Jazz Air Income Fund
and
Jazz Air LP

Restated

2007
Management's Discussion and Analysis
of Results of Operations and Financial Condition

February 19, 2008

Amendment and Restatement

Jazz Air Income Fund ("the Fund") is amending its management's discussion and analysis ("MD&A") and accompanying audited consolidated financial statements of Jazz Air Income Fund and notes thereto for the year ended December 31, 2007, as a result of restating its consolidated financial statements of Jazz Air Income Fund for the year ended December 31, 2007 (the "Restatement"). Accordingly, the Fund's previously issued financial statements, earnings press releases and similar communications affected by the Restatement and any related reports of its independent auditors should not be relied upon, in so far as they relate to the periods and items that are the subject matter of the Restatement.

Subsequent to the issuance of the Fund's financial statements on February 6, 2008, management determined that changes to the income tax rates that were substantively enacted on December 14, 2007 were not used in the calculation of the year end balances of future income tax assets and liabilities. Management has adjusted the amounts previously reported to correctly reflect these new income tax rates. This correction does not affect prior years.

The effect of the Restatement is summarized below:

	As previously reported $	**Adjustment $**	**As restated $**
Consolidated Balance Sheet – 2007			
Future income taxes	83,810	(9,265)	74,545
Unitholders' Equity	933,511	9,265	942,776
Consolidated Statement of Income – 2007			
Provision for future income taxes	83,810	(9,265)	74,545
Net income for the year	4,855	9,265	14,120
Earnings per Fund Unit, basic and fully diluted	0.05	0.09	0.14

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1. PREFACE

The Fund earns income from its interest in Jazz Air LP ("Jazz" or the "Partnership"). The Fund's interest in Jazz increased from 20.3% at December 31, 2006 to 61.6% at March 14, 2007, and to 100% at March 30, 2007. At March 31, 2007, ACE Aviation Holdings Inc. ("ACE") held 58.8% of the outstanding units of the Fund. As a result of a special distribution of Fund Units on May 24, 2007, ACE held 49.0% of the Fund (the "Fund Units"). For the period up to May 24, 2007, the Fund accounted for its investment in Jazz under the equity method and recorded its proportionate share of Jazz's net earnings, calculated on the same basis as if they had been consolidated, taking into account the increases in ownership as step acquisitions from the date on which they occurred.

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

The Fund has determined that Jazz is a VIE and that it has a variable interest in Jazz; however, prior to the May 24, 2007 distribution, management concluded that Air Canada, and not the Fund, was the primary beneficiary. Management has determined that the May 24, 2007 special distribution by ACE was a reconsideration event under AcG 15 and it has been concluded that the Fund is now the primary beneficiary of Jazz.

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

The following management's discussion and analysis of financial condition and results of operations of Jazz Air Income Fund and Jazz Air LP is prepared as at February 19, 2008 and should be read in conjunction with the accompanying audited restated consolidated financial statements of Jazz Air Income Fund and the notes therein for the year ended December 31, 2007 and the accompanying audited consolidated financial statements of Jazz Air LP with the notes hereto for the year ended December 31, 2007. The audited restated consolidated financial statements of Jazz Air Income Fund and the audited consolidated financial statements of 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 are affected by certain risks. For a description of those risks, please refer to Section 21 – Risk Factors.

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

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

1.1 Caution regarding forward-looking information

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

Forward-looking statements, by their nature, are based on assumptions 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. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, general industry, market and economic conditions, war, terrorist attacks, 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, energy prices, 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 MD&A represent Jazz's expectations as of February 19, 2008, and are subject to change after such date. However, Jazz disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise except as required under applicable laws.

1.2 Glossary of terms

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

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

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

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

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

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

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

Controllable Operating Income – Controllable Operating Income means for any period, Schedule 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;

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;

MRO – MRO means maintenance, repair and overhaul;

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

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

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

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

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

Units or Fund Units – Units or Fund Units mean units of the Jazz Air Income Fund.

1.3 Seasonality

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

2. JAZZ AIR INCOME FUND

2.1 General

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

On December 31, 2006, the Fund held 20.3% of the 25,000,000 units of Jazz (the "LP Units") with ACE holding the remaining 79.7% or 97,865,143 LP Units.

On February 9, 2007, ACE exchanged 638,223 of its LP Units for 638,223 Fund Units. The Fund Units were contributed to a trust in order to fund grants to employees under Jazz's Initial Long-term Incentive Plan.

On March 14, 2007, pursuant to a statutory plan of arrangement approved in October 2006, ACE exchanged 25,000,000 LP Units for an equivalent number of Fund Units. These Fund Units were distributed to ACE's shareholders as part of a special distribution. On the same date, ACE also exchanged an additional 25,000,000 LP Units for 25,000,000 Fund Units in accordance with terms of the Investor Liquidity Agreement. On March 30, 2007, ACE exchanged its remaining 47,226,920 LP Units for an equivalent amount of Fund Units. As a result of these transactions, at March 31, 2007, the Fund held 100% of Jazz, compared to 20.3% at March 31, 2006, with ACE no longer holding a direct interest in Jazz at March 31, 2007, compared to 79.7% at March 31, 2006. As of March 30, 2007, ACE held a 58.8% direct interest in the Fund, compared to nil at March 31, 2006. On May 24, 2007, ACE distributed 12,000,000 of its Fund Units to ACE shareholders. As a result, ACE's ownership at that date fell to 49.0%.

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

Under the purchase method of accounting for investments, for each of the acquisition transactions, which increased the Fund's ownership in Jazz, the difference between the purchase price and the net book value of Jazz assets, on the date of the respective transaction, was allocated to the fair value of identifiable assets, including finite and indefinite life intangible assets, and any remaining difference was allocated to goodwill. Management has identified the CPA as a finite life intangible and the Jazz trade name and operating license as indefinite life intangibles and obtained independent valuations of their value at each transaction date.

As a result of the above noted May 24, 2007 transaction, ACE no longer holds LP Units. Pursuant to an amendment to the Securityholders' Agreement entered into on May 24, 2007, between ACE, the Trust and Jazz GP, ACE, as a holder of Fund Units, will continue to have the right to appoint the majority of the directors of Jazz GP for as long as it holds, directly or indirectly, 20% or more of the issued and outstanding Jazz GP common shares. On October 22, 2007, ACE disposed of a further 35,500,000 Fund Units, bring their ownership to 20.1%. As at December 31, 2007, ACE, through its holding of 20.1% of the issued and outstanding Fund Units, indirectly held 20.1% of the Jazz GP common shares.

On January 24, 2008, ACE sold 13 million Units, thus reducing ACE's ownership in the Fund to 9.5%. As a result, ACE no longer has the ability to appoint the majority of the board of directors of Jazz GP.

This purchase price allocation has been updated and finalized from management's preliminary purchase price allocation based on an independent valuation of the identifiable assets of Jazz at the acquisition dates. The purchase price adjustments, which include a reduction in the value of the CPA contract of $147.4 million, an increase in the value of the Jazz tradename of $0.1 million and recognition of goodwill of $147.3 million, have been applied prospectively.

(in thousands of Canadian dollars) (unaudited)	**Feb. 2, 2006** **$**	**Feb. 9, 2007** **$**	**Mar. 14, 2007** **$**	**Mar. 30, 2007** **$**	**Total** **$**
Step purchase interest	*20.3%*	*0.5%*	*40.8%*	*38.4%*	*100%*
Purchase price	246,174	5,457	401,500	387,733	1,040,864
Proportionate net book value of Jazz	10,704	456	37,627	38,095	86,882
Excess of purchase price over net book value of assets acquired	235,470	5,001	363,873	349,638	953,982
Allocated as follows:					
Intangible assets					
Finite life					
CPA	165,401	4,179	328,139	308,843	806,562
Infinite life					
Jazz tradename	19	1	60	56	136
Goodwill	70,050	821	35,674	40,739	147,284
	235,470	5,001	363,873	349,638	953,982

Amortization expense of $8.2 million and $37.0 million represents amortization recorded against the carrying value of the CPA for the quarter ended December 31, 2007 and for the year ended 2007, respectively.

2.2 Distribution policy

The Fund intends to make distributions of its available cash based on distributions received indirectly from Jazz to the maximum extent possible to holders of Units ("Unitholders"). The Fund intends to make equal monthly cash distributions to Unitholders of record on the last business day of each month, within 15 days of the end of each month, less estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions of Units and any tax liability. Distributions to the Unitholders declared amounted to $30.9 million for the quarter ended December 31, 2007 ($5.5 million for the quarter ended December 31, 2006) and $107.2 million for the year ended December 31, 2007 ($20.0 million for the eleven months ended December 31, 2006), as follows:

	December 31, 2007		December 31, 2006	
(in thousands of Canadian dollars, except amount per unit) (unaudited)	Amount $	Amount per Unit $	Amount $	Amount per Unit $
January	2,095.0	0.0838	–	–
February	2,148.0	0.0838	1,757.5	0.0703
March	10,296.0	0.0838	1,822.5	0.0729
April	10,296.0	0.0838	1,822.5	0.0729
May	10,296.0	0.0838	1,822.5	0.0729
June	10,296.0	0.0838	1,822.5	0.0729
July	10,296.0	0.0838	1,822.5	0.0729
August	10,296.0	0.0838	1,822.5	0.0729
September	10,296.0	0.0838	1,822.5	0.0729
October	10,296.0	0.0838	1,822.5	0.0729
November	10,296.0	0.0838	1,822.5	0.0729
December	10,296.0	0.0838	1,822.5	0.0729
	107,203.0	1.0056	19,982.5	0.7993

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, 2007, $0.9 million (for the period February 2, to December 31, 2006 - $0.08 million) priority distributions were declared by Jazz.

In 2006, 99% of Jazz's distributions represented taxable income generated from Jazz's operations and 1% represented a return of capital. Management expects the percentage breakdown for 2007 to be approximately 95% in respect of taxable income and 5% in respect of return of capital.

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

Units

As at December 31, 2007 and as at the date of this report, February 19, 2008, the Fund had 122,864,066 Units issued and outstanding for an aggregate amount of $1,040.9 million, compared to 25,000,000 and $246.2 million at December 31, 2006. The Unit based compensation trusts are VIEs with respect to Jazz, and as such, are consolidated with Jazz's financial statements. Jazz's cost of the Units held is presented as a reduction of Unitholders' capital.

Earnings per Unit

The Fund's basic and fully diluted earnings per Unit, before future income tax, amounted to $0.22 for the quarter ended December 31, 2007 ($0.14 for the quarter ended December 31, 2006) and $0.88 for the year ended December 31, 2007 ($0.62 for the eleven months ended December 31, 2006).

The Fund's basic and fully diluted earnings per Unit, after future income tax, amounted to $0.10 for the quarter ended December 31, 2007 ($0.14 for the quarter ended December 31, 2006) and $0.14 for the year ended December 31, 2007 ($0.62 for the eleven months ended December 31, 2006).

2.3 Guarantees

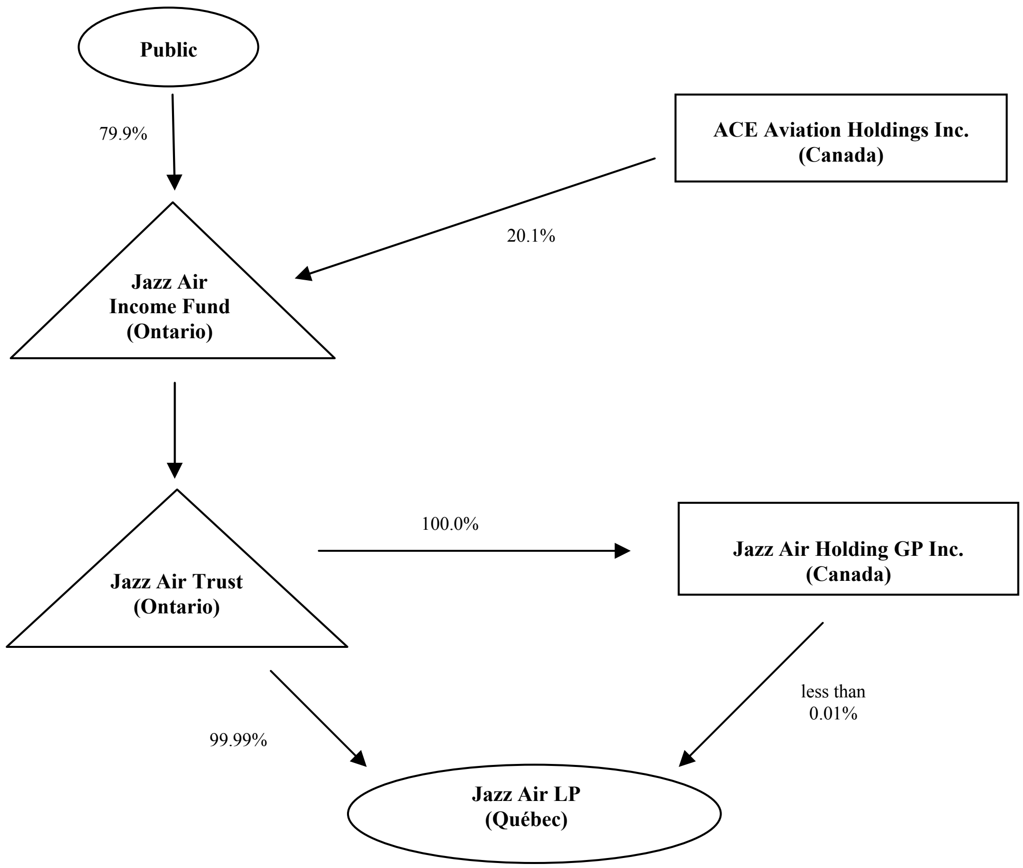
Credit Facilities made available to Jazz upon the closing of the Fund's initial public offering on February 2, 2006 ("IPO") by a syndicate of lenders are secured by a first priority security interest and hypothec over the present and after-acquired personal and certain real property of Jazz, subject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

As at December 31, 2007, Jazz had authorized credit facilities of $150 million and drawings of $115.0 million against the facilities.

Letters of credit totalling approximately $2.7 million (December 31, 2006 - $1.9 million) have been issued as security for groundhandling and airport fee contracts, lease payments on rental space and certain employee benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

2.4 Organizational structure

The following chart illustrates, on a simplified basis, the structure of the Fund (including the jurisdictions of establishment/ incorporation of the various entities) and the direct investment by the Fund in Jazz and related transactions as of December 31, 2007.



Note: On January 24, 2008, ACE sold 13 million units, thus reducing ACE's ownership in the Fund to 9.5%.

3. JAZZ AIR LP

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada's domestic and transborder market presence and strategy. Jazz and Air Canada are parties to a CPA pursuant to which Air Canada currently purchases substantially all of Jazz's fleet capacity based on predetermined rates. Under the CPA with Air Canada, 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 825 departures per weekday to 57 destinations in Canada and 27 destinations in the United States with an operating fleet of 133 Covered Aircraft as of December 31, 2007. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes.

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

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

3.1 Productive capacity management strategy

Productive capacity management represents capital expenditures required to sustain operations. Under the current operations, this is defined as supporting an operating fleet of 136 aircraft with 133 Covered Aircraft and 3 aircraft committed to charter operations. Capital expenditures are made in support of ongoing fleet requirements such as aircraft communication systems, cockpit standardization, regulatory compliance, maintenance information systems infrastructure and facilities leasehold improvements. Based upon the current fleet composition and infrastructure requirements, management expects capital expenditures to be approximately $20.0 million for 2008 and the average recurring level of capital expenditures to be approximately $23.5 million annually thereafter.

3.2 Non-GAAP financial measures

Jazz uses EBITDAR and EBITDA to analyze operating performance. Both measures as presented are not recognized for financial statement presentation under Canadian GAAP, do not have standardized meanings, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDAR

EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and ownership costs, including the impact of foreign exchange on monetary items, as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other asset acquisitions. For a reconciliation of EBITDAR to operating income, see the table below.

	Three months ended December 31,		**Year ended December 31,**	
(expressed in thousands of Canadian dollars) (unaudited)	**2007 $**	**2006 $**	**2007 $**	**2006 $**
Operating income	36,030	32,713	153,159	143,769
Depreciation and amortization	6,833	5,337	24,307	21,262
Aircraft rent	28,717	33,614	126,999	133,929
EBITDAR	71,580	71,664	304,465	298,960
EBITDAR margin (%) [1]	*19.2*	*20.4*	*20.4*	*21.6*

(1) EBITDAR margin is calculated as EBITDAR divided by operating revenues.

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 amortization, gains and losses on property and equipment and other non-operating income and expense.

Standardized Distributable Cash

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

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

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

Distributable Cash

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

Distribution Policy

The Credit Facilities of Jazz contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations on paying distributions. The terms of the Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz to holders of record of LP Units during any twelve-month period from exceeding the aggregate distributable cash of Jazz during such period. Distributions by Jazz are also prohibited upon the occurrence and continuance of an event of default under the Credit Facilities. As at December 31, 2007, Jazz is in compliance with all conditions of the Credit Facilities.

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

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

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

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

	Three months ended December 31,		**Year ended December 31,**	
(expressed in thousands of Canadian dollars) (unaudited)	**2007** **$**	**2006** (1) **$**	**2007** **$**	**2006** (1) **$**
Operating income	36,030	32,713	153,159	143,769
Depreciation and amortization	6,833	5,337	24,307	21,262
EBITDA	42,863	38,050	177,466	165,031
EBITDA margin (%) (2)	*11.5*	*10.8*	*11.9*	*11.9*
EBITDA	42,863	38,050	177,466	165,031
Non-operating income (expenses)	(932)	(791)	(2,505)	(3,727)
Maintenance capital expenditures (3)	(8,875)	(6,995)	(23,679)	(24,785)
Distributable cash	33,056	30,264	151,282	136,519
Distributions declared	30,888	26,954	123,552	98,209
Payout ratio (4)	*93.4%*	*89.1%*	*81.7%*	*71.9%*
Distributable cash (per proforma LP Unit) (5)	0.27	0.25	1.23	1.11
Distributions declared (per proforma LP Unit) (5)	0.25	0.22	1.01	0.80

(1) Since September 30, 2006, Jazz has amended the manner in which it calculates distributable cash to reflect updated guidance.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.
(3) Refer to Section 8.3 for further discussion.
(4) The payout ratio is calculated as distributions declared divided by distributable cash.
(5) Calculated on a proforma basis to include 122,865,144 LP Units for the periods presented as if the LP Units issued on February 2, 2006 were issued on January 1, 2006.

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended December 31, 2007 $	2006 $	Year ended December 31, 2007 $	2006 $
Cash flow from operating activities	4,346	32,274	143,767	182,321
Maintenance capital expenditures, net of gain on disposal	(8,875)	(6,990)	(23,663)	(24,732)
Standardized distributable cash	(4,529)	25,284	120,104	157,589
Change in non-cash operating working capital [1]	36,597	6,100	31,530	(12,664)
Amortization of prepaid aircraft rent and related fees [1]	(474)	(453)	(1,820)	(1,789)
Deferred charges, prepaid aircraft rent and related fees [1]	1,730	(150)	1,730	(4,732)
Unit based compensation [1]	(613)	(517)	(2,156)	(1,885)
Net change in prepaid interest [1]	(42)	–	119	–
Funding of unit based compensation [1]	12	–	1,695	–
Foreign exchange gain [1]	662	–	947	–
Unrealized loss on asset backed commercial paper [1]	(287)	–	(867)	–
Distributable cash	33,056	30,264	151,282	136,519
Distributions declared	30,888	26,954	123,552	98,209
Payout ratio – distributions declared/ standardized distributable cash	*(682.0)%*	*106.6%*	*102.9%*	*62.3%*
Payout ratio – distributions declared/ distributable cash	*93.4%*	*89.1%*	*81.7%*	*71.9%*

Cumulative – since IPO [2]		
Standardized distributable cash	298,953	178,849
Distributable cash	277,225	125,943
Distributions	221,761	98,209
Standardized payout ratio distributable cash	*74.2%*	*54.9%*
Distributable cash payout ratio	*80.0%*	*78.0%*

(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. Short-term changes in operating working capital are the largest of these adjustments and are mostly reversals from previous quarters (or amounts to be reversed in succeeding quarters) in areas such as accounts payable, accounts receivable, expendable spare parts inventory, etc.

(2) The period covered is from February 2, 2006 to December 31, 2007.

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended December 31, 2007 $	Year ended December 31, 2007 $	Period from February 2, 2006 to December 31, 2006 [1] $
Cash flows from operating activities	4,346	143,767	202,297
Net income	35,098	150,654	129,639
Cash distributions declared relating to the period	30,888	123,552	98,209
Excess (shortfall) of cash flows from operating activities over cash distributions declared	(26,542)	20,215	104,088
Excess of net income over cash distributions declared	4,210	27,102	31,430
Payout ratios			
Distributions declared/cash flows from operating activities	710.7%	85.9%	48.5%
Distributions declared/net income	88.0%	82.0%	75.8%

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

During the quarter, cash flows from operating activities was below distributions declared mostly due to a reduction in accounts payable balances and the continuing build up of spare parts, materials and supplies in support of fleet activity and operational integrity. Cash used in non-cash working capital balances related to operations was $36.6 million in the quarter and was a result of:

1) $28.6 million reduction in accounts payable due to payment of aircraft leases due at six month intervals, increased supplier activity experienced during the 3rd quarter peak flying which was subsequently paid in the 4th quarter, and GST/QST remittance due and paid on December 31, 2007 (versus the 3rd quarter not being due and paid until October 1, 2007). On an annual basis these quarterly fluctuations in accounts payable balances are eliminated as the year-over-year ending balances are relatively the same;
2) $6.2 million decrease in long-term liabilities mostly related to a decrease in pension liability and deferred operating lease inducements; and
3) $2.3 million increase in spare parts, materials and supplies in support of the operational fleet.

There were smaller changes in other non-cash working cash balances in the areas of prepaid expenses and accounts receivable during the quarter.

This deficit in the quarter, cash distribution declared versus cash flow from operating activities, does not represent an economic return of capital and before these non-cash working capital adjustments, cash from operations for the quarter was $40.3 million versus $38.4 million, in the same quarter in 2006.

On an annual basis, cash flows from operations and net income show an excess of $19.0 million and $27.1 million, respectively, over distributions declared in 2007.

Jazz maintains adequate cash balances to manage these non-cash working capital fluctuations while delivering its committed level of cash distributions and respecting its debt covenants.

4. QUARTERLY HIGHLIGHTS

- Operating revenue of $372.1 million and $1,495.4 million for the three months and year ended December 31, 2007, an increase of 5.8% and 8.3%, respectively over the same periods in 2006.

- Operating income of $36.0 million and $153.2 million for the three months and year ended December 31, 2007, compared to $32.7 million and $143.8 million for the same periods in 2006, an increase of 10.1% and 6.5%, respectively.

- EBITDAR of $71.6 million and $304.5 million for the three months and year ended December 31, 2007, compared to $71.7 million and $299.0 million for the same periods in 2006.

- EBITDA of $42.9 million and $177.5 million for the three months and year ended December 31, 2007, an increase of $4.8 million or 12.6%; and $12.4 million or 7.5%, respectively over the same periods in 2006.

- Distributions declared of $30.9 million and $123.6 million for the three months and year ended December 31, 2007, compared to $27.0 million and $98.2 million for the same periods in 2006.

- Distributable cash of $33.1 million and $151.3 million for the three months and year ended December 31, 2007, compared to $30.3 million and $136.5 million for the same periods in 2006.

5. RESULTS OF OPERATIONS – FOURTH QUARTER ANALYSIS

The following table compares the results of operations of Jazz for the fourth quarter of 2007 to the fourth quarter of 2006.

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended December 31, 2007 $	Three months ended December 31, 2006 $	Change $	Change %
Operating revenue	372,119	351,853	20,266	5.8
Operating expenses				
Salaries, wages and benefits	82,526	81,560	966	1.2
Aircraft fuel	83,435	69,251	14,184	20.5
Depreciation and amortization	6,833	5,337	1,496	28.0
Aircraft maintenance	29,925	26,519	3,406	12.8
Airport and navigation fees	48,687	45,922	2,765	6.0
Aircraft rent	28,717	33,614	(4,897)	(14.6)
Terminal handling	25,011	25,591	(580)	(2.3)
Other	30,955	31,346	(391)	(1.2)
Total operating expenses	336,089	319,140	16,949	5.3
Operating income	36,030	32,713	3,317	10.1
Non-operating income (expenses)				
Net interest expense	(260)	(264)	4	1.5
Gain on disposal of property and equipment	–	5	(5)	(100.0)
Foreign exchange loss	(385)	(532)	147	27.6
Unrealized loss on asset backed commercial paper	(287)	–	(287)	100.0
	(932)	(791)	(141)	(17.8)
Net income for the period	35,098	31,922	3,176	9.9
Earnings per Unit, basic and diluted	0.29	0.26	0.03	11.5

5.1 Comparison of results – Fourth Quarter 2007 versus Fourth Quarter 2006

For the fourth quarter of 2007, Jazz reported an operating income of $36.0 million, an improvement of $3.3 million compared to $32.7 million recorded in the same quarter of 2006. EBITDAR was $71.6 million in the fourth quarter of 2007 compared to $71.7 million in the fourth quarter of 2006, a decrease of $0.1 million or 0.1%. Refer to "Non-GAAP Financial Measures" in Section 3.2 of this MD&A for additional information on EBITDAR, distributable cash and for a reconciliation to operating income.

In the fourth quarter of 2007, total operating revenue was up $20.3 million or 5.8%, which reflects a 3.7% increase in the Block Hours flown and the increase in pass-through costs, which are reimbursed by Air Canada.

Operating expenses increased by $16.9 million or 5.3%, compared to the same quarter of 2006. This translated into a unit cost increase on a CASM basis of 2.3%. Fuel saw the largest dollar increase which amounted to $14.2 million and was driven mostly as a result of jet fuel price increases. CASM, excluding fuel, was down 1.8% for the period, and when isolated to Controllable Cost, was down 3.2%. Part of the decrease in controllable CASM was a result of the impact of the lower US dollar exchange rate in aircraft rent offset by maintenance costs.

In the fourth quarter of 2007, non-operating expense amounted to $0.9 million, a change of $0.1 million from the fourth quarter 2006. The change is mainly attributable to greater fluctuations in the monthly U.S. exchange rate and a $0.3 million fair value adjustment related to asset backed commercial paper ("ABCP") (refer to Section 9 – Financial Instruments and Risk Management).

Net income for the fourth quarter of 2007 was $35.1 million compared to $31.9 million recorded in the fourth quarter of 2006, an improvement of $3.2 million.

5.2 Revenue performance – Fourth Quarter 2007 versus Fourth Quarter 2006

Operating Revenue

Operating revenue increased from $351.9 million in the fourth quarter of 2006 to $372.1 million in the fourth quarter of 2007, representing an increase of 5.8%. The increase in revenue can be attributed to a 3.7% increase in Block Hours flown and a $17.7 million increase in pass-through costs which are reimbursed on an at cost basis by Air Canada under the CPA. Refer to Section 5.4 – Operating margin performance for additional information.

For the quarter ended December 31, 2007, performance incentives payable by Air Canada to Jazz under the CPA amounted to $4.0 million or 1.8% of Jazz's Scheduled Flights Revenue for such period. For the same period in 2006, performance incentives payable by Air Canada to Jazz under the CPA amounted to $3.1 million or 1.4% of Jazz's Scheduled Flights Revenue.

Other revenue increased from $1.3 million in the fourth quarter of 2006 to $1.4 million in the fourth quarter of 2007. Other revenue is derived from charter flights, maintenance, repair and overhaul (MRO) operation and other sources such as groundhandling services and flight simulator training. Jazz continues its focus on developing its other revenue.

Key statistical information is as follows:

	Three months ended December 31, 2007	**Three months ended December 31, 2006**	**Variance (absolute)**	**Variance (%)**
Number of Departures for the Period Ended	70,259	68,205	2,054	3.0
Block Hours for the Period Ended	99,804	96,263	3,541	3.7
Billable Block Hours	102,158	98,087	4,071	4.2
Revenue Passenger Miles (RPMs) (000's)	1,025,108	981,799	43,309	4.4
Available Seat Miles (ASMs) (000's)	1,398,828	1,358,765	40,063	2.9
Passenger Load Factor (%)	73.3	72.3	1.0	1.4
Total Operating Expenses ($000's)	336,089	319,140	16,949	5.3
Cost per Available Seat Mile (CASM) (¢)	24.03	23.49	0.54	2.3
Cost per Available Seat Mile Excluding Aircraft Fuel (¢)	18.06	18.39	(0.33)	(1.8)
Controllable Cost per Available Seat Mile (¢)	13.80	14.26	(0.46)	(3.2)
Number of Operating Aircraft (end of period) [(1)]	136	135	1	0.7

(1) Refer to Section 15 – Fleet.

5.3 Cost performance – Fourth Quarter 2007 versus Fourth Quarter 2006

Operating Expenses

In line with the growth in revenue, total operating expenses increased from $319.1 million for the fourth quarter of 2006 to $336.1 million in the fourth quarter of 2007, an increase of $16.9 million or 5.3%. For the fourth quarter of 2007, compared to the fourth quarter of 2006:

- salaries, wages and benefits increased by $1.0 million due to additional FTE's to support the ongoing fleet and operational requirements and unionized wage and scale increases as a result of collective agreements;
- aircraft fuel costs increased by $14.2 million due to a $14.6 million increase in fuel prices and fuel usage which corresponds to the 3.7% increase in Block Hours flown, offset by a decrease of $0.4 million in fuel burn;
- depreciation and amortization expense increased by $1.5 million due to the addition of capital leases and increased capital expenditures on rotables and ground equipment;
- aircraft maintenance increased by $3.4 million as a result of the increase in Block Hours flown versus the prior period for $0.9 million and $2.5 million related to the heavy maintenance work and landing gear repairs on the Dash 8 fleet, the heavy check cycle on the CRJ705 fleet, and a significant portion of the CRJ fleet coming off warranty in 2007, as well as general price level increases for certain annual service contracts;
- airport and navigational fees increased by $2.8 million due to an increase in departures of 3.0%, and an increase in average rates of 8.6% due to more jet flying into hub airports;
- aircraft rent decreased by approximately $4.9 million mainly due to lower US dollar exchange rates and new lease arrangements with respect to certain aircraft, offset by the addition of one CRJ705;
- terminal handling costs decreased by $0.6 million due to a decrease in rates as a result of new contracts, offset by an increase in de-icing; and
- other expenses decreased by $0.4 million or 1.2% due to a decrease in training costs.

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, which are reimbursed on an at cost basis by Air Canada under the CPA; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services 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 cost in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	**Three months ended December 31, 2007** **$**	**Three months ended December 31, 2006** **$**	**Change** **$**	**Change** **%**
Pass-through cost items (reimbursed by Air Canada)				
Fuel	83,473	69,093	14,380	20.8
Navigational fees	18,795	19,124	(329)	(1.7)
Airport user fees	29,880	26,797	3,083	11.5
De-icing (1)	6,697	4,030	2,667	66.2
Airport security (2)	1,274	1,742	(468)	(26.9)
Other (2)	2,909	4,549	(1,640)	(36.1)
Total pass-through costs	143,028	125,335	17,693	14.1
Controllable cost items (paid by Jazz)				
Salaries, wages and benefits	82,526	81,560	966	1.2
Aircraft maintenance, materials and supplies	29,925	26,519	3,406	12.8
Aircraft rent and other ownership costs	28,717	33,614	(4,897)	(14.6)
Terminal handling services (1)	18,326	21,562	(3,236)	(15.0)
Depreciation	6,833	5,337	1,496	28.0
Other (2)	26,734	25,213	1,521	6.0
Total Controllable Costs (3)	193,061	193,805	(744)	(0.4)
Total Operating Costs	336,089	319,140	16,949	5.3

(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.

5.4 Operating margin performance – Fourth Quarter 2007 versus Fourth Quarter 2006

(in thousands of Canadian dollars) (unaudited)	Three months ended December 31, 2007				Three months ended December 31, 2006			
	Revenue $	**Expenses $**	**Operating Margin $**	**Operating Margin %**	**Revenue $**	**Expenses $**	**Operating Margin $**	**Operating Margin %**
CPA	223,720	192,071	31,649	14.1	222,115	193,221	28,894	13.0
Pass-throughs	143,028	143,028	–	–	125,335	125,335	–	–
Incentives	4,016	–	4,016	100.0	3,113	–	3,113	100.0
Other	1,355	990	365	26.9	1,290	584	706	54.7
	372,119	336,089	36,030	9.7	351,853	319,140	32,713	9.3

The Controllable Adjusted Actual Margin for the fourth quarter of 2007 was 14.15%, which is over the target margin as established under the CPA of 14.09% (refer to Section 10 – Related Party Transactions) by 6 basis points or approximately $0.1 million. This compares to the fourth quarter of 2006 Controllable Adjusted Actual Margin of 13.0%, which was approximately $2.4 million less than the target margin of 14.09%.

Overall during the fourth quarter, the CPA Scheduled Flights Revenue decreased on an ASM basis by 2.2%, while Controllable Costs decreased by 3.2%. The reduction in revenue on an ASM basis is primarily a result of fixed revenue fees being unitized over more ASMs as generated by the regional jet fleet and lower US exchange rates on aircraft leases. The decrease in controllable cost on an ASM basis is a result of lower aircraft rent unit costs as a result of lower US exchange rates, offset by an increase in maintenance unit cost due to: the heavy maintenance work on the Dash 8 fleet; the heavy check cycle on the new CRJ705 fleet; the majority of the new CRJs coming off warranty in 2007; and general price level increases on certain annual service contracts.

During the fourth quarter, Jazz earned 76% of the incentives available under the CPA or $4.0 million versus last year's incentives of 59% or $3.1 million. Incentives earned in the fourth quarter of 2007 were higher due to fewer controllable flight cancellations.

The margin on other revenue was derived from charter flights, maintenance, repair and overhaul (MRO) operation and other sources such as ground handling services and flight simulator training.

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

The following table compares the results of operations of Jazz for the year ended December 31, 2007 to December 31, 2006.

(expressed in thousands of Canadian dollars) (unaudited)	Year ended December 31, 2007 $	Year ended December 31, 2006 $	Change $	Change %
Operating revenue	1,495,389	1,381,207	114,182	8.3
Operating expenses:				
Salaries, wages and benefits	335,162	310,778	24,384	7.8
Aircraft fuel	320,463	284,836	35,627	12.5
Depreciation and amortization	24,307	21,262	3,045	14.3
Aircraft maintenance	119,486	97,761	21,725	22.2
Airport and navigation fees	198,249	178,223	20,026	11.2
Aircraft rent	126,999	133,929	(6,930)	(5.2)
Terminal handling	99,403	90,314	9,089	10.1
Other	118,161	120,335	(2,174)	(1.8)
Total operating expenses	1,342,230	1,237,438	104,792	8.5
Operating income	153,159	143,769	9,390	6.5
Non-operating income (expenses):				
Net interest expense	(1,354)	(3,476)	2,122	61.0
Gain on disposal of property and equipment	16	53	(37)	(69.8)
Foreign exchange loss	(300)	(304)	4	1.3
Unrealized loss on asset backed commercial paper	(867)	–	(867)	(100.0)
	(2,505)	(3,727)	1,222	32.8
Net income for the year	150,654	140,042	10,612	7.6
Earnings per Unit, basic and diluted	1.23	1.17	0.06	5.1

6.1 Comparison of results – 2007 versus 2006

For the year 2007, Jazz reported an operating income of $153.2 million, an improvement of $9.4 million compared to $143.8 million recorded in the same period of 2006.

EBITDAR was $304.5 million for 2007 compared to $299.0 million for 2006, an increase of $5.5 million or 1.8%. Refer to "Non-GAAP Financial Measures" in Section 3.2 of this MD&A for additional information on EBITDAR and for a reconciliation to operating income.

In 2007, total operating revenue was up $114.2 million or 8.3% which reflects an increase in the number of aircraft operated by Jazz in 2007, compared to 2006, the Block Hours flown by these aircraft and the increase in pass-through costs, including fuel costs, which are reimbursed by Air Canada.

Operating expenses increased by $104.8 million or 8.5% compared to 2006. This correlates with an 8.3% increase in Block Hours flown and an 8.6 % increase in ASMs for the year. Correspondingly, the unit cost on a CASM basis was relatively consistent year over year. Fuel saw the largest dollar increase which amounted to $35.6 million as a result of the increased volume of flying, mostly with regional jet equipment, and the price increase experienced in jet fuel. CASM, excluding fuel, was down 1.2% and Controllable CASM was down 2.2% for the year.

Non-operating expenses were $2.5 million in 2007, a decrease of $1.2 million from 2006. The cost savings are partially attributable to a decrease in interest expense as a result of the restructuring of the long-term debt of Jazz that occurred in connection with the IPO, as well as increased interest revenue of $1.5 million from short-term investments. This was offset by a $0.9 million fair value adjustment related to ABCP (refer to Section 9 – Financial Instruments and Risk Management).

Net income for 2007 was $150.7 million compared to $140.0 million recorded in 2006, an improvement of $10.6 million.

6.2 Revenue performance –- 2007 versus 2006

Operating Revenue

Operating revenue increased from $1,381.2 million in 2006 to $1,495.4 million in 2007, representing an increase of 8.3%. The increase in revenue can be attributed to a 8.3% increase in Block Hours flown and a $58.6 million increase in pass-through costs. Refer to Section 6.4 – Operating margin performance for additional information.

For 2007, performance incentives payable by Air Canada to Jazz under the CPA amounted to $16.7 million or 1.8% of Jazz's Scheduled Flights Revenue for 2007. For 2006, performance incentives payable by Air Canada to Jazz amounted to $13.5 million or 1.6% of Jazz's Scheduled Flights Revenue.

Other revenue increased from $7.0 million in 2006 to $8.3 million in 2007. Other revenue is derived from charter flights, maintenance, repair and overhaul (MRO) operation and other sources of revenue such as groundhandling and flight simulator revenue.

Key statistical information is as follows:

	Year ended December 31, 2007	Year ended December 31, 2006	Variance (absolute)	Variance (%)
Number of Departures for the Year	284,949	264,705	20,244	7.6
Block Hours for the Year	401,134	370,392	30,742	8.3
Billable Block Hours	406,821	375,629	31,192	8.3
Revenue Passenger Miles (RPMs) (000's)	4,265,577	3,819,205	446,372	11.7
Available Seat Miles (ASMs) (000's)	5,740,616	5,285,671	454,945	8.6
Passenger Load Factor (%)	74.3	72.3	2.0	2.8
Total Operating Expenses (000's)	1,342,230	1,237,438	104,792	8.5
Cost per Available Seat Mile (CASM) (¢)	23.38	23.41	(0.03)	(0.1)
Cost per Available Seat Mile Excluding Aircraft Fuel (¢)	17.80	18.02	(0.22)	(1.2)
Controllable Cost Per Available Seat Mile (¢)	13.68	13.99	(0.31)	(2.2)
Number of operating aircraft (end of year) (1)	136	135	1	0.7

(1) Refer to Section 15 – Fleet.

6.3 Cost performance – 2007 versus 2006

Operating Expenses

In line with the growth in revenue, total operating expenses increased from $1,237.4 million in 2006 to $1,342.2 million in 2007, an increase of 8.5%. For the year 2007, compared to 2006:

- salaries, wages and benefits increased by $24.4 million due to additional FTE's in all branches as a result of expansion of the operating fleet, the associated increase in operations and unionized wage and scale increases;
- aircraft fuel costs increased by $35.6 million due to an increase in fuel usage which corresponds to the 8.3% increase in Block Hours flown and increased fuel burn as a result of the change in the fleet composition from turboprops to jet aircraft and an increase in fuel price;
- depreciation and amortization expense increased by $3.0 million due to the addition of capital leases and increased capital expenditures on rotables and ground equipment;
- aircraft maintenance increased by $21.7 million as a result of the increase in Block Hours flown versus the prior year for $7.4 million, and $14.3 million related to heavy maintenance work and landing gear repairs on the Dash 8 fleet, the heavy check cycle on the CRJ705 fleet, a significant portion of the CRJ fleet coming off warranty in 2007, and general price level increases for certain annual service contracts;
- airport and navigational fees increased by $20.0 million due to an increase in departures of CRJ aircraft, and an increase in rates as a result of more jet flying into hub airports;
- aircraft rent decreased by approximately $6.9 million mainly due to lower US dollar exchange rates and new lease arrangements with respect to certain aircraft, offset by an increase of aircraft compared to the prior year;
- terminal handling costs increased by $9.1 million due to an increase in jet departures and an increase in de-icing; and
- other expenses decreased by $2.2 million or 1.8% due to a decrease in training costs.

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

(expressed in thousands of Canadian dollars) (unaudited)	**Year ended December 31, 2007** **$**	**Year ended December 31, 2006** **$**	**Change** **$**	**Change** **%**
Pass-through cost items (reimbursed by Air Canada)				
Fuel	320,291	284,152	36,139	12.7
Navigational fees	78,620	73,846	4,774	6.5
Airport user fees	119,566	104,285	15,281	14.7
De-icing (1)	18,270	12,376	5,894	47.6
Airport security (2)	5,424	6,686	(1,262)	(18.9)
Other (2)	14,569	16,778	(2,209)	(13.2)
Total pass-through costs	556,740	498,123	58,617	11.8
Controllable cost items (paid by Jazz)				
Salaries, wages and benefits	335,162	310,778	24,384	7.8
Aircraft maintenance, materials and supplies	119,486	97,761	21,725	22.2
Aircraft rent and other ownership costs	126,999	133,929	(6,930)	(5.2)
Terminal handling services (1)	81,197	78,030	3,167	4.1
Depreciation	24,307	21,262	3,045	14.3
Other (2)	98,339	97,555	784	0.8
Total Controllable Costs (3)	785,490	739,315	46,175	6.2
Total Operating Costs	1,342,230	1,237,438	104,792	8.5

(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.

6.4 Operating margin performance – 2007 versus 2006

(in thousands of Canadian dollars) (unaudited)	Year ended December 31, 2007 Revenue $	Expenses $	Operating Margin $	Operating Margin %	Year ended December 31, 2006 Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	913,617	780,771	132,846	14.5	862,623	735,241	127,382	14.8
Pass-throughs	556,740	556,740	–	–	498,123	498,123	–	–
Incentives	16,730	–	16,730	100.0	13,460	–	13,460	100.0
Other	8,302	4,719	3,583	43.2	7,001	4,074	2,927	41.8
	1,495,389	1,342,230	153,159	10.2	1,381,207	1,237,438	143,769	10.4

The Controllable Adjusted Actual Margin for the year ended 2007 was 14.54%, which is over the target margin, as established under the CPA of 14.09% (refer to Section 10 – Related Party Transactions) by 45 basis points or approximately $4.1 million. This compares to the year ended 2006 Controllable Adjusted Actual Margin of 14.77% which was approximately $5.8 million better than the target margin of 14.09%.

The year ended margin for 2007 was less than 2006 due to the lag effect of cost increases after, rather than preceding, the fleet additions during 2006 and that the CPA revenue rates were developed on an annualized basis of planned Controllable Costs. This had the effect of providing a relatively higher margin in the first half of 2006 until Controllable Costs had actually been incurred in support of the additional fleet.

During 2007, Jazz earned 78% of the incentives available under the CPA or $16.7 million versus last year's incentives of 66% or $13.5 million. Incentives in 2006 were lower as a result of an increase in controllable cancellations, which resulted from higher aircraft utilization, a brief computer outage that affected the network and increased security measures.

The margin for other revenue was derived from charter flights, MRO operation and other sources such as ground handling services and flight simulator training.

7. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results, as well as major operating statistics, of Jazz Air Limited Partnership (the predecessor of Jazz) from January 1, 2006 up to February 2, 2006, and Jazz subsequent to that date:

(unaudited)	**Q1 2006**	**Q2 2006**	**Q3 2006**	**Q4 2006**	**Q1 2007**	**Q2 2007**	**Q3 2007**	**Q4 2007**
Operating revenue ($000)	319,953	340,138	369,261	351,853	364,176	375,320	383,774	372,119
Operating expenses ($000)	284,594	303,673	330,031	319,140	327,841	335,419	342,881	336,089
Operating income ($000)	35,359	36,465	39,230	32,713	36,335	39,901	40,893	36,030
Total non-operating income (expense) ($000)	(1,908)	(906)	(122)	(791)	(1,036)	649	(1,186)	(932)
Net income ($000)	33,451	35,559	39,108	31,922	35,299	40,550	39,707	35,098
Proforma Earnings per unit ($) (1)	0.27	0.29	0.32	0.26	0.29	0.33	0.33	0.29
Billable Block Hours	87,339	88,943	101,260	97,921	97,711	100,318	106,634	102,158
Revenue Passenger Miles (000's)	827,797	925,075	1,084,533	981,799	978,044	1,097,921	1,164,504	1,025,108
Available Seat Miles (000's)	1,173,981	1,271,515	1,481,410	1,358,765	1,327,937	1,463,064	1,550,787	1,398,828
Passenger Load Factor (%)	70.5	72.8	73.2	72.3	73.7	75.0	75.1	73.3
Cost per available seat mile (CASM) (¢)	24.24	23.88	22.28	23.49	24.69	22.93	22.11	24.03
CASM, excluding fuel expense (¢)	19.21	18.27	16.53	18.39	19.36	17.36	16.64	18.06
Controllable CASM (¢)	14.85	14.26	12.81	14.26	14.82	13.39	12.88	13.80
Controllable Adjusted Actual Margin (%)	14.8	14.6	16.6	13.0	14.1	14.9	14.9	14.1

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

8. THE STATEMENT OF FINANCIAL POSITION AND LIQUIDITY

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

	Three months ended December 31,		**Year ended December 31,**	
(expressed in thousands of Canadian dollars) (unaudited)	**2007 $**	**2006 $**	**2007 $**	**2006 $**
Cash provided by operating activities	4,346	32,274	143,767	182,321
Cash used in financing activities	(31,280)	(14,327)	(126,582)	(194,547)
Cash (used in) provided by investing activities	(8,875)	(6,990)	(29,269)	112,628
Net change in cash and cash equivalents during the period	(35,809)	10,957	(12,084)	100,402
Cash and cash equivalents – Beginning of period	158,590	123,908	134,865	34,463
Cash and cash equivalents – End of period	122,781	134,865	122,781	134,865

8.1 Cash provided by operating activities

Jazz continued to deliver positive cash flows from operations of $4.3 million and $143.8 million for the fourth quarter and year ended 2007, compared to $32.3 million and $182.3 million for the same periods of 2006. The decrease for the quarter relates to changes in non-cash working capital balances as discussed in section 3.2 in the disclosure regarding the relationship between cash flow from operating activities and net income and historical distributed cash amounts. On an annual basis the net change in non-cash working capital balances related to operations is mostly a result of; increased accounts receivable due to the increase in CPA billings; increased spare parts, materials and supplies in support of the operational fleet; and decreased other long-term liabilities as a result of a decrease in pension liability and deferred operating lease inducements.

Management anticipates the future capital requirements for cash distributions and expected capital expenditures for ongoing maintenance and operations will be funded from operations.

8.2 Cash used in financing activities

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 relates to the repayment of obligations under capital leases.

Cash used in financing activities for the fourth quarter of 2006 of $14.3 million relate to the distributions to holders of the LP Units. Cash used in financing activities of $194.5 million for the year ended 2006 relates to the repayment of the acquisition promissory note to ACE of $424.4 million, the repayment of debt of $13.5 million and offering costs of the Fund paid of $5.9 million in addition to total distributions paid of $85.7 million. This was offset by cash generated from the IPO of the Fund in connection with the issuance of LP Units of $222.1 million and the issuance of long-term debt of $112.9 million.

8.3 Cash (used in) provided by investing activities

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 to ensure adherence to the

IATA Operational Safety Audit ("IOSA") regulations for International Air Transport Association ("IATA") carriers that come into effect throughout 2008 and 2009. Other amounts used in investing activities include $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.

Fourth quarter and year end 2006 investing included capital expenditures of $7.0 million and $24.8 million, respectively, primarily related to leasehold improvements to the fleet and the purchase of two Dash 8-300 aircraft for a total of $7.8 million as the purchase was determined to provide Jazz with a significant economic benefit compared to continuing to lease these aircraft. Other 2006 amounts used in investing activities include the IPO transaction related receipt of an amount receivable from Air Canada of $137.2 million.

8.4 Liquidity and capital resources

(expressed in thousands of Canadian dollars) (unaudited)	**December 31, 2007 $**	**December 31, 2006 $**
Cash and cash equivalents	122,781	134,865
Total assets	518,502	483,153
Total long-term liabilities	191,382	186,693

Assets increased during the year as a result of acquiring property and equipment by means of capital leases as well as acquiring spare parts and materials to support the operational fleet. The increase in long-term liabilities resulted from the previously discussed capital leases, offset by a reduction in deferred operating lease inducements and pension liability.

8.5 Debt and lease obligations

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 2008 through 2012 and thereafter.

(expressed in thousands of Canadian dollars) (unaudited)			**Payments Due by Period**				
	Total $	**2008 $**	**2009 $**	**2010 $**	**2011 $**	**2012 $**	**After 5 years $**
Term credit Facility	115,000	–	–	115,000	–	–	–
Capital leases	29,207	3,910	3,910	3,910	3,884	3,554	10,039
Operating leases Related party (1)	1,149,903	110,543	111,818	93,655	79,763	77,060	677,064
Operating leases Third party	82,970	16,700	14,810	10,189	4,744	3,793	32,734
	1,377,080	131,153	130,538	222,754	88,391	84,407	719,837

(1) Certain of the aircraft lease agreements have been entered into with a third party, through related party intermediaries, "Air Canada Capital Ltd." and "Air Canada". These leases have been disclosed as related party leases above.
(2) A significant portion of the lease payments is payable in U.S. dollars.

In connection with the IPO, Jazz Air LP arranged for senior secured syndicated Credit Facilities in the amount of $150.0 million. On closing of the offering, $115.0 million was drawn under the Credit Facilities. The facility bears interest at floating rates and has a four year term. During the first quarter of 2007, the original term of the credit facility was approved by the syndicate for extension from February 2, 2009 to February 1, 2010. The outstanding credit facilities are secured by substantially all the present and future assets of Jazz. Jazz's debt facilities contain various covenants. Jazz is in compliance with all debt covenants at December 31, 2007.

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

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

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

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

In the fourth quarter of 2007, Jazz entered into a common terms agreement ("CTA") 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

Based on Jazz's cash generation capacity and overall financial position, while there can be no assurance, management believes Jazz will be able to pay or refinance the debt when it comes due and will be able to comply with restrictions relating to minimum cash balances in the leasing agreement.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Interest rate risk

Jazz entered into interest rate swap agreements with third parties for $115.0 million which effectively resulted in a fixed effective interest rate of 7.09% until February 2, 2009. Jazz has no intention of early settling of these contracts. If Jazz had settled these contracts at December 31, 2007, a payment of $0.2 million would have resulted.

Concentration of 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 and term deposits. Jazz does not believe it is subject to any significant concentration of credit risk with the exception of balances with Air Canada.

Fuel price risk management

Jazz has no fuel hedging agreements outstanding as at December 31, 2007 or December 31, 2006.

Asset backed commercial paper

As at December 31, 2007, 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 was 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, has not been paid out due to liquidity problems experienced in the ABCP market. At this time, conduits are subject to a proposal which calls for the notes to be converted into floating rate notes which better matches the maturity with the duration of the underlying assets to address the liquidity problem.

Given the disruption in the third party sponsored ABCP market, quoted market values of the investments are not available. Management has reviewed available investment reports and found there have been no defaults of the underlying assets since inception of the trust and more than 97% of the portfolio's notional amount is rated A (Low) or better. Accordingly, management has used current market information and other factors to determine the fair value of the investment by discounting the expected future cash flows according to the probability of recovery of principal and interest based on a maturity date in line with the expected conversion of the ABCP into a floating rate note. Based on management's assessment of the value of its investment in ABCP, a provision for decline in value of $0.9 million is recorded in other non-operating expense. This estimate is subject to measurement uncertainty and is dependent on the likelihood, nature and timing of the restructuring. There is no assurance that the value of these investments will not decline further, or that the restructuring will be successful. Therefore, the estimated value of the investment in ABCP may change in subsequent periods. There has been no impact on operations, financial covenants or ability to meet obligations as they come due. Jazz is not accruing interest in this investment.

The net foreign exchange loss recorded on the investment for the year ended December 31, 2007 was $0.4 million.

10. RELATED PARTY TRANSACTIONS

The CPA

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

Master Services Agreement

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

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

Other

Air Canada provides settlement with suppliers on certain expense transactions, primarily fuel purchases, on behalf of Jazz and subsequently collects the balances 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 provides certain ground handling services and Aero Technical Support & Services Holdings (formerly ACTS LP) provides certain inventory, component and engine 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 demand and have arisen from the services provided by Air Canada.

Jazz has a significant amount of transactions with ACE and its affiliates: Air Canada; Air Canada Capital Ltd.; ACGHS Limited Partnership; and Aero Technical Support & Services Holdings (formerly ACTS LP), which represents 99.4% and 99.5% of Jazz's operating revenues for the years ended December 31, 2007 and 2006, respectively, and 17.7% and 19.0% of Jazz's operating expenses for the years ended December 31, 2007 and 2006, respectively.

11. PENSION PLANS

Projected pension funding obligations

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

(expressed in thousands of Canadian dollars) (unaudited)	2008 $	2009 $	2010 $	2011 $	2012 $
Current service registered plans	9,100	9,500	9,700	9,800	10,000
Past service registered plans	3,500	3,400	1,600	400	–
Other pension arrangements	7,200	7,500	7,600	7,700	7,900
Projected pension funding obligations	19,800	20,400	18,900	17,900	17,900

The estimated pension funding requirements shown in the above table are in respect of the defined benefit and defined contribution pension arrangements sponsored by Jazz. The funding requirements for the Jazz pilots' registered defined benefit pension plan are estimated based on the January 1, 2007 actuarial valuation and an estimate of the pilot payroll over the projection period. The estimated funding requirements for a defined benefit supplemental executive retirement plan that Jazz sponsors for eligible employees are based on a funding policy adopted by Jazz during 2007. New actuarial valuations for both of these plans are in the process of being prepared at January 1, 2008 and will affect employer contributions. 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.

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. Management has identified the areas, discussed below, which it believes are the most subject to judgments, often requiring the need to make estimates about the effects of matters that are inherently uncertain and may change significantly in subsequent periods. The significant accounting policies of Jazz and the Fund are described in note 2 of the Jazz Air LP and Jazz Air Income Fund's December 31, 2007 audited consolidated financial statements.

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 is committed to distribute to its Unitholders all or virtually all of its taxable income and taxable capital gains and 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 - restated

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 ("SIFT") 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 expected to reverse after 2011 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 determination of future income tax assets and liabilities require significant estimation of the reversal of the temporary differences between December 31, 2007 and January 1, 2011, including the amounts deducted in the determination of taxable income for Unitholders. Accordingly, it is expected changes in these estimates will occur each year and will be reflected as part of the future income tax provision.

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, 2007 that are expected to reverse after 2010 are presented below:

	December 31, 2007 $
Future income tax assets	
Deferred lease inducements	11,030
Other	1,592
	12,622
Future income tax liabilities	
Intangibles	73,211
Property, plant and equipment – differences in net book value and undepreciated capital cost	13,956
	87,167
Net future income tax liability	74,545
Income tax expense is comprised of:	
Future income taxes related to the substantive enactment of Bill C-52	83,810
Future income taxes related to the change in the taxation rate	(9,265)
	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 and the supplemental executive retirement plan for Jazz executives 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.
- 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 resulting from plan amendments are amortized on a linear 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 actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market-related value of plan assets 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 November 30th. 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 following assumptions were used in valuing the benefit obligations under the plan and the employer's net periodic pension cost:

- The discount rate used to determine the pension 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 the facts and circumstances that exist 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.

	December 31,	
	2007	**2006**
Weighted average assumptions used to determine accrued benefit obligation		
• Discount rate	5.75	5.00
• Rate of compensation increase	4.00 – 5.00	4.00 – 5.00
Weighted average assumptions used to determine pension costs		
• Discount rate	5.00	5.20
• Expected long-term rate of return on assets	6.00	5.20
• Rate of compensation increase	4.00 – 5.00	4.00 – 5.25

Intangibles

In the Fund, 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 has been derived through the process of the independent third party valuation as the excess of the purchase price over the fair value allocation at the time of the step acquisitions.

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, 2007 the net book value of Jazz's property and equipment was $225.4 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 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

Financial instruments

Commencing with the first quarter of 2007, Jazz and the Fund adopted four new accounting standards issued by the Accounting Standards Board and included in the CICA handbook as follows: (i) Section 1530 *Comprehensive Income*; (ii) Section 3855 *Financial Instruments – Recognition and Measurements*; (iii) Section 3861 *Financial Instruments – Disclosure and Presentation*; and (iv) Section 3865 *Hedges*.

The changes and the impact of these changes are described in note 2 of the Jazz Air LP audited consolidated financial statements and Jazz Air Income Fund's December 31, 2007 audited restated consolidated financial statements.

These new standards have been applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities have been recognized as an adjustment to the opening balance of partners' capital or accumulated other comprehensive income, depending on the classification of existing assets or liabilities.

The new standards lay out how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

Section 3865, *Hedges*, establishes how hedge accounting may be applied. Jazz has decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.

Spare parts, materials and supplies

Commencing with the second quarter of 2007, Jazz changed its policy for determining the cost of spare parts (consumable aircraft parts), materials and supplies. Spare parts, materials and supplies which were formerly valued at the lower of average cost and net realizable value is now being valued at the lower of cost, determined on a first-in, first-out basis and net realizable value. Management believes the first-in first-out method of reporting is more reflective of actual inventory movement. This change has been applied retroactively; however, the difference in inventory valued between the two methods for the prior periods is not material to the financial statements and therefore no adjustments have been made.

Change in accounting estimates

Property and equipment

During 2007, Jazz changed its estimate of both the useful life and the expected residual value of certain flight equipment. The revised estimates better reflect the expected useful life of these assets to Jazz and updates 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 decreasing depreciation expense by $0.5 million in 2007.

Future accounting changes

Capital disclosures and financial instruments – presentation and disclosure

The Canadian Institute of Chartered Accountants issued new accounting standards: Section 1535, *Capital Disclosures;* Section 3031, *Inventories*; Section 3862, *Financial Instruments – Disclosures;* and Section 3863, *Financial Instruments – Presentation*. These new standards will be effective on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure will be required for Jazz once the new standard becomes effective.

Section 3031 will replace Section 3030, *Inventories*, revising and enhancing disclosure and presentation requirements. This new section will limit the choices in which to calculate carrying values and will provide new disclosure requirements. There will be no impact in how Jazz accounts for inventory; however, there will be additional disclosure requirements.

Section 3862 and 3863 will replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by Jazz and the disclosure already in place, it is not expected that the revised section will have any impact on the financial statements.

14. CAPITAL EXPENDITURES

Capital expenditures are incurred by Jazz to maintain, replace and add to its existing capital assets. Jazz separates its capital expenditures into six categories: leasehold improvements, ACARS reporting system (aircraft communication addressing and reporting system, also known as Datalink), equipment and tooling, rotables and engines, facilities and owned buildings. Leasehold improvements include improvements made to leased aircraft.

(expressed in thousands of Canadian dollars)
(unaudited)

	Capital Expenditures for the Year Ended December 31,[1]		Planned Capital Expenditures for the Year Ended December 31,				
	2006 $	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $
Leasehold improvements	10,912	10,132	4,000	7,500	7,500	7,500	7,500
ACARS	684	–	–	–	–	–	–
Aircraft related [2]	12,998	13,102	16,000	16,000	16,000	16,000	16,000
Facilities and owned Buildings	191	445	–	–	–	–	–
	24,785	23,679	20,000	23,500	23,500	23,500	23,500

(1) Capital expenditures are derived from the statements of cash flows and exclude accrued amounts at the beginning and at the end of the periods
(2) Includes equipment, tooling, rotables and engines

For the year ended December 31, 2007, capital expenditures were $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 $20.0 million for 2008 and the average recurring level of capital expenditures to be approximately $23.5 million annually thereafter. 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.

15. FLEET

As at December 31, 2007, Jazz's operating fleet was made up of 136 operating aircraft, of which 73 were regional jets and 63 turboprop aircraft.

During the fourth quarter of 2007, Jazz accepted delivery of one CRJ705 and one Dash 8-300. The CRJ 705 aircraft replaced a CRJ100 that was deemed beyond economical repair during the second quarter of 2007. The Dash 8-300 is an addition to the charter operations. Delivery was accepted in December 2007; however, the aircraft is not expected to go into charter service until March 2008 as it requires certain modifications.

Jazz's operating fleet, at December 31, 2007, was as described below:

	Number of Operating Aircraft December 31, 2007	Average Age of Operating Aircraft	Owned	Operating Lease	Capital Lease (1)	Number of Operating Aircraft December 31, 2006
Canadair Regional Jet CRJ100	24	12.2	–	24	–	25
Canadair Regional Jet CRJ200	33	5.7	–	33	–	33
Canadair Regional Jet CRJ705	16	2.4	–	16	–	15
De Havilland DHC-8-300	27(2)	17.7	19	1	7	26
De Havilland DHC-8-100	36	19.8	29	7	–	36
Total Operating Aircraft	136	12.5	48	81	7	135

(1) Jazz entered into capital leases related to seven Dash 8-300 aircraft (refer to note 8 of the December 31, 2007 Jazz Air LP consolidated financial statements).
(2) Includes one Dash-8-300 aircraft delivered in December 2007, as discussed above.

All aircraft in Jazz's operating fleet as of December 31, 2007 are Covered Aircraft under the CPA except for two Dash 8-100 and one Dash 8-300 aircraft allocated for charter purposes.

16. PEOPLE

For the year ended December 31, 2007, Jazz had an average of 4,450 full time equivalent (FTE) employees compared to an average of 4,144 FTE employees for 2006. This reflects an 7.4% increase from 2006, as shown in the table below:

	Union	Year ended December 31, 2007	Year ended December 31, 2006 (1)	Change	Change %
Pilots (2)	ALPA	1,337	1,258	79	6.3
Technical Services	CAW	818	773	45	5.8
Customer Service Agents	CAW	728	680	48	7.1
Flight Attendants	Teamsters	750	694	56	8.1
Management (2)	–	466	424	42	9.9
Administrative and Technical Support	–	265	237	28	11.8
Dispatchers	CALDA	56	53	3	5.7
Crew Scheduling	CAW	30	25	5	20.0
		4,450	4,144	306	7.4

(1) Comparative figures have been restated to conform to current presentation.
(2) 2006 comparative figures have been restated to reflect 17 management pilots previously included in Airline Pilot Association ("ALPA") which are now included in management.

Management carefully monitors growth and these employment increases are considered appropriate in comparison with capacity growth of 8.6% as measured by ASMs, for the year ended December 31, 2007.

On May 31, 2007, a labour arbitrator released his wage review award for the dispatchers represented by the Canadian Air Line Dispatchers Association (CALDA). Aside from modest fixed adjustments to the scales applicable to employees hired after July 31, 2003, the arbitrator's award granted CALDA-represented employees a 1.5% wage increase effective August 1, 2006, 1.5% effective August 1, 2007 and 1.5% effective August 1, 2008.

As a result, all collective agreement wage reviews have now been concluded and are in place until mid year 2009.

17. OFF BALANCE SHEET ARRANGEMENTS

The net book value of the property and equipment pledged as collateral related to the Credit Facilities at December 31, 2007 was $203.2 million (2006 - $199.4 million).

Letters of credit totalling approximately $2.7 million (December 31, 2006 - $1.9 million) have been issued as security for groundhandling and airport fee contracts, lease payments on rental space and certain benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

Indemnification agreements

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

In aircraft 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.

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.

18. MATERIAL CHANGES

Other than those noted in Section 22 – Subsequent events, there have been no material changes to the information disclosed.

19. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

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

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of Jazz's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP").

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

Jazz has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2007, and based on our evaluation, we have concluded that it is reasonably assured that they are effective. This evaluation took into consideration Jazz's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee. In addition, the evaluation covered Jazz's processes, systems and capabilities relating to regulatory filings, public disclosures and the identification and communication of material information.

There has been no change in Jazz's internal control over financial reporting that occurred during the year ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, Jazz's internal control over financial reporting.

Jazz's Audit Committee reviewed this restated MD&A, and the audited consolidated financial statements of Jazz Air LP and the audited restated consolidated financial statements of Jazz Air Income Fund, and Jazz's board of directors approved these documents prior to their release.

20. OUTLOOK

Management is committed to outperform the CPA target margin of 14.09%, deliver strong operational performance and high levels of customer satisfaction to maximize incentive revenue, to achieve efficiency through investments in technology and process improvements and identify and pursue other business opportunities to diversify and grow.

Billable Block Hours achieved under the CPA were 102,158 in the fourth quarter of 2007, bringing the current year total to 406,821 Block Hours billed. Jazz is expecting approximately 400,000 to 405,000 Billable Block Hours for 2008. Management is committed to continuing cash distributions at a rate of $1.0056 for fiscal 2008.

In 2006, 99% of Jazz's distributions represented income and 1% represented return of capital. Management expects the breakdown for 2007 to be approximately 95% in respect of taxable income and 5% in respect of return of capital.

21. RISK FACTORS

21.1 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.

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 three Dash 8 aircraft). 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 favorable 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 favorable 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 expiry 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 2007 calendar year represented 339,375 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 a master services agreement dated September 24, 2004 (the ''MSA''), 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. 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.

In 2008 and 2011, 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 improve 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.

ACPA Scope Clauses and Small Jets Settlement Agreement

Air Canada's collective bargaining agreement with the Air Canada Pilots Association (''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. The Small Jets Settlement Agreement also prevents Jazz from operating the CRJ-705 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 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, either through arrangements with other airlines or by operating flights under its own codes, 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 favorable 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.

21.2 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 plans will require Jazz to locate, hire, train and retain new employees over the next several years. 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 business 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 *Companies Creditors Arrangement Act* ("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 and CTA). 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 and CTA 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 favorable 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 favorable 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 favorable 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.

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.

21.3 Risks Relating to the Industry

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.

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 companies operating within the airline industry. 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.

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

The September 11, 2001 terrorist attacks 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.

Severe Acute Respiratory Syndrome (SARS), Influenza or Other Epidemic Diseases

As a result of the international outbreaks of Severe Acute Respiratory Syndrome in 2003, the World Health Organization (the ''WHO'') issued on April 23, 2003 a travel advisory, which was subsequently lifted on April 30, 2003, against non-essential travel to Toronto, Canada. The seven day WHO travel advisory relating to Toronto, the location of Air Canada's and Jazz's primary hub, 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 traveling on Air Canada's and Jazz's flights and resulted in a major negative impact on traffic on Air Canada's entire network. The WHO warns that there is a substantial risk of an influenza pandemic within the next few years. An outbreak of another epidemic disease such as Influenza (whether domestic or international) or a further WHO travel 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 CPA 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, 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 Canadian Transportation Agency, 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. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons.

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.

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 the 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 handled, maintained or repaired by Air Canada, Aero Technical Support & Services Holdings (formerly ACTS LP), ACGHS Limited Partnership 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.

21.4 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 Will Fluctuate with the Business Performance

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, all of which are susceptible to a number of risks.

If the Fund elects to convert from its current income trust 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.

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 Ontario, Quebec 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 of the Trust 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.

Control of Jazz

At December 31, 2007, ACE owned 24,726,920 Units representing, indirectly, 20.1% of the interests in Jazz. Subsequent to year end and the sale of a further 13,000,000 Units, ACE now holds 11,726,920 Units, representing 9.5% of the issued and outstanding Units, and representing, indirectly, 9.5% of the interests in Jazz.

Under the Securityholders' Agreement entered by and between the Fund, the Trust, ACE, Jazz LP and Jazz GP on January 25, 2006, as amended as of March 30, 2007, (the ''Securityholders' Agreement''), ACE has the ability to nominate a majority of the members of the board of directors of Jazz GP until its interest in Jazz falls below 20%. Due to the sale of the 13,000,000 units subsequent to year-end, ACE no longer has the right to nominate a majority of the members of the board of directors of Jazz GP. Once ACE's interest in Jazz falls below 20% (including having no ownership interest) the Securityholders' Agreement provides ACE with the right to appoint two members to the board of directors of Jazz GP as long as ACE or one of its subsidiaries is a party to the CPA.

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 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 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 million.

Although this was likely not the intent of the SIFT Rules proposed by the Department of Finance (Canada), 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, the Minister of Finance (Canada) 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 SIFTS, such as the Trust and Jazz LP, are not considered to be SIFTs. No assurance may be given that these proposed amendments will be enacted as currently proposed or at all.

On June 26, 2007, the Ministere des Finances (Quebec) (the "Ministere") 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 Ministere 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. The Minister of Finance (Canada) has not yet indicated how the SIFT Rules will be amended to take into account the proposed Quebec tax regime.

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

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.

21.5 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 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 as being without merit and will be vigorously contested in court.

22. SUBSEQUENT EVENTS

a) On January 16, 2008, ACE announced that it accepted an offer to sell 13,000,000 Fund Units on an exempt trade basis. The sale was completed on January 24, 2008. This transaction reduces ACE's ownership interest in the Fund to 9.5%, which puts ACE below the 20.1% minimum ownership interest in the Fund required to nominate a majority of the members of the board of directors of Jazz GP, in accordance with the Securityholders' Agreement between ACE, the Fund, Jazz GP and the Partnership.

b) On January 22, 2008, Jazz took delivery of one Dash 8-300 aircraft, that will be used in the charter operations. The term of the operating lease is 8.5 years.