whether domestic or international) or Severe Acute Respiratory Syndrome ("SARS") could have a material adverse effect on passenger demand for air travel and the number of passengers travelling on Air Canada and Jazz's flights. The seven day travel advisory issued by the World Health Organization (the "WHO") in 2003, relating to the outbreak of SARS in Toronto and the international SARS outbreak, had a significant adverse effect on passenger demand for air travel destinations served by Air Canada and Jazz, and on the number of passengers travelling on Air Canada's and Jazz's flights and resulted in a major negative impact on traffic on Air Canada's entire network. Another WHO advisory (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Jazz's flights. Any resulting reduction in passenger revenues is principally at Air Canada's risk, such an event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

Interruptions or disruptions in service

Jazz's business is significantly dependent upon its ability to operate without interruption at a number of key airports, including Toronto Pearson. An interruption or stoppage in service at a key airport could have a material adverse effect on Jazz's business, results from operations and financial condition.

Dependence on technology

Jazz relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs, and operate its business. Proper implementation and operation of technology initiatives is fundamental to Jazz's ability to operate a profitable business. Jazz continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Jazz's ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Jazz's business, results from operations and financial condition.

Jazz's technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While Jazz maintains and continues to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any failure in technology employed by Jazz or technology employed by Air Canada to provide services to Jazz, including by reason of power, telecommunication or Internet interruptions, could materially and adversely affect Jazz's operations and could have a material adverse effect on Jazz's business, results from operations and financial condition.

Seasonal nature of the business, other factors and prior performance

Under the CPA, Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated controllable costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for each calendar year in the applicable period. However, Jazz's quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

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

Demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Regulatory matters

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, noise levels, the environment and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Competition Bureau, the Competition Tribunal, the Canadian Transportation Agency, the Treasury Board or other domestic or foreign governmental entities may have a material adverse effect on Jazz's business, results from operations and financial condition. Jazz cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Jazz's business, results from operations and financial condition.

In July 2000, the Government of Canada amended the CTA, the *Competition Act* and the *Air Canada Public Participation Act* to address the competitive airline environment in Canada and ensure protection for consumers. This legislation included airline-specific provisions with respect to "abuse of dominance" under the *Competition Act*, later supplemented by creating "administrative monetary penalties" for a breach of the "abuse of dominance" provisions by a dominant domestic air carrier.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Canada and Air Canada which had considered the approach to be taken in determining whether Air Canada was operating below "avoidable costs" in violation of one of the new airline-specific abuse of dominance provisions. The

Competition Tribunal applied a very broadly crafted cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal's approach to avoidable costs remains relevant.

On November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. On October 16, 2007, private Bill C-454 containing provisions to remove the airline-specific "abuse of dominance" provisions from the Competition Act was tabled for the first reading in the House of Commons. Management cannot predict if or when such proposed legislation will come into force.

In the event that the Commissioner of Competition commences inquiries or brings similar applications with respect to significant competitive domestic routes and such applications are successful, it could have a material adverse effect on Jazz's business, results from operations and financial condition.

Jazz is subject to domestic and United States laws regarding privacy of passenger and employee data. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Jazz's business, results from operations and financial condition.

Environment

As a participant in the airline industry, Jazz is exposed to any future regulations concerning greenhouse gas emissions by its aircraft. Jazz would be faced with additional costs necessary to comply with any such regulations, which could adversely affect its financial results.

Third party war risk insurance

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it is currently providing Jazz and certain other carriers in Canada. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Jazz and other industry participants would have to turn to the commercial insurance market to seek such coverage. Alternative solutions, such as those envisioned by International Civil Aviation Organization ("ICAO") and IATA have not developed as planned due to actions taken by other countries and the recent availability of supplemental insurance. ICAO and IATA are continuing their efforts in this area, however, the achievement of a global solution is not likely in the immediate or near future. The United States federal government has set up its own facility to provide war risk coverage to United States carriers, thus removing itself as a key component of any global plan.

Furthermore, the London aviation insurance market has announced its intention to introduce a new standard war and terrorism exclusion clause to apply to aircraft hull and spares, and war risk insurance policies and intends to introduce similar exclusions to airline passenger and third party liability policies. Such clause will exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or bio chemical materials.

The Government of Canada indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion. Unless and until the Government of Canada does so, the loss of coverage exposes Jazz to this new uninsured risk and may result in Jazz being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on Jazz's business, results from operations and financial condition.

Casualty losses

Due to the nature of its core operating business, Jazz may be subject to liability claims arising out of accidents or disasters involving aircraft on which Jazz's customers are traveling or involving aircraft of other carriers maintained or repaired by Jazz, including claims for serious personal injury or death. There can be no assurance that Jazz's insurance coverage will be sufficient to cover one or more large claims and any shortfall could be material. Additionally, any accident or disaster involving one of Air Canada's or Jazz's aircraft or an aircraft of another carrier maintained or repaired by Air Canada, ACGHS or Jazz could significantly harm their reputation for safety, which would have a material adverse effect on Jazz's business, results from operations and financial condition.

19.4 Risks Related to the Structure of the Fund

Dependence on Jazz

The Fund is an unincorporated open-ended trust which is entirely dependent on the operations and assets of Jazz through the indirect ownership of 100% of the LP Units of Jazz LP. Cash distributions to Unitholders are dependent on, among other things, the ability of the Trust to pay interest on the trust notes and to make cash distributions in respect of the Trust Units, which, in turn, is dependent on Jazz LP making cash distributions in respect of the LP Units. The ability of Jazz LP or the Trust to make cash distributions or other payments or advances are subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Cash distributions are not guaranteed and may fluctuate

Although the Fund intends to distribute the interest received in respect of the trust notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Jazz's business or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and depends upon numerous factors, including Jazz's profitability and its ability to sustain operating cash flows and the fluctuations in Jazz's working capital and capital expenditures and refinancing of debt obligations, all of which are susceptible to a number of risks.

If the Fund elects to convert from its current structure to a corporate structure, there can be no assurance that the Fund will maintain its current distribution policy and that dividends will be paid to its shareholders in amounts equivalent to the current monthly distributions paid to Unitholders.

Nature of Units

The Units do not represent a direct investment in the business of Jazz and should not be viewed by investors as direct securities of Jazz. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets are Trust Units and trust notes. The price per Unit is a function of anticipated distributable income.

Market price of Units

The Units of the Fund are publicly traded at a price which does not necessarily reflect the underlying value of the Fund. The trading price of the Units may be affected by changes in general market conditions which may adversely affect the value of the Units and which are beyond the control of Jazz and the Fund.

Unitholder liability

The Fund Declaration of Trust provides that no Unitholder of the Fund shall be subject to any liability whatsoever to any person in connection with a holding of Units. However, in jurisdictions outside the Provinces of British Columbia, Ontario, Québec and Alberta, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. The affairs of the Fund are conducted to seek to minimize such risk wherever possible.

Dilution of existing Unitholders and Limited Partnership Unitholders

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Jazz LP is permitted to issue additional LP Units for any consideration and on any terms and conditions.

Income tax matters

On October 31, 2006, the Minister of Finance (Canada) announced a "Tax Fairness Plan" which, in part, proposed changes to the manner in which certain flow-through entities and the distributions from such entities are taxed. Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, contained the SIFT Rules, which are designed to implement these proposals. Under the SIFT Rules, the Fund, as a publicly traded income trust, is considered a SIFT and will be subject to trust level taxation as of January 1, 2011, at a rate comparable to the combined federal and provincial corporate tax rate on certain types of income. In addition, the taxable distributions received by Unitholders will be treated as dividends from a taxable Canadian corporation.

The SIFT Rules could become effective on a date earlier than January 1, 2011, if the Fund is deemed to have undergone "undue expansion'' during the period from November 1, 2006 to December 31, 2010, as described in the Normal Growth Guidelines issued by the Department of Finance (Canada) ("Finance") on December 15, 2006.

The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (which includes Units, debt that is convertible into Units, and potentially other substitutes for such equity) before 2011 by an amount that exceeds the greater of $50.0 million and an objective "safe harbour"' amount based on a percentage of the Fund's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of the Fund's issued and outstanding publicly traded Units, not including debt, options or interests that were convertible into Units, the "October 31, 2006 Market Capitalization"). The Normal Growth Guidelines provide for a "safe harbour" amount as follows:

Time period safe harbour amount

Time Period	Safe Harbour Amount
November 1, 2006 to December 31, 2007	40% of October 31, 2006 Market Capitalization
2008	20% of October 31, 2006 Market Capitalization
2009	20% of October 31, 2006 Market Capitalization
2010	20% of October 31, 2006 Market Capitalization

These "safe harbour" amounts are cumulative during the transition period. Management has determined that the Fund's October 31, 2006 Market Capitalization was approximately $232.0 million.

On December 4, 2008, Finance announced an acceleration of the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the maximum amount that could be issued by a SIFT under the safe harbour rules is 100% of its October 31, 2006 market capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subject to the Normal Growth Guidelines).

Although this was likely not the intent of the SIFT Rules proposed by Finance, there can be no assurance that the SIFT Rules, as they currently read, may not be interpreted and applied in a manner that would cause the Trust and Jazz LP to be considered SIFTs. If the Trust and Jazz LP were considered to be SIFTs, it is assumed that they would also be considered to have been SIFTs on October 31, 2006. On December 20, 2007, Finance announced proposed technical amendments to the SIFT rules to, among other things, ensure that trusts and partnerships that are not publicly traded and that are wholly-owned by, among other entities, SIFTS, such as the Trust and Jazz LP, are not considered to be SIFTs. The most recent version of the proposed amendments are contained in the Notice of Ways and Means motion dated December 4, 2008. No assurance may be given that these proposed amendments will be enacted as currently proposed or at all.

On June 26, 2007, the Ministère des Finances (Québec) (the "Ministère") published Information Bulletin 2007-5 confirming that Quebec's tax legislation will be harmonized with the SIFT Rules but that a separate Quebec tax regime relating to SIFT entities will be implemented. More specifically, the Ministère announced that a SIFT with an establishment in Quebec at any time in a taxation year will be subject to a Quebec tax at a rate generally equal to the Quebec tax rate relating to corporations and that a business allocation formula based on the gross income of a SIFT and the wages and salaries it pays, similar to the one used for the purpose of determining the tax payable by a corporation that has activities in Quebec and outside Quebec, will apply to determine the tax payable to Quebec by a

SIFT that has, in a taxation year, an establishment both in Quebec and outside Quebec. On February 26, 2008, Finance announced changes to the SIFT Rules that will, among other things, result in harmonization between the SIFT Rules and the separate Quebec tax regime relating to SIFT entities.

There can be no assurance that the Fund, the Trust or Jazz LP will be able to retain the benefit of the deferred application of the SIFT Rules until 2011. Loss of the benefit of the deferred application of the SIFT Rules until 2011 could have a material and adverse affect on the value of the Units.

The SIFT Rules may have an adverse impact on the Fund, the Trust, Jazz LP and the Unitholders, on the value of the Units and on the ability of the Fund, the Trust and Jazz LP to undertake financings and acquisitions, and, at such time as the SIFT Rules apply, the distributable cash of the Fund may be materially reduced. The effect of the recently enacted SIFT Rules on the market for the Units is uncertain.

No assurance can be given that Canadian federal and/or provincial income tax law respecting income trusts and other flow-through entities will not be further changed in a manner which adversely affects the Fund and its Unitholders.

Nature of distributions

The after-tax return for any Units owned by Unitholders which are subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the Fund (portions of which may be fully or partially taxable or may be tax deferred). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders. The SIFT Rules will apply a tax on certain income earned by a SIFT trust or partnership, and treat the taxable distributions of such income received by investors in such entities as taxable dividends. The SIFT Rules do not change the tax treatment of distributions that are in excess of the taxable income of a SIFT trust. The SIFT Rules generally do not apply to income trusts, the units of which were publicly traded as of October 31, 2006, such as the Fund, until January 1, 2011, subject to compliance with the Normal Growth Guidelines released by the Department of Finance on December 15, 2006, as may be amended from time to time.

Investment eligibility

There can be no assurance that the Units will continue to be qualified investments for Plans under the Income Tax Act. The Income Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments by Plans.

Restrictions on potential growth

The payout by Jazz of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Jazz and its cash flow.

Conversion to corporate structure

Finance has released proposed amendments to facilitate tax deferred conversions of SIFTS to corporations. The Fund has commenced the process of considering its options with respect to converting to a corporate structure. Should the Fund decide to convert from its current structure to a corporate structure prior to January 1, 2011, there may be an adverse impact on the market price of the Units resulting from the change in status.

Restrictions on certain Unitholders and liquidity of Units

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49.9% of the Units. In addition, the voting rights of non-resident Unitholders are limited to 25% of the aggregate number of outstanding votes attaching to all outstanding Units and 25% of the aggregate number of votes that may be cast at any meeting of the Unitholders. These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including non-residents of Canada and United States persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain investors and thereby adversely affect the liquidity and market value of the Units held by the public.

19.5 Risk Related to Current Legal Proceedings

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 $850.0 million 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's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against 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.

20. GLOSSARY OF TERMS

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

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

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

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

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

Controllable Cost per Available Seat Mile (Controllable CASM) – Controllable Cost per Available Seat Mile means Controllable Costs divided by Available Seat Mile;

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

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

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

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

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

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

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

Fund – Fund means Jazz Air Income Fund;

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

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

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

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

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

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

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

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

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

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

Trust – Trust means Jazz Air Trust; and

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