JAZZ AIR LIMITED PARTNERSHIP

2005

AMENDED MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the period ended December 31, 2005

March 16, 2006

This amended Management's Discussion and Analysis replaces the Management's Discussion and Analysis dated February 9, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis of financial condition and results of operations of Jazz Air Limited Partnership's and Jazz Air Inc.'s is prepared as at February 9, 2006 and should be read in conjunction with the accompanying audited consolidated financial statements of Jazz for the year ended December 31, 2005, the three-month period ended December 31, 2004 and nine-month period ended September 30, 2004 and the notes therein.

References to "Successor Partnership" in this management discussion and analysis refer to Jazz Air Limited Partnership on and after September 30, 2004. References to "Predecessor Company" refer to Jazz Air Inc. prior to September 30, 2004.

Caution Regarding Forward-Looking Information

Jazz's communications often contain written or oral forward-looking statements which are included in the MD&A and may be included in filings with securities regulators in Canada and the United States. 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 litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those Risk Factors section to this MD&A. The forward-looking statements contained in this discussion represent Jazz's expectations as of February 9, 2006, 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.

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1. PREFACE

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 capacity purchase agreement pursuant to which Air Canada currently purchases substantially all of Jazz's fleet capacity based on predetermined rates. Under the capacity purchase agreement 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 currently operates scheduled passenger service on behalf of Air Canada with approximately 688 departures per weekday to 56 destinations in Canada and 17 destinations in the United States with an operating fleet of 121 aircraft as of December 31, 2005. 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.

Jazz's business model was transformed upon the emergence of Air Canada and the Predecessor Company from the CCAA by virtue of the implementation of significant cost reductions, the introduction of new regional jet aircraft and the entering into of the Initial CPA on October 1, 2004.

The Initial CPA was in effect from October 1, 2004 to December 31, 2005. It was replaced with the CPA effective January 1, 2006. During the period from October 1, 2004 to December 31, 2005, Jazz derived substantially all of its revenues (99%) from the Initial CPA. Management expects this to continue under the CPA. 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 aircraft on the schedule specified by Air Canada. Management believes that the CPA is beneficial to Jazz as it reduces financial and operating risks and results in a more stable business model than the previous pro-rate revenue sharing model.

Under the Initial CPA and 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 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 payments for successfully achieving certain performance incentives on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction.

Prior to September 30, 2004, the Predecessor Company operated under a pro-rate revenue sharing agreement and generated substantially all of its passenger and cargo revenue from tickets or services sold by its parent, Air Canada. In accordance with an interline agreement, the Predecessor Company received a prorated percentage of the ticket revenue for passengers traveling one portion of their trip on the Predecessor Company's aircraft and the other portion of their trip on Air Canada's aircraft, and all the ticket revenue for passengers traveling all of their trip solely on the Predecessor Company's aircraft. A similar proration of cargo tariffs applied to cargo carried on the Predecessor Company's aircraft. All of the costs of operating the Predecessor Company's flights, including costs related to selling and marketing activities, were included in the Predecessor Company's operating results.

On April 1, 2003, Air Canada obtained an order from the court providing creditor protection under the CCAA for Air Canada and certain of its subsidiaries, including the Predecessor Company (the "Applicants"). On April 1, 2003, Air Canada, through its court-appointed monitor, also made a concurrent petition for recognition and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The CCAA and United States proceedings covered Air Canada and the Predecessor Company, in addition to other subsidiaries of Air Canada.

In accordance with Air Canada's and the Applicants' consolidated plan of reorganization, compromise and arrangement (the "Plan"), the Successor Partnership was created on September 9, 2004 and remained inactive until September 30, 2004. On August 17, 2004, the creditors approved the Plan and on August 23, 2004, the Plan was confirmed pursuant to an order of the court. The Plan was implemented through a series of steps which were completed on September 30, 2004, including the transfer of the majority of the assets and liabilities of the Predecessor Company to the Successor Partnership and the windup of the Predecessor Company. Accordingly, on September 30, 2004, the Applicants emerged from the CCAA and United States proceedings and ACE Aviation Holdings Inc. (ACE) became the parent company of Air Canada, the Successor Partnership and various other entities.

1.1. Basis of Presentation

On emergence from the CCAA proceedings, the Predecessor Company adopted fresh start reporting accounting resulting in the elimination of certain liabilities that were compromised under the CCAA proceedings and the revaluation of all of its assets and liabilities at fair values based on Management's best estimates and on valuation techniques. Subsequent to the application of fresh start reporting, the operations and certain assets and liabilities of the Predecessor Company were transferred on September 30, 2004 to the Successor Partnership. The assets and liabilities transferred from the Predecessor Company to the Successor Partnership were accounted for using the continuity of interest method and the assets and liabilities were recorded in the Successor Partnership's accounts using the amounts resulting from the fresh start reporting. The Successor Partnership entered into the Initial CPA on October 1, 2004 and, accordingly, has been conducting the Jazz business according to a business model that is substantially different from the pro-rate revenue sharing model under which operated the Predecessor Company. As a result of the implementation of the Initial CPA, the change in basis of accounting for assets and liabilities, the change in the structure of the entity and the change in certain estimates, the financial statements of the Successor Partnership are not comparable to those of the Predecessor Company and should not be considered to be a continuum of the financial statements of the Predecessor Company.

1.2. Summary of Revenue and Expense Components

Operating Revenue

The number of aircraft operated by Jazz, the Block Hours flown by these aircraft and, to a lesser degree, the number of departures are the most significant factors determining Jazz's revenue. As of December 31, 2005, Jazz operated a fleet of 121 aircraft and Management expects that number to grow to 135 by July 2006. The CPA significantly reduces Jazz's exposure to revenue volatility associated with ticket prices and passenger traffic as Jazz is paid set rates on flights undertaken and the number of aircraft in the fleet used for Air Canada schedules. In addition to the fees described above, Jazz can earn certain performance incentive payments up to 2.36% of its Scheduled Flights Revenue for the relevant period based on four operational performance incentive categories: on-time performance (other than for causes beyond Jazz’s control), flights actually flown (other than for causes beyond Jazz’s control), incidences of mishandled luggage at airports where Jazz is responsible for luggage handling (as opposed to airports handled by Air Canada Ground Handling Services (ACGHS Limited Partnership), an affiliate of ACE, and other customer satisfaction measures related to inflight and check-in satisfaction.

Operating Expenses

Jazz's major operating expenses are salaries, wages and benefits, aircraft fuel, aircraft maintenance, aircraft rent, and airport and navigation fees.

- Salaries, wages and benefits: This expense includes not only salaries and wages, but also expenses associated with various employee benefit plans, employee incentives and payroll taxes. These expenses will fluctuate based primarily on Jazz's level of operations and changes in wage rates.
- Aircraft fuel: Fuel expense includes the cost of aircraft fuel, which is mainly driven by fuel price and level of operations. Fuel is the most important pass-through cost of Jazz, representing approximately half of Jazz's pass-through costs.
- Aircraft maintenance: Maintenance expenses include all parts, materials and spares required to maintain Jazz's aircraft. Jazz has entered into long-term maintenance "power-by-the-hour" service contracts with Air Canada Technical Services (ACTS Limited Partnership) and third-party providers under which it is charged fixed rates for each flight hour accumulated by some of its engines and some of its components.
- Airport and navigation fees: Airport and navigation fees depend primarily on the airport location, the routes flown (domestic or transborder), the type of aircraft and the number of departures.
- Aircraft rent: Aircraft rent depends primarily on the number and type of aircraft leased. As of December 31, 2005 there were 125 aircraft in Jazz’s care, custody and control with 121 aircraft shown as operating aircraft and four CRJ-200 new deliveries being prepared for commercial operations. There are ten CRJ-100 to be transferred from Air Canada and two CRJ-200 deliveries, less two Dash 8-100 retirements scheduled

between January-July 2006. These net additions of ten aircraft will bring the fleet up to the planned level of 135 aircraft with 133 aircraft included under the CPA and two used in charter operations.

The operating expenses of Jazz can be broken down in two categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees and other costs, which are reimbursable 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 fees it charges Air Canada under the CPA. Though aircraft rent is not a pass-through cost, it is not subject to short-term variation and is covered in full plus a mark-up by the aircraft ownership payment under the CPA.

The pass-through costs which historically have represented approximately one third of Jazz's total operating costs have undergone significant increases in the recent past. Fuel costs have increased significantly over the past several years due to, among other factors, global events and record demand levels for fuel. Airport privatization has resulted in significant increases in airport landing and terminal fees, especially at the smaller airports served by Jazz as well as at Toronto Pearson International Airport, Jazz's largest hub. Navigational fees have steadily increased in recent years and are expected to continue to increase. By passing through such costs to Air Canada, Jazz reduces its exposure to cost fluctuations and is well positioned to focus on operating with maximum efficiency.

Operating Income

The Initial CPA was designed to earn Jazz a targeted 9% operating margin on Jazz's revenue from the Initial CPA for the period from October 1, 2004 to December 31, 2005. If the actual operating margin achieved by Jazz on its revenue from the Initial CPA exceeded 9%, the parties would share equally in the surplus.

2. EXPLANATORY NOTES

2.1. Glossary of Terms

Active Aircraft – Active aircraft are covered aircraft, as defined under the CPA, other than aircraft being modified, undergoing scheduled maintenance or being painted;

ACARS – ACARS means aircraft communication addressing, report and communication system, also known as Datalink;

ACE – ACE means ACE Aviation Holdings Inc., a corporation incorporated under the laws of Canada;

Available Seat Mile (ASMs) - Available Seat Miles is 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 are 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;

Closing – Closing means the closing of the initial public offering of Jazz Air Income Fund on February 2, 2006;

Cost per Available Seat Mile (CASM) - Cost per Available Seat Mile is the average cost per Available Seat Mile;

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

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

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

Fund – Fund means Jazz Air Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Ontario;

Initial CPA – Initial CPA is the capacity purchase agreement between Air Canada and the Successor Partnership which was in effect from October 1, 2004 to December 31, 2005. The Initial CPA was replaced with the CPA effective January 1, 2006;

Initial LTIP – Initial LTIPs means the initial long-term incentive plans of Jazz LP;

Investor Liquidity Agreement – Investor Liquidity Agreement means the investor liquidity agreement entered into on the Closing by ACE, the Fund, the Trust, Jazz LP and Jazz GP;

Jazz – Jazz means Jazz LP, together with its general partner, Jazz GP, and their respective subsidiaries and predecessors; and, in particular, reference to Jazz in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by the Predecessor Company and references to Jazz in respect of the time period from October 1, 2004 until Closing are references to the business of Jazz as carried on by the Successor Partnership, unless the context requires otherwise;

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

Jazz LP – Jazz LP means Jazz Air LP, a limited partnership established under the laws of the Province of Québec on September 12, 2005;

Lenders – Lenders refers to the members of the syndicate of financial institutions that has provided the New Credit Facilities to Jazz;

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

MSA – MSA is the master services agreement dated September 24, 2004 between Jazz and Air Canada;

MRO – MRO is maintenance, repair and overhaul;

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

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

Over-Allotment Option – Over-Allotment Option means the option granted by the Fund to the Underwriters to purchase up to 3.5 million additional units, exercisable for a period of 30 days from the Closing;

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

Predecessor Company – Predecessor Company is Jazz Air Inc., a corporation incorporated under the laws of Canada and liquidated as of September 30, 2004;

Revenue Passenger Miles (RPMs) - Revenue Passenger Miles are 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 are the flights on 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 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;

Successor Partnership - means Jazz Air Limited Partnership, a limited partnership established under the laws of the Province of Québec;

Term Facility – Term Facility consists of the $115 million term facility that forms part of the New Credit Facilities;

Trust – Trust means Jazz Air Trust, an unincorporated, open ended trust established under the laws of the Province of Ontario.

2.2 Seasonality

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. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term.

2.3 Non-GAAP Financial Measures

Pass-through 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 reimbursable 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 pass-through costs have undergone significant increases in the recent past. In particular, fuel costs have increased significantly over the past several years. Airport privatization has resulted in significant increases in airport landing and terminal fees, especially at the smaller airports served by Jazz as well as at Toronto Pearson, Jazz's largest hub. Navigational fees have steadily increased in recent years and are expected to continue to increase. By passing through such costs to Air Canada, Jazz reduces its exposure to cost fluctuations and is well positioned to focus on operating with maximum efficiency.

Through the CCAA process, Jazz was able to significantly reduce its controllable costs in all areas. Jazz performed an extensive review of all contracts including labour, maintenance related agreements and aircraft leases.

The terms and conditions of many of those contracts were renegotiated resulting in more favourable terms and conditions to Jazz.

Annual Supplementary Non-GAAP Combined Information for the year 2004

The Annual Supplementary Non-GAAP Combined Information for the year 2004 is the combination of financial results for the nine months ended September 30, 2004 of the Predecessor Company and financial results for the period ended December 31, 2004, which represents three months of operations, of the Successor Partnership. Such combination is for illustrative purposes only. This combined information will hereinafter be referred in this MD&A as "Combined" information or "2004 Combined". As a result of the application of fresh start reporting, application of new accounting policies, the effectiveness of certain lease contracts on emergence of the CCAA and the debt and equity transactions that occurred on September 30, 2004, the Successor Partnership's financial statements are not directly comparable to those prepared for the Predecessor Company, Jazz Air Inc., prior to the emergence. The combination of the financial information of the Predecessor Company and the Successor Partnership for the year ended December 31, 2004 should not be viewed as a continuum because the financial statements of Jazz Air Inc. for periods prior to October 1, 2004 and the financial statements of Jazz Air Limited Partnership for the period ended December 31, 2004 are those of different reporting entities and are prepared using different bases of accounting and different accounting policies and are therefore not directly comparable.

The following table combines the 2004 operational results of the Predecessor Company with the 2004 operational results of the Successor Partnership.

(expressed in thousands of Canadian dollars)	**Combined Predecessor Company and Successor Partnership** **For the year ended December 31, 2004** **$**	**Successor Partnership** **For the period ended December 31, 2004** **$**	**Predecessor Company** **For the nine-month period ended September 30, 2004** **$**
	(unaudited)		
Operating revenue	803,804	187,523	616,281
Operating expenses:			
Salaries, wages and benefits	230,872	56,569	174,303
Aircraft fuel	109,380	28,928	80,452
Depreciation and amortization	27,199	4,272	22,927
Aircraft maintenance	84,874	16,154	68,720
Airport and navigation fees	97,858	22,164	75,694
Aircraft rent	36,586	9,420	27,166
Terminal handling	72,175	10,281	61,894
Other	134,218	18,013	116,205
Total operating expenses	793,162	165,801	627,361
Operating income (loss) before the undernoted items	10,642	21,722	(11,080)
Reorganization and restructuring costs	(56,119)	-	(56,119)
Operating Income (loss)	(45,477)	21,722	(67,199)
Non-operating expenses:			
Net interest expenses	(12,503)	(3,905)	(8,598)
Gain (loss) on disposal of property and equipment	(5,385)	-	(5,385)
Other	1,190	604	586
	(16,698)	(3,301)	(13,397)
Net income (loss) for the period	(62,175)	18,421	(80,596)

Non-GAAP Financial Measures

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.

EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies. EBITDAR, before reorganization and restructuring items, is reconciled to operating income before reorganization and restructuring items, as follows:

	Successor Partnership			**Successor Partnership**	**Combined**	
(expressed in thousands of Canadian dollars)	**For the three months ended December 31, 2005** **$**	**For the three months ended December 31, 2004** **$**	**Change** **$**	**For the year ended December 31, 2005** **$**	**For the year ended December 31, 2004** **$**	**Change** **$**
GAAP operating income before restructuring and reorganization costs (1)	33,861	21,722	12,139	129,440	10,642	118,798
Add back:						
Depreciation and amortization	4,294	4,272	22	17,924	27,199	(9,275)
Aircraft rent	28,481	9,420	19,061	80,141	36,586	43,555
EBITDAR (1)	66,636	35,414	31,222	227,505	74,427	153,078
EBITDAR margin (%) (2)	21.9	18.9	3.0	22.2	9.3	13.0

(1) Reorganization and restructuring items were recorded while the Predecessor Company was under creditor protection from April 1, 2003 through to September 30, 2004. As the Predecessor Company emerged from CCAA proceedings on September 30, 2004, reorganization and restructuring items were not recorded after that date.

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

2.4 Selected Annual Information and Recalculation of EBITDAR

The following table reports selected annual information of Jazz for the years indicated.

(expressed in thousands of Canadian dollars)	Successor Partnership For the year ended December 31, 2005 $	Combined Predecessor Company and Successor Partnership For the year ended December 31, 2004 $ (unaudited)	Predecessor Company For the year ended December 31, 2003 $
Operating revenue	1,023,238	803,804	817,251
Operating expenses:			
Salaries, wages and benefits	265,478	230,872	250,500
Aircraft fuel	176,707	109,380	95,099
Depreciation and amortization	17,924	27,199	29,511
Commissions	-	19,226	20,523
Aircraft maintenance	67,504	84,874	104,656
Airport and navigation fees	123,796	97,858	89,071
Aircraft rent	80,141	36,586	65,253
Terminal handling	71,386	72,175	98,219
Other	90,862	114,992	143,581
Total operating expenses	893,798	793,162	896,413
Operating income (loss) before the undernoted items	129,440	10,642	(79,162)
Reorganization and restructuring costs	-	(56,119)	(15,623)
Operating Income (loss)	**129,440**	**(45,477)**	**(94,785)**
Recalculation of EBITDAR			
Add back:			
Depreciation and amortization	17,924	27,199	29,511
Aircraft rent	80,141	36,586	65,253
EBITDAR	**227,505**	**74,427**	**15,602**
Total current assets	263,521	71,755	104,219
Total non-current assets	240,080	208,143	320,844
Total assets	**503,601**	**279,898**	**425,063**
Total current liabilities	174,696	119,415	295,987
Total non-current liabilities	276,429	225,898	182,347
Total liabilities	**451,125**	**345,313**	**478,334**
Partners'/ Shareholders' Capital (Deficiency)	**52,476**	**(65,415)**	**(53,271)**

3. SUBSEQUENT EVENT - JAZZ AIR INCOME FUND

3.1. General

Jazz Air Income Fund (the “Fund”) is an unincorporated, open-ended trust established under the laws of the Province of Ontario on November 25, 2005 pursuant to the declaration of trust dated November 25, 2005, as amended and restated on January 24, 2006, and has been established to acquire and hold, directly or indirectly, investments in Jazz LP, a regional airline.

On January 25, 2006, the Fund filed a prospectus relating to the initial public offering of 23.5 million Fund units for $235.0 million, which closed on February 2, 2006. Upon closing of the transaction under the terms of the Acquisition Agreement, the Successor Partnership (Jazz Air Limited Partnership) transferred all its assets and liabilities to Jazz Air LP for an acquisition promissory note of $413.2 million and units of Jazz LP. This note was paid from: $112.9 million net draw under the term credit facility, $222.1 million net proceeds from the offering, $95.7 million excess working capital, less $13.8 million repayment of term indebtedness on Dash-8 aircraft, less $3.7 million to cover cost related to the offering to be paid by Jazz LP. As such, Jazz LP was left with an opening cash balance of $57.3 million on the basis of estimated current liabilities not exceeding current assets by more than $5.0 million as of February 2, 2006 plus the $3.7 million for outstanding costs related to the offering. The estimated working capital numbers used in the acquisition promissory note is subject to adjustment based upon actual numbers to be determined post closing.

The Fund will account for its investment in Jazz LP under the cost method. Jazz LP will be accounted for as a continuity of interest of Jazz Air Limited Partnership as the underlying business continues.

The Fund is entirely dependent on distributions from Jazz LP to make its own distributions. In accordance with the limited partnership agreement, priority distributions are to be made to the Trust and the Fund in order to cover their operating expenses.

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. The Fund does not recognize any future income tax assets or liabilities on temporary differences in the Fund because the Fund is contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable gains.

At February 2, 2006, the Fund owned 23.5 million units or 19.1% of Jazz LP at a cost of $235.0 million, which was reduced by the Fund’s proportionate share of the costs related to the offering of $3.4 million, for a total of $231.6 million.

3.2 Distribution Policy

The Fund intends to make distributions of its available cash based on distributions received indirectly from Jazz LP to the maximum extent possible to holders of Units (the "Unitholders"). The Fund intends to make equal monthly cash distributions to Unitholders of record on the last business day of each month, less estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions of Units and any tax liability. The initial cash distribution for the period from the Closing to February 28, 2006 is expected to be paid on or about March 15, 2006 and is estimated to be $0.0703 per Unit, representing a monthly distribution per Unit of $0.0729.

The New Credit Facilities 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 New Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz LP to holders of record of LP Units during any twelve-month period from exceeding the aggregate distributable cash of Jazz LP during such period. Distributions by Jazz LP are also prohibited upon the occurrence and continuance of an event of default under the New Credit Facilities.

3.3. Units

As at February 2, 2006, the Fund had 23.5 million units outstanding.

3.4. Guarantees

The New Credit Facilities are secured by a first priority security interest and hypothec over the present and after-acquired personal and certain real property of Jazz LP, subject to certain exclusions and permitted liens. Jazz

LP's obligations in respect of the New Credit Facilities are also guaranteed by each of Jazz Air Trust (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 LP as security for its guarantee obligations. The Fund also provides certain covenants in favour of the Lenders pursuant to a collateral covenant agreement.

In conjunction with the initial public offering of the Fund, Jazz LP established a long-term incentive plan for officers, directors and key personnel. Under this plan, awards are made of units of the Fund which will be purchased on the secondary market by Jazz LP and held in trust as the ownership of the awards vest, and ultimately are distributed to the participants.

3.5. Amendments to the CPA Agreement

In conjunction with the sale of the partnership units referred to above, Air Canada and the partnership amended certain terms and conditions of the Initial CPA to create the CPA, including, among other things, the following:

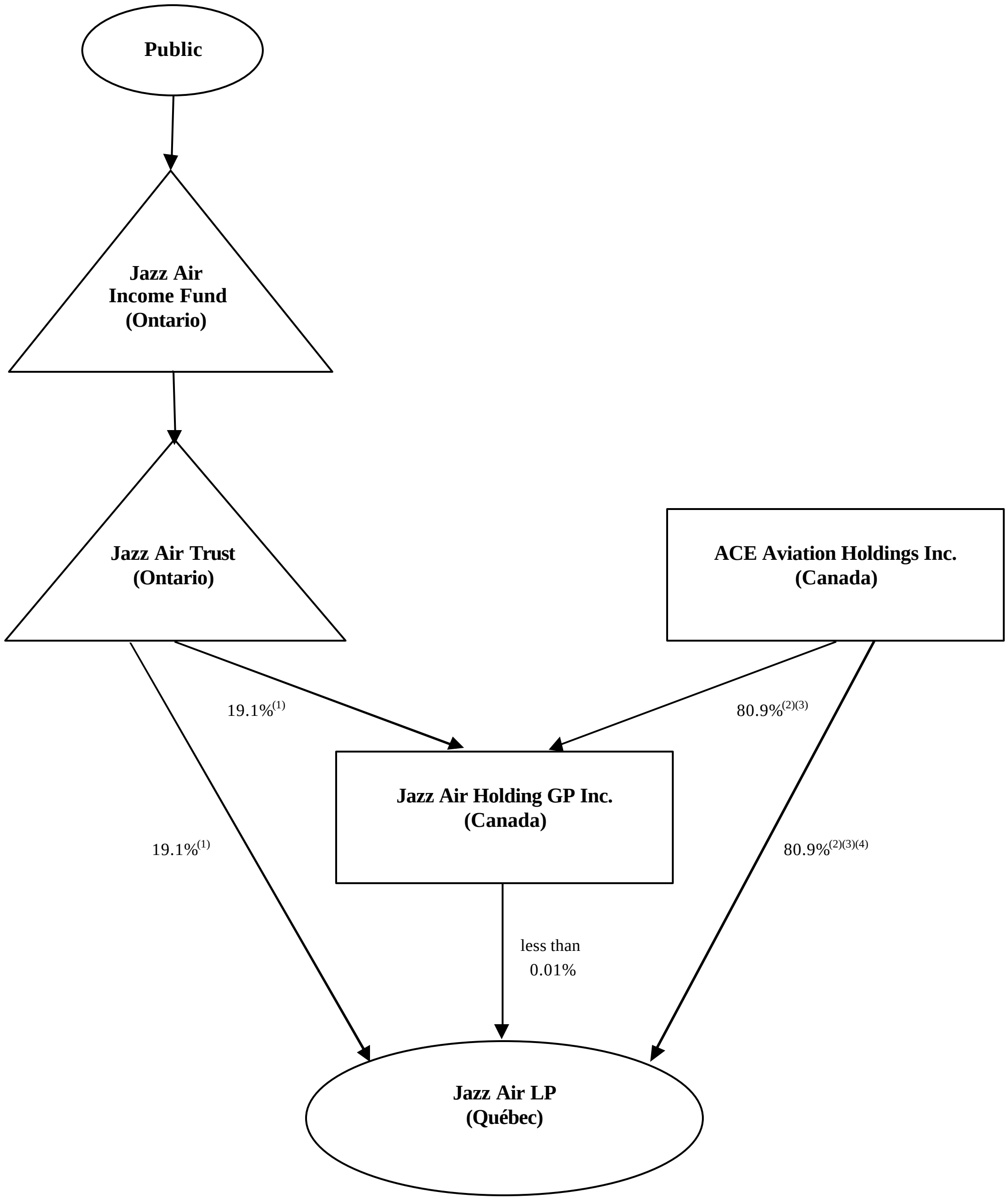
- An effective date of January 1, 2006, expiring on December 31, 2015;
- New contractual rates for the fees to be paid by Air Canada to Jazz for each of the 2006 to 2008 calendar years;
- The payment of fees to Jazz on a variety of different metrics based on a specified percentage mark-up on Jazz's estimated controllable costs, being total operating costs less certain pass-through costs, for each calendar year in the applicable period; and
- A long-range fleet plan which sets out the number of aircraft covered by the CPA agreement (Covered Aircraft), by aircraft type, on a monthly basis through December 2007 and on an annual basis through December 2015. The total number of Covered Aircraft cannot, at any time during the term of the CPA, be reduced below the total monthly and annual numbers set forth in the existing long-range fleet plan without the mutual agreement of Air Canada and Jazz, except in certain limited circumstances where Jazz enters into an agreement with another carrier to provide regional airline services.

Additional Information

Additional information relating to the Fund and to Jazz is available on SEDAR at www.sedar.com.

3.6. Organizational Structure as of February 2, 2006

The following chart illustrates, on a simplified basis, the structure of the Fund (including the jurisdictions of establishment/incorporation of the various entities) following completion of the initial public offering of the Fund on February 2, 2006 and the indirect investment by the Fund in Jazz LP and related transactions.



(1) 22.0% if the Over-Allotment Option is exercised in full.

(2) 78.0% if the Over-Allotment Option is exercised in full.

(3) Under the Initial LTIP, ACE will transfer to a trustee approximately 603,903 Units further to an exchange by ACE of LP Units into Units pursuant to the Investor Liquidity Agreement.

(4) Distributions in respect of LP Units held by ACE representing 20% of the LP Units issued and outstanding at the Closing are subordinated in favour of the non-subordinated LP Units until December 31, 2006.

4. OUTLOOK

Jazz's operations form an essential part of Air Canada's network strategy and Management believes that they are integral to Air Canada's future growth. 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. Jazz's operations complement Air Canada's operations by allowing more frequent service to lower density markets and higher density markets at off-peak times than could be provided economically with conventional large jet aircraft and by carrying traffic that connects with Air Canada's mainline routes.

Since September 30, 2004, Jazz has been operating under a capacity purchase agreement, the Initial CPA, which is beneficial to Jazz as it reduces financial and operating risks and results in a more stable business model, as demonstrated by Jazz's improving financial performance since that date. Effective January 1, 2006, an amended and restated capacity purchase agreement with Air Canada, the CPA, will, among other things, establish the rates to be paid by Air Canada to Jazz for 2006 through 2008 and the minimum number of Covered Aircraft until December 2015. Management anticipates that substantially all of Jazz's currently contemplated growth will be attributable to the CPA with Air Canada and the increased fleet contemplated by such agreement.

Fleet growth in 2005 has been consistent with ACE's 2004 plan of undertaking a major expansion at Jazz to increase its relative share of the North American ASM capacity and airport operations. Jazz has seen its operating fleet grow from 91 aircraft as of December 31, 2004 to 121 as of December 31, 2005. This increase in fleet and change in aircraft type will be supplemented by the transfer of the remaining CRJ-100 aircraft presently operated by Air Canada between January 1, 2006 to July 31, 2006. The fleet plan for 2006 has the potential to generate a 54% year-over-year increase in ASMs in conjunction with a 32% year-over-year increase in Block Hours. A fleet of 133 aircraft is scheduled to become Covered Aircraft under the CPA between Air Canada and Jazz with two Dash-8-100 aircraft earmarked for charter operations.

In addition to the full implementation of the fleet plan in 2006, Jazz will focus on delivering the required CPA operational and service levels. Full delivery on these service levels is expected to increase customer satisfaction while earning incentive revenue as identified in the CPA.

Management remains fully committed to delivering the 2006 business plan and continued improvements in financial and operational results in the future.

5. RESULTS OF OPERATIONS – FOURTH QUARTER ANALYSIS

The following table compares the results of operations of Jazz Air Limited Partnership for the fourth quarter of 2005 to the fourth quarter of 2004.

	Successor Partnership			
(expressed in thousands of Canadian dollars)	For the three months ended December 31, 2005 $	For the three months ended December 31, 2004 $	Change $	Change %
	(unaudited)			
Operating revenue	304,082	187,523	116,559	62.2
Operating expenses:				
Salaries, wages and benefits	75,405	56,569	18,836	33.3
Aircraft fuel	61,783	28,928	32,855	113.6
Depreciation and amortization	4,294	4,272	22	0.5
Aircraft maintenance	17,934	16,154	1,780	11.0
Airport and navigation fees	36,321	22,164	14,157	63.9
Aircraft rent	28,481	9,420	19,061	202.3
Terminal handling	19,677	10,281	9,396	91.4
Other	26,326	18,013	8,313	46.2
Total operating expenses	270,221	165,801	104,420	63.0
Operating income (loss)	33,861	21,722	12,139	55.9
Non-operating expenses:				
Net interest expense	(3,560)	(3,905)	345	(8.8)
Gain on disposal of property and equipment	1,006	-	1,006	100.0
Other	239	604	(365)	(60.4)
	(2,315)	(3,301)	986	(29.9)
Net income for the period	31,546	18,421	13,125	71.3

5.1. Comparison of results – Fourth Quarter 2005 versus Fourth Quarter 2004

For the fourth quarter of 2005, Jazz Air Limited Partnership reported an operating income of $33.8 million, an improvement of $12.1 million compared to the operating income of $21.7 million recorded in the same quarter of 2004. EBITDAR was $66.6 million in fourth quarter 2005 compared to fourth quarter 2004 of $35.4 million, an increase of $31.2 million or 88.2% which is a result of increased capacity and cost control. Refer to "Non-GAAP Financial Measures on page 11 of this MD&A for additional information on EBITDAR.

In the fourth quarter of 2005, total operating revenue was up $116.6 million or 62.2% which is reflecting the increases in the number of aircraft operated by Jazz, the Block Hours flown by these aircraft, the increase in fuel costs which is a pass through cost to Air Canada and to a lesser degree, the increase in departures.

Operating expenses increased $104.4 million or 63.0% compared to the fourth quarter of 2004, including an increase in fuel expense of $32.9 million or 113.6%. Capacity, as measured by available seat miles (ASM) increased by 81.5%. Unit cost for the fourth quarter of 2005, as measured by operating expenses per ASMs, decreased by 10.2%, from fourth quarter 2004. Unit cost reductions were achieved in all expense categories except fuel aircraft rent and terminal handling services. Unit Aircraft rental costs increased quarter over quarter reflecting the new aircraft deliveries throughout 2005.

In the fourth quarter of 2005, non-operating expense amounted to $2.3 million, essentially unchanged from fourth quarter 2004. Gain on the disposal of property and equipment in fourth quarter 2005 was $1.0 million versus fourth quarter 2004 of nil.

Net income for the fourth quarter of 2005 was $31.5 million compared to net income of $18.4 million recorded in the fourth quarter of 2004, an improvement of $13.1 million. The increase is due to the increased fleet and effective cost control.

5.2. Revenue Performance – Fourth Quarter 2005 versus Fourth Quarter 2004

Operating Revenue

Operating revenue increased from $187.5 million in the fourth quarter 2004 to $304.1 million in the fourth quarter 2005, representing an increase of 62.2%. The increase in revenues was due to a net increase in the number of operating aircraft of 30, an increase in Block Hours of 32.6% and increased pass-through costs of $52.4 million.

For the three-month period ended December 31, 2005, performance incentives payable by Air Canada to Jazz under the Initial CPA amounted to $4.5 million or 2.2% of Jazz's Scheduled Flight Revenue for such period. It was agreed between Jazz and Air Canada that Jazz would not receive incentive payments for the period from October 1, 2004 to December 31, 2004.

Other revenue is derived from charter flights, MRO operation and other sources of revenue such as ground handling and flight simulator revenue. Other revenue increased from $2.6 million in fourth quarter 2004 to $3.3 million in fourth quarter 2005 from these sources.

Key statistical information is as follows:

	For the three-month period ended December 31, 2005	For the three-month period ended December 31, 2004	Variance (absolute)	Variance (%)
Number of Departures for the Period Ended	57,609	44,813	12,796	28.6
Block Hours for the Period Ended	79,743	60,156	19,587	32.6
Number of Passengers for the Period Ended	1,624,307	1,215,249	409,058	33.7
Revenue Passenger Miles (RPMs)	744,060	375,743	368,317	98.0
Available Seat Miles (ASMs)	1,083,049	596,840	486,209	81.5
Passenger load factor (%)	68.7	63.0	5.7	9.1
Actual Operating Expenses	270,711	165,801	104,910	63.3
Cost per Available Seat Miles (CASM) ($)	0.250	0.278	(0.028)	(10.0)
Costs per Available Seat Miles Excluding Aircraft Fuel ($)	0.193	0.229	(0.036)	(15.9)
Number of operating aircraft (end of period)	121	91	30	33.0

5.3. Cost Performance – Fourth Quarter 2005 versus Fourth Quarter 2004

Operating Expenses

In line with the growth in revenue, total operating expenses increased from $165.8 million for the fourth quarter 2004 to $270.2 million for the fourth quarter 2005, representing an increase of 63.0%. For the fourth quarter 2005 compared to the fourth quarter 2004:

- salaries, wages and benefits increased by $18.8 million due to increased salaries of $11.0 million related to the 2005 profit sharing and annual incentive plans recorded in the fourth quarter 2005, increased salaries of $6.3 million related to increased FTEs in all operating branches and increased overtime of $1.5 million related to the growth in fleet;
- aircraft fuel costs increased by $32.9 million due to an increase of $4.1 million in fuel price and a $28.8 million increase in fuel usage which corresponds to the 32.6% increase in Block Hours and increased burn as a result of the increasing jet fleet;
- aircraft maintenance increased by $1.8 million as a result of increased fleet activity of $3.9 million, increased costs of $3.3 million related to the Dash 8 aircraft offset by a decrease in costs of $3.8 million resulting from the retirement of the BAe -146 aircraft and a decrease of $1.6 million due to the negotiation of lower power by the hour rates on the CRJ-200 fleet;
- aircraft rent increased by $19.1 million due to the seven CRJ-200s that were received in the first quarter of 2005, the fifteen CRJ-705s and fifteen CRJ-100s that were received in the last three quarters of 2005, and the six CRJ-200s (four being prepared for commercial operations as of December 31, 2005) that were received in the last two quarters of 2005 which was partially offset by the retirement of seven Dash 8 and two BAe-146 aircraft;
- airport and navigational fees increased by $14.2 million due to increased activity and a change in the mix of transborder versus domestic flying;
- terminal handling costs increased by $9.4 million due to a change in the fleet size and composition and due to an increase in rates charged to Jazz; and
- other expenses increased by $8.3 million or 46.2% due to an overall increase in general overhead, and due to relocation and training cost related to the additional fleet.

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 and also includes ancillary operations. Pass-through costs were $106.8 million for the fourth quarter 2005 compared to $54.4 million for the fourth quarter 2004, representing an increase of 96.4% which is primarily due to increasing fuel costs. Expressed as a percentage, these pass-through costs represented 39.5% and 32.8% of total operating expenses for the fourth quarter 2005 and fourth quarter 2004, respectively. As noted above, these pass-through costs are fully recovered, without mark-up, from Air Canada.

(expressed in thousands of Canadian dollars)	**For the three-month period ended December 31, 2005 $**	**For the three-month period ended December 31, 2004 $**	**Change $**	**Change %**
	(unaudited)	(unaudited)		
Pass-through cost items (reimbursed by Air Canada)				
Fuel	61,727	28,848	32,879	114.0
Navigational fees	15,697	8,716	6,981	80.1
Terminal handling fees and other airport fees	20,688	13,397	7,291	54.4
De-icing	4,031	1,990	2,041	102.6
Airport security	1,229	749	480	64.1
Other	3,470	697	2,773	397.9
Total pass-through costs	106,842	54,397	52,445	96.4
Pass-through to total costs (%)	39.5	32.8		
Controllable cost items (paid by Jazz)				
Salaries, wages and benefits	75,405	56,569	18,836	33.3
Aircraft maintenance, materials and supplies	17,934	16,154	1,780	11.0
Aircraft rent and other ownership costs (1)	28,971	9,714	19,256	198.2
Terminal handling services	14,353	7,593	6,760	89.0
Depreciation	4,294	4,272	22	0.5
Other	22,912	17,396	5,516	31.7
Total Controllable Costs (2)	163,869	111,698	52,170	46.7
Controllable Costs to Total Costs (%)	60.5	67.2		
Total Costs	270,711	166,095	104,615	63.0

(1) Includes an amount of approximately $0.5 million for the three-month period ended December 31, 2005 and $0.3 million for the three-month period ended December 31, 2004 in respect of (i) payments to Air Canada Capital Ltd. on account of interest expense and other charges on security deposits made by Air Canada Capital Ltd. relating to aircraft subleased to Jazz and (ii) interest on term loans relating to owned aircraft.

(2) Includes costs relating to operations that were not covered under the Initial CPA, including charter and MRO operations.

Operating Income

Jazz generated operating income of $33.9 million for the fourth quarter 2005 compared to $21.7 million for the fourth quarter 2004, representing an increase of 55.9%, which is due to fleet growth consistent with Jazz's plan to increase its relative share of the North American ASM capacity. The operating margin decreased from 11.6% to 11.1% in the fourth quarter 2005.

Non-operating Expenses or Income

Non operating expenses were $2.3 million in fourth quarter of 2005, a decrease of $1.0 million from the fourth quarter of 2004. Net gains on the disposal of property and equipment in fourth quarter 2005 of $1.0 million include the sale of the Fokker F28 aircraft.

Net income

Net income was $31.5 million for the fourth quarter 2005 compared to net income of $18.4 million for the fourth quarter 2004, an improvement of $13.1 million. The increase is due to increased capacity and effective cost control.

6. FINANCIAL MANAGEMENT – FOURTH QUARTER ANALYSIS

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

(expressed in thousands of Canadian dollars)	For the three-month period ended December 31, 2005 $	For the three-month period ended December 31, 2004 $
Cash provided by (used in)		
Operating activities		
Net income for the period	31,546	18,421
Charges (credits) to operations not involving cash	-	-
Depreciation and amortization	4,294	4,272
Amortization of prepaid aircraft rent and related fees	1,155	-
Gain on disposal of property and equipment	(1,006)	-
Deferred charges, prepaid aircraft rent and related fees	(17,178)	(177)
	18,811	22,516
Net changes in non-cash working capital balances related to operations	43,428	(27,611)
	62,239	(5,095)
Financing activities		
Repayment of long term debt	(754)	(1,093)
Increase in Air Canada indebtedness	-	4,511
Partners' contributions	-	1
	(754)	3,419
Investing activities		
Increase in amount receivable from Air Canada	(36,203)	-
Additions to property and equipment	(1,857)	(292)
Recovery of intangible assets	-	233
Decrease (increase) in long term receivables	(1)	365
Proceeds on disposal of property and equipment	1,246	-
	(36,815)	306
Net change in cash (bank indebtedness) during the period	24,670	(1,370)
Cash - Beginning of period	9,793	612
Cash (bank indebtedness) - End of period	34,463	(758)

6.1. Cash Flows From (used for) Operations

As at December 31, 2005, the Successor Partnership had $34.5 million in cash and cash equivalents. The Partnership also had an intercompany treasury "receivable" from Air Canada in the amount $137.2 million in accordance with a cash management agreement between Air Canada and the Successor Partnership. Please refer to Note 17 in the Notes to the Financial Statements for details on the cash management agreement.

Net cash provided by operating activities was $62.2 million for the quarter ended December 31, 2005, primarily due to the combined effect of net income of $31.5 million and $43.4 million of cash provided by working capital items. All non-cash working capital items have increased according to the growth in business with the net change being primarily attributable to CRJ-200 and CRJ-705 operating lease inducements received in 2005. Also included in operating activities was $4.3 million related to depreciation and amortization and a gain on disposal of property and equipment of $1.0 million primarily related to the sale of the Fokker F28's and related parts.

Net cash used in operating activities was $5.1 million for the three-month period ended December 31, 2004, primarily due to net income of $18.4 million and by non-cash charges to income of $4.1 million, offset by $27.6 million of cash used by working capital items.

As of December 31, 2005, the Successor Partnership had working capital of $88.8 million compared to a working capital deficiency of $47.7 million at December 31, 2004. The improvement in working capital is primarily due to the Initial CPA.

Management anticipates that future capital requirements for cash distributions and capital expenditures will be funded from operations.

6.2. Cash Flows From (used for) Financing Activities

Net cash used in financing activities was $0.8 million for the quarter ended December 31, 2005, which was used to repay long-term debt during the period in accordance with its debt repayment schedule. Net cash provided by financing activities was $3.4 million for the three-month period ended December 31, 2004. The Predecessor Company repaid $1.1 million of long-term debt during the period in accordance with its debt repayment schedule and increased its Air Canada indebtedness by $4.5 million.

6.3. Cash Flows From (used for) Investing Activities

Net cash used in investing activities was $36.8 million for the quarter ended December 31, 2005. Receivables from parent company increased by $36.2 million as a result of increasing pass-through costs, which are settled one month after billing. Capital expenditures of $1.9 million, primarily related to leasehold improvements for the CRJ-200s and CRJ-705s.

7. RESULTS OF OPERATIONS – 2005 VERSUS 2004 COMBINED

The following table sets forth financial information for Jazz for the periods indicated:

(expressed in thousands of Canadian dollars)	Successor Partnership For the year ended December 31, 2005 $	Combined Predecessor Company and Successor Partnership For the year ended December 31, 2004 $ (unaudited)	Change $	Change %
Operating revenue	1,023,238	803,804	219,434	27.3
Operating expenses:				
Salaries, wages and benefits	265,478	230,872	34,606	15.0
Aircraft fuel	176,707	109,380	67,327	61.6
Depreciation and amortization	17,924	27,199	(9,275)	(34.1)
Commissions	-	19,226	(19,226)	(100.0)
Aircraft maintenance	67,504	84,874	(17,370)	(20.5)
Airport and navigation fees	123,796	97,858	25,938	26.5
Aircraft rent	80,141	36,586	43,555	119.0
Terminal handling	71,386	72,175	(789)	(1.1)
Other	90,862	114,992	(24,130)	(21.0)
Total operating expenses	893,798	793,162	100,636	12.7
Operating income (loss) before the undernoted items	129,440	10,642	118,798	1,116.3
Reorganization and restructuring costs	-	(56,119)	56,119	(100.0)
Operating Income (loss)	129,440	(45,477)	174,917	(384.6)
Non-operating expenses:				
Net interest expenses	(14,778)	(12,503)	(2,275)	18.2
Gain (loss) on disposal of property and equipment	3,674	(5,385)	9,059	(168.2)
Other	(445)	1,190	(1,635)	(137.4)
	(11,549)	(16,698)	5,149	(30.8)
Net income (loss) for the period	117,891	(62,175)	180,066	(289.6)

The financial information for the year ended December 31, 2005 and the year ended December 31, 2004 is not comparable as a result of the application of fresh start reporting, the effectiveness of certain lease contracts on emergence from CCAA, and the debt and equity transactions that occurred on September 30, 2004. In addition, as explained previously, Jazz operated under the Initial CPA with Air Canada for the twelve-month period ended December 31, 2005 whereas it operated under a pro-rate revenue sharing agreement with Air Canada for the nine-month period ended September 30, 2004 and the Initial CPA for the three-month period ended December 31, 2004.

7.1. Comparison of Results – 2005 versus 2004 Combined

Comparison of Results – 2005 versus 2004 Combined provides a year-over-year comparison of results of operations and cash flows. This discussion uses 2004 non-GAAP information, which is the combination of financial results for the nine-month period ended September 30, 2004 of the Predecessor Company and financial results for the period ended December 31, 2004 of the Successor Partnership. The period ended December 31, 2004 reflects the operations of the Successor Partnership which started on September 9, 2004. Although the Successor Partnership was formed on September 9, 2004, it was inactive until September 30, 2004. As such, the period ended December 31, 2004 represents three months of activity. The 2004 combined financials are presented for illustrative purposes only. This annual supplementary non-GAAP combined information will be referred to in the relevant sections of this management's discussion and analysis as "Combined". As a result of the application of fresh start reporting, the application of new accounting policies, the amendment or termination of certain lease contracts on emergence from the CCAA proceedings and the debt and equity transactions and the implementation of the Initial CPA that occurred on September 30, 2004, the Successor Partnership's financial statements are not comparable to those prepared for the Predecessor Company prior to the emergence. The presentation of the financial information of the Predecessor Company for periods prior to October 1, 2004 and the combination of the financial information of the Predecessor Company and the Successor Partnership for the year ended December 31, 2004 should not be viewed as a continuum. The financial statements of the Predecessor Company for periods prior to October 1, 2004 and the financial statements of the Successor Partnership for the period ended December 31, 2004 are those of different reporting entities and are prepared using different bases of accounting and different accounting policies and, therefore, are not comparable.

7.2. Revenue Performance – 2005 versus 2004 Combined

Operating Revenue

Operating revenue was $1,023.2 million for the year ended December 31, 2005 and included $1,013.1 million in revenues from the Initial CPA. The operating revenues for the year ended December 31, 2004 were $803.8 million and included $185.0 million in revenues from the Initial CPA for the three-months ended December 31, 2004 and the $591.8 million in revenues from the pro-rate revenue sharing agreement with Air Canada for the nine months ended September 30, 2004. Average passenger load factor was 61.0% and average passenger fare was $139 for the nine-month period ended September 30, 2004. As Jazz was operating under the Initial CPA during the year ended December 31, 2005 and the three month period ended December 31, 2004, passenger load factors had a very minor effect on revenues and passenger fares were not relevant to Jazz.

For the year ended December 31, 2005, performance incentive payments made by Air Canada to Jazz under the Initial CPA amounted to $12.8 million or 1.9% of Jazz's Scheduled Flight Revenue for such period. It was agreed between Jazz and Air Canada that Jazz would not receive incentive payments for the period from October 1, 2004 to December 31, 2004.

Other revenue, derived from charter flights, MRO operations and other sources, was $10.2 million for the year ended December 31, 2005. Other revenue, derived from cargo, charter flights, MRO operations and other sources for the year ended December 31, 2004 was $27.1 million. Other revenue decreased from $24.5 million for the nine-month period ended September 30, 2004 to $6.9 million for the nine-month period ended September 30, 2005 due mainly to the fact that cargo and baggage revenue of $12.4 million, which were accounted for under the pro-rate revenue sharing agreement with Air Canada, were no longer earned by Jazz under the Initial CPA.

Key statistical information for 2005 versus 2004 is as follows:

	For the year ended December 31, 2005	For the year ended December 31, 2004	Variance (absolute)	Variance (%)
Number of Departures for the Year Ended	214,485	194,898	19,587	10.0
Block Hours for the Year Ended	291,604	255,971	35,634	13.9
Number of Passengers for the Year Ended	5,945,636	5,394,662	550,974	10.2
Revenue Passenger Miles (RPMs)	2,409,715	1,635,649	774,066	47.3
Available Seat Miles (ASMs)	3,504,032	2,662,256	841,776	31.6
Passenger load factor (%)	68.8	61.4	7.3	11.9
Actual Operating Expenses	893,798	793,162	100,636	12.7
Cost per Available Seat Miles (CASM) ($)	0.255	0.298	(0.043)	(14.4)
Costs per Available Seat Miles Excluding Aircraft Fuel ($)	0.205	0.257	(0.052)	(20.3)
Number of operating aircraft (end of period)	121	91	30	33.0

7.3. Cost Performance – 2005 versus 2004 Combined

Operating Expenses

Total operating expenses increased from $793.2 million for the combined year ended December 31, 2004 to $893.8 million for the year December 31, 2005, representing an increase of 12.7%. For the year ended December 31, 2005 compared to the combined year ended December 31, 2004:

- salaries, wages and benefits increased by $34.6 million as follows: increased salaries of $4.7 million related to severance; increased salaries of $13.2 million due to an overall increase in FTEs as a result of fleet growth, salary scale progression and overtime; $13.8 million related to the profit sharing and annual incentive plans and due to an increase in benefits of $2.9 million;

- aircraft fuel costs increased by $67.3 million due to an increase of $20.5 million in fuel price and an $46.8 million increase in fuel usage due to an increase in Block Hours of 13.9% and the increase of jet aircraft in the fleet mix;

- depreciation decreased by $9.3 million which is a result of a reduction of $64.3 million in the carrying value of property and equipment to reflect fair market value as a result of the application of fresh start reporting and a change in the estimated useful life of Dash-8 aircraft as at September 30, 2004;

- aircraft maintenance declined by $17.4 million mainly due to an $18.1 million reduction in costs related to the BAe-146 fleet which were not active after February 2005; a $13.9 million decrease in costs due to the lower rates negotiated on power by the hour contracts related to the CRJ-200 fleet; $4.1 million reduction of costs due to lower inventory costs resulting from the application of fresh start reporting; offset by a $16.2 million increase in costs attributable to increase in activity and a $2.5 million increase in costs due to lease return costs;

- airport and navigational expenses were $123.8 million for the year ended December 31, 2005. This is an increase of $25.9 million over the combined year ended December 31, 2004, as a result of a 10.0% increase in departures and the change in aircraft types being flown;
- aircraft rent increased by $43.6 million due to the delivery in 2005 of; seven CRJ-200s received from Bombardier in the first quarter, fifteen CRJ-705s received from Bombardier, fifteen CRJ-100s transferred from Air Canada and six CRJ-200s received from Air Canada Capital Ltd. in the last three quarters of 2005 partially offset by the retirement of seven Dash-8 and two BAe-146 aircraft during 2005;
- terminal handling for the year ended December 31, 2004 included $25.3 million in customer service handling fees for the nine-month period ended September 30, 2004, which are no longer incurred under the Initial CPA agreement as they have become the responsibility of Air Canada. Terminal handling for the year ended December 31, 2005 was $71.4 million versus comparable charges in 2004 of $46.9 million representing an increase of $24.5 million as a result of an increase in departures of 10.0% and increased rate charges related to the increase in jet aircraft in the fleet mix; and
- certain sales, distribution and customer service costs that were incurred by the Predecessor Company, under the previous pro-rate revenue sharing agreement with Air Canada, of $55.8 million for the nine months ended September 30, 2004 were not incurred by the Successor Partnership following the implementation of the Initial CPA. Other expenses for the year ended December 31, 2005 were $90.9 million compared to similar charges for the year ended December 31, 2004 of $59.2 million, an increase of $31.7 million due to an increase in overhead, relocation and training costs as a result of the fleet increase.

Pass-through costs were $320.7 million for the year ended December 31, 2005. The pass-through costs for the three-month period ended December 31, 2004 were $54.4 million. For the nine months ended September 30, 2004, the Predecessor Company operated under the prorate model.

(expressed in thousands of Canadian dollars)	**For the year ended December 31, 2005** **$**
Pass-through cost items (reimbursed by Air Canada)	
Fuel	176,478
Navigational fees	52,231
Terminal handling fees and other airport fees	71,863
De-icing	9,909
Airport security	4,037
Other	6,153
Total pass-through costs	320,671
Pass-through to total costs (%)	35.8
Controllable cost items (paid by Jazz)	
Salaries, wages and benefits	265,478
Aircraft maintenance, materials and supplies	67,504
Aircraft rent (1)	82,516
Terminal handling services	57,142
Depreciation	17,924
Other	84,938
Total Controllable Costs (2)	575,502
Controllable Costs to Total Costs (%)	64.2
Total Operating Costs	896,173

(1) Includes an amount of approximately $2.4 million in respect of (i) payments to Air Canada Capital Ltd. on account of interest expense and other charges on security deposits made by Air Canada Capital Ltd. relating to aircraft subleased to Jazz and (ii) interest on term loans relating to owned aircraft.
(2) Includes costs relating to operations that were not covered under the Initial CPA, including charter and MRO operations.

Operating Income Before Reorganization and Restructuring Costs

Jazz generated an operating income of $129.4 million for the year ended December 31, 2005 and an operating income (before reorganization and restructuring expenses) of $10.6 million for the combined year end in 2004. The improvement in operating income is mainly attributable to the implementation of the Initial CPA.

Reorganization and Restructuring

Reorganization and restructuring costs of $56.1 million were recorded in the nine-month period ended September 30, 2004. These reorganization and restructuring costs are revenues, expenses, gains and losses and provisions for losses that can be directly associated with the reorganization and restructuring of the Jazz business under the CCAA proceedings.

Non-operating Expenses or Income

Non-operating expenses were $11.5 million for the year ended December 31, 2005. Net interest expense was $14.8 million of which $14.7 million was due to the issuance of a demand loan of $200.0 million to Air Canada, which was issued on October 1, 2004 and $2.5 million was due to interest expense and other charges on security deposits made by Air Canada Capital Ltd. relating to aircraft subleased to Jazz and interest on long term debt. This was offset by interest income of $2.1 million earned on intercompany treasury account. A gain on disposal of property and equipment of $3.7 million was recorded for the year ended December 31, 2005.

Non-operating expenses were $16.7 million for the combined year ended December 31, 2004. Net interest expense was $12.5 million of which $11.0 million was due to the issuance of a demand loan of $200.0 million to Air Canada, which was issued on October 1, 2004 and intercompany treasury indebtedness; $1.5 million was due to interest on long term debt related to Dash-8 aircraft. A loss on disposal of property and equipment of $5.4 million was recorded for the combined year ended December 31, 2004.

Net Income or Loss

Net income was $117.9 million for the year ended December 31, 2005. For the combined year ended December 31, 2004 the net loss was $62.2 million. The increase is a result of the Initial CPA with Air Canada.

8. FINANCIAL MANAGEMENT – 2005 VERSUS 2004 COMBINED

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

(expressed in thousands of Canadian dollars)	**For the year ended December 31, 2005** $	**For the combined year ended December 31, 2004** $	**For the three-month period ended December 31, 2004** $	**For the nine-month period ended September 30, 2004** $
Cash provided by (used in)				
Operating activities				
Net income (loss) for the year	117,891	(62,175)	18,421	(80,596)
Charges (credits) to operations not involving cash		-		
Depreciation and amortization	17,924	27,199	4,272	22,927
Amortization of prepaid aircraft rent and related fees	1,155			
Loss (gain) on disposal of property and equipment	(3,674)	5,385	-	5,385
Interest charges added to debt principal	-	1,939	-	1,939
Deferred charges, prepaid aircraft rent and related fees	(35,844)	357	(177)	534
	97,452	(27,295)	22,516	(49,811)
Net changes in non-cash working capital balances related to operations	94,018	10,658	(27,611)	38,269
	191,470	(16,637)	(5,095)	(11,542)
Financing activities				
Repayment of long-term debt	(3,090)	(12,530)	(1,093)	(11,437)
Increase (decrease) in Air Canada indebtedness	(4,511)	38,451	4,511	33,940
Partners' contributions	-	1	1	-
	(7,601)	25,922	3,419	22,503
Investing activities				
Increase in amount receivable from Air Canada	(137,150)	-	-	-
Additions to property and equipment	(15,905)	(17,750)	(292)	(17,458)
Recovery of intangible assets	-	233	233	-
Decrease in long term receivables	209	1,010	365	645
Proceeds on disposal of property and equipment	4,198	10,161	-	10,161
	(148,648)	(6,346)	306	(6,652)
Net change in cash (bank indebtedness) during the period	35,221	2,939	(1,370)	4,309
Cash (bank indebtedness) - Beginning of period	(758)	(4,921)	612	(4,921)
Bank indebtedness left in Predecessor Company	-	1,224	-	-
Cash (bank indebtedness) - End of period	34,463	(758)	(758)	(612)

As a result of the implementation of the Initial CPA, the emergence from the CCAA proceedings, the application of fresh start reporting and the debt and equity transactions that occurred on September 30, 2004, the

Successor Partnership's financial statements are not comparable to those prepared for the Predecessor Company prior to September 30, 2004.

8.1. Cash Flows From (used for) Operations

As at December 31, 2005, the Successor Partnership had $34.5 million in cash and cash equivalents. The Partnership also had an intercompany treasury "receivable" from Air Canada in the amount $137.2 million in accordance with a cash management agreement between Air Canada and the Successor Partnership. Please refer to Note 16 in the Notes to the Financial Statements for details on the cash management agreement.

Net cash provided by operating activities was $191.5 million for the year ended December 31, 2005, primarily due to the combined effect of net income of $117.9 million and $94.0 million of cash provided by working capital items. The change in working capital was the result of an increase in accounts receivable due to an increase in the amount receivable related to the Initial CPA agreement of $14.0 million recorded in 2005 over 2004 offset by a decrease in the commodity tax receivable of $8.2 million on aircraft recorded in 2005 over 2004. Inventory levels have increased in 2005 over 2004 by $12.7 million related to the new aircraft and the associated maintenance of these aircraft. These amounts are offset by a $60.5 million increase in accounts payable in 2005 over 2004 as a result of; an increase in the amount due to Air Canada related to the Initial CPA of $22.5 million, increased lease payments of $12.8 million due to the increase in aircraft under operating leases and the remaining difference related to increased activity as a result of overall operational growth in 2005. Other long-term liabilities increased by $53.7 million which was a result of inducements received related to aircraft operating subleases from Air Canada Capital Ltd. Other sources and uses of funds include: depreciation and amortization of approximately $17.9 million, deferred charges, prepaid rent and related fees of $32.2 million and gain on the disposal of property and equipment also had a positive impact on the cash flow from operating activities.

Net cash used in operating activities was $16.6 million for the twelve-month period ended December 31, 2004, primarily due to a net loss of $62.2 million, offset by non-cash charges to income of $34.9 million and $10.7 million of cash provided by working capital items.

As of December 31, 2005, the Successor Partnership had working capital of $88.8 million compared to a working capital deficiency of $47.7 million at December 31, 2004. The improvement in working capital was primarily due to improved operating results from the implementation of the Initial CPA as compared to the pro-rate revenue sharing agreement.

Management anticipates that future capital requirements for cash distributions and capital expenditures will be funded from operations and, to the extent required, bank borrowings.

8.2. Cash Flows From (used for) Financing Activities

Net cash used in financing activities was $7.6 million for the year ended December 31, 2005. The Successor Partnership repaid $3.1 million of long-term debt during the period in accordance with its debt repayment schedule and $4.5 million of Air Canada indebtedness following the implementation of the Initial CPA.

Net cash provided by financing activities was $22.5 million for the nine-month period ended September 30, 2004. The Predecessor Company repaid $11.4 million of long-term debt during the period in accordance with its debt repayment schedule and increased its Air Canada indebtedness by $33.9 million.

Net cash provided by financing activities was $25.9 million for the combined year ended December 31, 2004. Jazz repaid $12.5 million of long-term debt during the year in accordance with its debt repayment schedule and increased its Air Canada indebtedness by $38.5 million.

8.3. Cash Flows From (used for) Investing Activities

Net cash used in investing activities was $148.7 million for the year ended December 31, 2005. Receivables from parent company increased by $137.2 million as a result of the implementation of the Initial CPA. Capital expenditures of $15.9 million, primarily related to $10.3 million in leasehold improvements for the CRJ-200s and CRJ-705s and $2.9 million for the ACARS project were incurred. These amounts were offset by proceeds on disposal of property and equipment primarily due to the sale of Fokker F28 aircraft and associated assets.

Net cash used in investing activities was $6.7 million for the nine-month period ended September 30, 2004 as a result of $10.2 million in proceeds from the disposal of property and equipment and a $0.6 million decrease in long-term receivables, offset by capital expenditures of $17.5 million.

Net cash used in investing activities was $6.3 million for the combined year ended December 31, 2004, primarily due to capital expenditures of $17.8 million (including $12.9 million on the ACARS project) offset by proceeds from the disposal of property and equipment of $10.2 million.

9. THE STATEMENT OF FINANCIAL POSITION AND LIQUIDITY

9.1. Debt and Lease Obligations

The table below provides for Jazz's principal cash debt payments for the firm aircraft future deliveries for the years 2006 through to 2010. In addition, 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 are included.

Payments Due by Period
(expressed in thousands of Canadian dollars)

	Total	2006	2007	2008	2009	2010	After 5 years
Long-term debt[(1)]	$ 13,540	$ 13,540	$ -	$ -	$ -	$ -	$ -
Operating leases[(2)]							
Related party	1,530,880	113,680	115,813	113,815	115,574	100,804	971,194
Operating leases							
Third party	47,956	14,084	9,660	7,842	7,411	4,100	4,859
	$ 1,592,376	$ 141,304	$ 125,473	$ 121,657	$ 122,985	$ 104,904	$ 976,053

(1) The term loans in the amount of $13.5 million are repayable in monthly or quarterly installments and bear interest at floating rates or at fixed rates ranging from 3.0% to 12.02%. The amounts outstanding under such term loans were repaid as of, February 2, 2006 through a drawdown under the Term Facility of $115.0 million.

(2) 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.

Based on Jazz's existing fleet plan (see "Section 10 - Fleet"), Jazz's operating fleet is scheduled to increase to 135 aircraft as at July 31, 2006. The above table does not reflect Jazz's obligations under aircraft subleases entered into or to be entered into as a result of such scheduled increases to Jazz's fleet which will significantly increase Jazz's payments under operating leases. Jazz has entered into or anticipates entering into sublease arrangements for these additional aircraft similar to its existing sublease arrangements with Air Canada and Air Canada Capital Ltd. The sublease rates are based on or will be based on market rates.

The projected principal repayments disclosed below are based on the assumption that all aircraft acquisitions will be financed under debt. Air Canada has not yet finalized whether certain aircraft acquisitions will be financed under debt or operating lease arrangements.

A $200.0 million promissory note payable by the Successor Partnership to 1141679 Alberta Ltd., a wholly-owned subsidiary of ACE, was transferred by 1141679 Alberta Ltd. to ACE and ACE capitalized the Alberta FinanceCo promissory note by cancelling it in consideration for additional units of the Successor Partnership. The note payable bore interest at a rate per annum equal to the commercial prime lending rate of the Canadian Imperial Bank of Commerce on Canadian dollars plus 3.0%. Interest was payable monthly in arrears.

Operating leases are entered into for flight equipment and base facilities. Air Canada has signed definitive purchase agreements with Bombardier Inc. ("Bombardier") covering aircraft that have been delivered to the Successor Partnership. This agreement covers firm orders for 15 Bombardier CRJ700 Series 705 aircraft and 30 Bombardier CRJ-200 aircraft of which 15 of the Bombardier CRJ-200 may be cancelled without penalty. Of the aircraft referenced here 15 CRJ-200s and 15 CRJ-705s have been delivered and currently operate in the Jazz Fleet. The orders for the remaining CRJ-200s contemplated under this purchase agreement, which are not scheduled for delivery at this time, do not expire until 2008. The purchase agreement also contains options for an additional 45 aircraft of which 18 options have expired.

Deliveries of the 50-seat Bombardier CRJ-200 and the 75-seat CRJ700 Series 705 commenced in October 2004, and May, 2005 respectively. The first 15 of the CRJ-200 and 15 of the CRJ-705 aircraft were delivered prior to December 31, 2005. These aircraft are being leased from Wells Fargo Bank Northwest, National Association, Bombardier Capital Inc. and RASPRo Trust 2005 by Air Canada Capital Ltd. and subleased to the Successor Partnership. These leases are being accounted for by the Successor Partnership as operating leases and are included in the above table.

The Successor Partnership also expects Air Canada to transfer to it a total of 25 CRJ-100 aircraft. The first three of these aircraft were delivered to the Successor Partnership on July 5, 2005 and an additional twelve of these aircraft were delivered before December 31, 2005. Each of these leases has been accounted for as operating leases with Air Canada. Management anticipates entering into similar lease agreements with Air Canada for the remaining ten CRJ-100 aircraft and expects these aircraft to be transferred to the Successor Partnership by July, 2006; however, no definitive lease or other arrangements have been entered into between Air Canada or any other entities and the Successor Partnership as of December 31, 2005.

Letters of credit totaling approximately $2.0 million (December 31, 2004 - $0.6 million) have been issued as security for the rental of specific aircraft leases, ground handling and airport fee contracts and lease payments on rental space.

9.2. Related Party Transactions

The Initial CPA

On October 1, 2004, the Successor Partnership entered into the Initial CPA with Air Canada, a company under common control with the Successor Partnership whereby Air Canada purchased the capacity of certain specified aircraft crewed and operated by the Successor Partnership under the mark of “Air Canada Jazz” on routes specified by Air Canada. The Initial CPA had a term of ten years and was automatically renewable for two additional periods of five years. Under this agreement and the New CPA agreement, the Successor Partnership is required to provide Air Canada the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance and airport operations for such flights and Air Canada determines routes and controls scheduling, ticket prices, seat inventories, marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays the Successor Partnership for the capacity provided.

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

In addition to being its primary source of revenue, Air Canada currently provides significant services to Jazz as detailed below.

The New CPA

The new CPA rates effective January1, 2006 are reflective of Jazz’s latest cost structure and designed to earn a targeted operating margin on controllable cost such as salaries, wages and benefits, aircraft maintenance materials and supplies, aircraft rent and other ownership costs, and depreciation. These costs represented approximately 64.2% of total operating costs under the Initial CPA in 2005. The margin on controllable costs can approximate the previous 9.0% operating margin, if the assumptions on pass-through costs, such as fuel, navigation, landing and terminal fees were realized according to the business plan. As these costs are treated as pass-through reimbursed by Air Canada, they do not affect the dollar margin being earned on the CPA. However, these costs may affect the margin when expressed as a percentage of total CPA operating expenses (controllable and pass-through costs) as pass-through costs may not be realized according to the business plan. The new CPA has a term of ten years and is renewable for two additional periods of five years.

Cash Management Agreement

Until immediately prior to the Closing, at which point the cash management agreement was terminated, the Successor Partnership's cash was managed through Air Canada's centralized cash management system. At the end of each day, excess cash was cleared from the Successor Partnership's bank accounts into Air Canada's bank accounts. In addition, transfers of cash from Air Canada's bank accounts settled any cash deficiencies in the Successor Partnership's bank accounts at the end of each day. The resulting inter-company balance was referred to in the financial statements as, in the case of an asset, amount receivable from Air Canada, and, in the case of a liability, Air Canada indebtedness. Surplus balances in the inter-company account earned interest on a daily basis, based on Air Canada's average yield on its short-term investment portfolio for the month, less 0.25%. The Successor Partnership was charged interest on deficit balances in the inter-company account on a daily basis, based on the average Canadian prime rate for the month plus a spread based on the amount Air Canada pays on its floating debt, calculated and debited monthly. The Successor Partnership received its monthly payment from Air Canada under the Initial CPA at the beginning of each month and paid amounts due to Air Canada and its affiliates for services received based on terms agreed to between the parties. These cash receipts and payments for services to and from Air Canada and the interest received from or paid to Air Canada were included in cash flows from operating activities.

Master Services Agreement

Under the Master Service Agreement (MSA) dated September 24, 2004, Air Canada has agreed to provide certain services to Jazz for a fee. Fees paid under the MSA are included in operating and non-operating expenses and include Corporate Finance Services (including the aforementioned cash management services), Corporate Real Estate Services, Environmental Affairs Services and Legal Services.

ACGHS Agreement

Pursuant to the ground handling services agreement dated September 26, 2005 between Jazz and ACGHS Limited Partnership, ACGHS has agreed to provide certain aircraft related ground handling services to Jazz, including baggage handling and processing, baggage, cargo and mail loading and uploading, and aircraft servicing at 19 airports in Canada. The fees charged for such ground handling services are fixed through December 31, 2008. Fees paid under the ACGHS Agreement are included in operating expenses.

ACTS Agreement

Pursuant to the component maintenance agreement dated August 1, 2005 between Jazz and ACTS Limited Partnership, ACTS has agreed to provide selected maintenance, repair, overhaul and related services with respect to Jazz's CRJ regional jets. Fixed fees are paid by Jazz for such services based on the hours during which the regional jets are in operation. Fees paid under the ACTS Agreement are included in operating expenses.

Other

In addition, Air Canada provides settlement on certain expense transactions, primarily fuel, on behalf of Jazz with suppliers and subsequently remits or collects balances with 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.

Predecessor Company

Prior to September 30, 2004, Air Canada provided passenger handling, reservations, ticketing, ground operations and loyalty program services on a fee basis. The transactions with Zip Air Inc. related to services provided for dispatch and information system services. Transactions with Aeroplan Limited Partnership related to the purchase of points and redemption reimbursement for customer loyalty programs. Transactions with Air Canada Capital Ltd. related to aircraft leases and aircraft maintenance charges. All related party operating transactions were in the normal course of business at rates established and agreed to by the related parties.

In addition, Air Canada provided settlement on revenue and certain expense transactions on behalf of the Predecessor Company with customers and suppliers and subsequently remitted or collected balances with the

Predecessor Company. As these balances merely represented a method of settlement for transactions in the normal course of business, they were not separately disclosed.

Substantially all of the trade receivable from Air Canada related to passenger revenue collected by the parent company on behalf of the Predecessor Company.

The balances in trade receivable and accounts payable and accrued liabilities from Aeroplan Limited Partnership represent redemption credits and expenses for customer loyalty programs.

The balances in accounts payable and accrued liabilities are payable on demand and have arisen from the services provided by Air Canada.

Summary of Related Party Transactions

The following is a summary of the related party transactions with ACE and its affiliates. All related party transactions are in the normal course of business at rates established and agreed to by the parties.

(expressed in thousands of Canadian dollars)	Successor Partnership For the year ended December 31, 2005 $	Combined For the year ended December 31, 2004 $	Successor Partnership For the three-month period ended December 31, 2004 $	Predecessor Company For the nine-month period ended September 30, 2004 $
		(unaudited)		
Operating revenue:				
Air Canada - CPA Revenue	1,013,053	184,971	184,971	-
Air Canada - Other Revenue	3,274			
Zip Air Inc.	-	453	-	453
Aeroplan Limited Partnership	-	6,720	-	6,720
Operating expenses:				
Air Canada	14,242	136,271	3,080	133,191
Air Canada Capital Ltd.	77,012	26,734	7,480	19,254
Aeroplan Limited Partnership	-	8,289	-	8,289
ACGHS Limited Partnership	48,067	4,780	4,780	-
ACTS Limited Partnership	13,422	3,007	3,007	-
Non-operating expenses (revenue):				
Air Canada	(2,147)	7,023	(6)	7,029
1141679 Alberta Ltd.	14,673	-	-	-
ACE Aviation Holdings Inc.	-	3,617	3,617	-

The following balances with related parties are included in the financial statements:

	Successor Partnership	
	As at December 31, 2005	As at December 31, 2004
	$	$
Accounts receivable		
Air Canada	46,270	34,475
Amount receivable from Air Canada	137,150	-
Air Canada indebtedness	-	(4,511)
Accounts payable and accrued liabilities		
Air Canada	60,811	30,600
Air Canada Capital Ltd.	8,711	1,733
ACGHS Partnership Limited	14,763	-
ACTS Partnership Limited	277	-
Long-term debt		
1141679 Alberta Ltd.	200,000	200,000

9.3. 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 (aircraft communication addressing, report and communication system, also known as Datalink), equipment and tooling, rotables and engines, active aircraft and facilities and owned buildings. Although Jazz's operating fleet is scheduled to increase from 121 operating aircraft as of December 31, 2005 to 135 by July 2006, all newly acquired aircraft will be subleased from Air Canada or Air Canada Capital Ltd., which are subsequently rebilled to Air Canada under the CPA agreement. However, capital expenditures such as leasehold improvements will have to be made to these aircraft.

	Capital Expenditures for the Year Ended December 31,(1)		Planned Capital Expenditures for the Year ended December 31,				
	2004 (2)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Leasehold improvements	376	**10,330**	19,877	9,135	7,446	12,463	12,257
ACARS	12,868	**2,920**	-	-	-	-	-
Equipment and tooling	2,158	**2,565**	11,421	12,299	8,225	9,723	9,862
Rotables and engines	2,076	**90**	-	1,035	1,066	1,098	1,131
Active aircraft	-	-	-	-	-	-	-
Facilities and owned buildings	272	-	1,494	2,003	774	1,695	1,725
	17,750	**15,905**	32,792	24,472	17,511	24,978	24,975

(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) The financial information for the year ended December 31, 2004 represents a combination of the financial results of the Predecessor Company for the nine-month period ended September 30, 2004 and the financial results of the Successor Partnership for the period ended December 31, 2004. These combined results are a non-GAAP measure as they combine results on two different basis of accounting and are not comparable to results that may have occurred had the Predecessor Company not been subject to the CCAA proceedings. The information is provided solely for illustrative purposes to reflect the

trends of certain line items and should not be considered a continuum of results of the Predecessor Company and the Successor Partnership.

For the year ended December 31, 2005, capital expenditures were $15.9 million, which consisted mainly of leasehold improvements to the CRJ-705 fleet and the facilities at Toronto Lester B. Pearson International Airport ("Toronto Pearson") and ACARS. In 2006, Management expects to incur approximately $32.8 million in capital expenditures, including one-time items totaling $7.8 million in purchases of navigation and other equipment on the fleet. Beyond 2006, Management expects an average recurring level of capital expenditures of $25 million per year. 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.

In 2006, management expects that the excess in capital expenditures over the average recurring level will be funded using cash on hand as of the Closing.

9.4. Pension Plans

Jazz Pilot Pension Plan

The Jazz pilot pension plan is the only registered defined benefit pension plan sponsored by Jazz. Canadian federal pension legislation requires that the funded status of a registered defined benefit pension plan be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination). The solvency position is influenced primarily by long-term interest rates and by the investment return on plan assets.

The interest rate used to calculate benefit obligations for solvency purposes is a prescribed rate derived from the interest rates on long-term Government of Canada bonds. In the current low interest rate environment, the calculation results in a higher present value of the pension obligations, leading to a larger unfunded solvency position (or smaller surplus). Based on the most recent actuarial valuation, as of January 1, 2005, the Jazz pilot pension plan held $47.5 million in assets, had an unfunded liability on a going concern basis of $3.7 million and was 96% funded on a solvency basis. The resulting 2005 past service amortization payment is $0.5 million. In addition, the current service contribution requirement of Jazz for 2005 is $4.1 million. Jazz indirectly recovers amounts from Air Canada in respect of past service amortization payments and current service contributions for the Jazz pilot pension plan through the block hour payment fees Jazz charges Air Canada under the CPA. The level of these contributions may change over time depending on a number of economic factors such as pension fund investment performance and changes in long-term Government of Canada bond rates. Projected plan growth will also result in, larger current service contributions and the potential for future surpluses and deficits of higher magnitude. The next valuation is required as of January 1, 2006.

AirBC Pilot Pension Plan

The AirBC pilots sponsor a registered defined benefit pension plan for Jazz pilots formerly employed by AirBC. Jazz was obligated to make defined contributions to this plan through December 15, 2005, at which time benefit accruals and contributions ceased. As of December 16, 2005, former AirBC pilots joined the Jazz pilot pension plan in respect of future service. Jazz has agreed to assume sponsorship of the AirBC pilots plan if it is fully funded as of December 31, 2005 based on a projection of a January 1, 2005 valuation. Preliminary valuation results indicate that the plan is projected to be significantly under funded and, therefore, it is likely that Jazz will not assume sponsorship of this plan and will have no future obligations in respect of past service for AirBC pilots.

Other Pension Plans

Jazz makes contributions in respect of flight attendants to the Teamsters' National Pension Plan. These contributions are currently at the rate of 4% of employee earnings. Jazz also sponsors defined contribution pension plans for management, administration and technical support and unionized employees other than pilots and flight attendants. The Jazz contributions to these plans are generally at the rate of 4% or 5% of employee earnings. Jazz contributions in respect of senior management are at the rate of 12.6% of employee earnings subject to an annual maximum contribution of $10,150 per employee. Jazz also has a registered defined contribution pension plan and a supplemental executive retirement plan for executive officers.

Projected Pension Funding Obligations

The table below provides projections for Jazz's pension funding obligations from 2006 to 2010:

(expressed in thousands of Canadian dollars)	2006	2007	2008	2009	2010
Past service registered plans	$ 6,200	$ 6,500	$ 6,700	$ 7,000	$ 7,200
Current service registered plans	1,700	1,700	1,700	1,700	1,700
Other pension arrangements	5,948	6,000	6,027	6,073	6,118
Projected pension funding obligations	$ 13,848	$ 14,200	$ 14,427	$ 14,773	$ 15,018

The above pension funding requirements are in respect of Jazz's pension arrangements. The funding requirements are based on the minimum past service contributions from the January 1, 2005 actuarial valuations plus a projection of the current plan assets and liabilities over the projection period. The changes in the economic conditions, mainly the return on assets generated by the fund and the change in interest rates used for solvency valuations, will impact projected required contributions.

9.5. Financial Instruments

As of December 31, 2004 and December 31, 2005 Jazz had not entered into any financial instruments.

10. FLEET

As at December 31, 2005, Jazz's operating fleet was made up of 121 operating aircraft (excludes four CRJ-200s which were received in 2005 but had not entered service by December 31, 2005), of which 57 were regional jets and 64 turboprop aircraft.

Jazz has restructured its fleet to support its growth, reduce its costs by flying fewer types of aircraft and ensure an efficient operation by better matching seat capacity with demand. The reduction in the types of aircraft in Jazz's fleet is expected to contribute to cost savings in the areas of maintenance, inventories and pilot training. In 2005, the BAe-146 aircraft were removed from service. Between December 31, 2004 and December 31, 2005, the operating fleet of Dash 8-100s has decreased from 45 to 38 aircraft and such fleet is expected to decrease further as two of such aircraft are scheduled to be retired, at Air Canada's cost. Several longer routes which were previously flown with Dash 8 aircraft are now flown with regional jet aircraft. Some examples of these routes include Vancouver – Prince George, Vancouver – Fort St. John and Halifax – Goose Bay. Their higher speed makes the regional jets competitive from a trip cost standpoint while passengers prefer the increased comfort and faster speed.

As at December 31, 2005, Jazz had taken delivery of all 15 CRJ-200s and 15 CRJ-705s ordered by Air Canada in September 2004. As at the same date, Air Canada had transferred to Jazz fifteen of its CRJ-100s, with ten more to be transferred by July 2006. In addition, six CRJ-200s leased by Air Canada Capital Ltd. from a third party were delivered to Jazz between September and December 2005 and an additional two CRJ-200s are scheduled to be delivered from a third party in February 2006. These aircraft will also be leased from a third party to Air Canada Capital Ltd. and subleased to Jazz. Thus, by July 2006, Jazz plans to operate an all Bombardier fleet of 135 aircraft, comprised of 73 CRJ regional jets and 62 Dash 8 turboprop aircraft.

Jazz’s operating fleet, at December 31, 2005, was as described below:

	Number of Operating Aircraft (1)(2)	Average Age of Operating Aircraft	Owned	Owned/ Financed	Operating Lease
CRJ-100 (50 seats)	15	9.9	-	-	15
CRJ-200 (50 seats)	27	3.9	-	-	27
CRJ-705 (75 seats)	15	0.5	-	-	15
Dash 8-300 (50 seats)	26	15.8	9	8	9
Dash 8-100 (37 seats)	38	18.0	29	-	9
Total Operating Aircraft	121	11.2	38	8	75

(1) Excludes four de Havilland DHC-8-100 aircraft which were parked and held in storage for Air Canada.

(2) Excludes four Canadair CRJ-200 aircraft which were received in 2005 but had not entered service by December 31, 2005. They are scheduled to be in service in the first quarter of 2006.

Management currently believes that there may be attractive opportunities to acquire additional regional aircraft. In the event that more of these modern aircraft are acquired, it is currently anticipated that such aircraft would substitute aircraft currently operated by Jazz.

The replacement of Dash 8s with regional jet aircraft provides Jazz with the opportunity to redeploy its older Dash 8s, dispose of them or move them into charter routes. In addition, Management believes that there are opportunities to acquire Dash 8-Q400 turboprop aircraft (70 seats) which would provide additional competitive advantages and cost savings for Jazz. In light of its speed, passenger comfort, attractive operating economics and fuel efficiency, the Dash 8-Q400 could be a good replacement for Dash 8s and CRJ-100s and would further complement Jazz's fleet of Bombardier aircraft.

From an operations point of view, there is considerable commonality between the Dash 8-Q400 compared to Jazz's present fleet of Dash 8-100s and Dash 8-300s. This would provide for significant savings in initial and recurrent training for Jazz's pilot and flight attendant groups and facilitate more efficient scheduling for the pilots and flight attendants.

Jazz’s operating fleet as at December 31, 2004 and December 31, 2005, as well as its planned operating fleet as at December 31, 2006 are as follows:

	Operating Fleet as at		Planned Operating Fleet as at
	December 31, 2004	December 31, 2005	December 31, 2006
CRJ-100/200 (50 seats)	18	42(1)	58(1)(2)
CRJ-705 (75 seats)	0	15(1)	15
Dash 8-300 (50 seats)	26	26	26
Dash 8-100 (37 seats)(3)	45	38	36
BAe -146 (77 seats)	2	0	0
Total Operating Aircraft	91	121	135

(1) Excludes four CRJ-200 aircraft which were received in 2005 but did not enter service by December 31, 2005. They are scheduled to be in service in the first quarter of 2006.

(2) Out of the 25 CRJ-100 aircraft originally operated by Air Canada and scheduled to be transferred to Jazz, Jazz’s planned operating fleet as at December 31, 2005 includes 15 of such CRJ-100 aircraft and the planned operating fleet as at December 31, 2006 includes all of such 25 CRJ-100 aircraft.

(3) A single Dash 8-100 (included in the totals for all periods presented) is currently dedicated to Jazz's charter operations and Jazz is expecting to add a second Dash 8-100 (included in the totals for all periods presented) to its charter operations in the second quarter of 2006.

All aircraft in Jazz's operating fleet as of December 31, 2005 and four CRJ-200 aircraft which were received in 2005 but did not enter service by December 31, 2005 are Covered Aircraft under the CPA except for one Dash 8-100 aircraft being used for charter purposes. Of the 135 aircraft scheduled to make up Jazz's operating fleet by July 2006, 133 aircraft will be covered under the CPA and the remaining two aircraft (Dash 8s) are scheduled to be used for charter purposes.

CRJ-100/200

The 50-seat Bombardier CRJ-100/200 is a twin engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The CRJ-200 has more efficient engines than the CRJ-100 and a longer flight distance and pay-load capability. Of the 42 CRJ-100s/200s in Jazz's fleet, 25 are subleased from Air Canada and 17 (plus the four CRJ-200s not in service as of December 31, 2005) are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring between 2009 and 2024. All CRJ-100/200 scheduled to be added to Jazz's fleet will be subleased from Air Canada or its subsidiary, Air Canada Capital Ltd. By July 2006, Jazz's fleet is scheduled to include 25 CRJ-100s and 33 CRJ-200s.

CRJ-705

Jazz was the first carrier in the world to operate the state-of-the-art Bombardier CRJ-705 regional jet aircraft. Jazz's CRJ-705 feature leather seats and is configured into ten Executive Class seats and 65 Hospitality Class seats and offer more Hospitality Class legroom than any other Canadian carrier's aircraft and boasts ample underseat storage. Jazz plans to install in-flight entertainment in the back of every seat of its CRJ-705. The CRJ-705 provides Jazz with the capability to offer services comparable to a mainline aircraft.

The CRJ-705 is an economical aircraft due to its operational efficiencies and lower trip costs. The efficiency, range, size and versatility of the CRJ-705 should allow Jazz to economically fly longer routes in addition to high frequency routes and offer superior comfort and choice in non-stop services to its customers. With its cruising speed of approximately 880 kilometers per hour, Management believes that the CRJ-705 is the appropriate aircraft to fly on higher frequency long routes with low volumes such as Calgary-Houston, Toronto-Houston, Toronto-Dallas and Montreal-Winnipeg.

All CRJ-705 aircraft currently in Jazz's fleet are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring in 2022 and 2024.

Dash 8-300

The 50-seat Bombardier Dash 8-300 has advanced turboprop characteristics that approach those of a jet aircraft. Of the 26 Dash 8-300 in Jazz's fleet, 17 are owned by Jazz and nine are subleased from Air Canada Capital Ltd. or leased from third parties, with such leases and subleases expiring between 2006 and 2007.

Dash 8-100

The Dash 8-100 is a twin engine turboprop medium range aircraft with seating capacity of 37 passengers. Of the 38 Dash 8-100 aircraft in Jazz's fleet, 29 are owned by Jazz, two are leased from Air Canada and seven are leased from Air Canada Capital Ltd., with such leases expiring between 2005 and 2008.

Scope Clause

Scope clauses are an industry norm for network airlines operating in conjunction with regional carriers and are usually found in collective agreements of pilot union groups. Jazz, like many regional airlines, is restricted by scope provisions in the collective agreement between Air Canada and Air Canada Pilots Association (ACPA). Prior to the CCAA restructuring, Jazz's operations were limited by scope provisions restricting Jazz's operations to 39 55-seat regional jet aircraft including ten grandfathered BAe-146 aircraft, which have since been retired. The scope provisions in place at the time also required that growth beyond the 39 55-seat regional jet aircraft could only take place with growth in the Air Canada fleet.

As a result of the CCAA process, a unique arrangement was reached between Air Canada, Jazz, ACPA and Air Line Pilots Association (ALPA). The agreement, known as the Small Jets Settlement Agreement, modifies the existing scope clauses, provides a process to allocate the current orders of regional jets between Air Canada and Jazz, determines the types and number of jets that can be flown by Jazz and provides mechanisms for resolving disputes over future regional jet additions to either fleet. There are no limits to the number of turboprop aircraft that Jazz may operate.

The Small Jets Settlement Agreement provides that:

- Jazz may maintain a fleet of 50 CRJ-100s/200s and 15 CRJ-705s made up as follows: (i) ten CRJ-200s operating in the fleet since 2002, 15 CRJ-200s and 15 CRJ-705s which Air Canada has ordered from Bombardier, all of which have been delivered, and (ii) 25 CRJ-100s originally operated by Air Canada, of which 15 have already been transferred to Jazz as of December 31, 2005 and the remaining ten are scheduled to be transferred by July 2006.
- If either Air Canada or Jazz seeks to increase the fleet beyond what is outlined above, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to an arbitrator or a mediator who will then make a decision, taking into account the business case put forward by the respective parties and the impact of the matter at hand on the respective pilots groups.
- Jazz may not operate the CRJ-705 aircraft if configured in excess of 75 seats, inclusive of all classes.
- As was previously the case, Air Canada must ensure that a minimum of ASMs are flown by Air Canada compared to the ASMs flown by Jazz.

ACPA has filed a grievance under its collective agreement with Air Canada challenging the timing of the transfer of such 25 CRJ-100s from Air Canada to Jazz prior to the inclusion of the Embraer ERJ-190 aircraft into the Air Canada fleet. Air Canada has informed ACPA that it believes that this matter should be resolved through binding arbitration under the Small Jets Settlement Agreement. Although the outcome of the arbitration or the grievance resolution procedure cannot be determined with certainty, based on previous arbitrations relating to the deployment of aircraft at Jazz, Management expects that the current schedule for the transfer of the 25 CRJ-100s should not be affected.

11. PEOPLE

In 2004, Jazz concluded long-term collective agreements with all union groups which expire in 2009. The unions are not allowed to strike until the end of the term of the collective agreements. These collective agreements, except for the collective agreement with the pilot union group, ALPA, provide for a process to revise the wage levels in mid-2006 by negotiation or, failing negotiation, by mediation or arbitration. The current compensation structure ensures Jazz's competitiveness in the North American marketplace.

The implementation of the unionized workforce reduction plan emanating from the Jazz's new collective agreements and the implementation of the workforce reduction plan pertaining to the Jazz's non-unionized workforce were substantially completed by the end of 2004. In 2005, further workforce reductions in some areas were achieved with the introduction of new technology, a voluntary separation plan and additional non-unionized workforce reductions.

In the fourth quarter of 2005, Jazz had an average of 3,801 full time equivalent (FTE) employees compared to an average of 3,363 FTE employees in the fourth quarter of 2004. This reflects a 13.0% per cent increase from the fourth quarter of 2004, as shown in the table below:

	Union	For the three-month period ended December 31, 2005	For the three-month period ended December 31, 2004	Change	Change %
Pilots	ALPA	1,135	1,028	107	10.4
Technical Services	CAW	725	623	102	16.4
Customer Service Agents	CAW	646	591	55	9.3
Flight Attendants	Teamsters	620	513	107	20.9
Management	-	385	353	32	9.1
Administrative and Technical Support	-	222	180	42	23.3
Dispatchers	CALDA	46	53	(7)	(13.2)
Crew Scheduling	CAW	22	22	-	-
		3,801	3,363	438	13.0

12. OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2004, the net book value of flight equipment pledged as security for long-term debt was approximately $35.0 million and substantially all of the remaining property and equipment was pledged as security for certain debt of ACE. During the nine-month period ended September 30, 2005, such debt of ACE was repaid and the security was released. As such, Jazz did not have any off balance sheet arrangements as of December 31, 2005.

Letters of credit totaling approximately $2.0 million ($0.6 million as at December 31, 2004) have been issued as security for the rental of specific aircraft leases, ground handling and airport fee contracts and lease payments on rental space.

13. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires Jazz 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 following areas, which Management believes are the most subjective judgments, often requiring the need to make estimates about the effects of matters that are inherently uncertain and may change significantly in subsequent periods.

These significant accounting policies of Jazz are described in Note 4 of the December 31, 2005 Consolidated Financial Statements. The following policies and estimates are the ones Jazz believes are the most critical to aid in fully understanding and evaluating its reported financial results.

Fresh Start Reporting

On September 30, 2004, Jazz adopted fresh start reporting. As a result, all assets and liabilities of the Predecessor Company have been reported at fair values, except for future income taxes, which are reported in accordance with the requirements of Section 3465 Income Taxes of the CICA Handbook. The fair values of the assets and liabilities have been based on Management's best estimates and on valuation techniques as of September 30, 2004. The determination of fair values involves a number of assumptions about the amount and timing of future cash flows, discounts rates, terminal values and other uncertainties inherent in the assets and liabilities being valued.

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:

- Upon emergence from the CCAA proceedings on September 30, 2004, fresh start accounting was applied to these plans with the entire difference between the accrued benefit obligation and the market value of plan assets recognized through retained earnings.
- 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.

	Successor Partnership		Predecessor Company
	For the year ended December 31, 2005	For the three-month period ended December 31, 2004	For the nine-month period ended September 30, 2004
Weighted average assumptions used to determine accrued benefit obligation			
▪ Discount rate	5.20%	6.11%	6.26%
▪ Rate of compensation increase	4.09%	4.09%	4.09%
Weighted average assumptions used to determine pension costs			
▪ Discount rate	6.11%	6.26%	6.27%
▪ Expected long-term rate of return on assets	6.10%	6.25%	6.25%
▪ Rate of compensation increase	4.09%	4.09%	5.04%

Intangible Assets

On the application of fresh start accounting on September 30, 2004, Jazz's identifiable intangible assets were fair-valued based on valuation techniques under fresh start reporting requirements as at September 30, 2004. The non-amortizable intangible assets of Jazz require annual impairment assessments. In addition, Jazz is required to assess the remaining life of amortizable assets on a regular basis.

Fair value for purposes of measuring the identifiable assets under GAAP is defined as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act". The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Property and Equipment

Property and equipment was originally recorded at cost. On the application of fresh start accounting effective September 30, 2004, the cost of property and equipment values were adjusted to their fair value. In addition, the estimated useful lives of certain assets were also adjusted. As at December 31, 2005 the net book value of the Successor Partnership's property and equipment was $193.9 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 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.

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 leases do not include any residual value guarantees.

Recent Accounting Developments

In January 2005, the Canadian Institute of Chartered Accountants issued the following Handbook sections effective for interim and annual periods beginning on or after October 1, 2006, though early adoption is permitted. Jazz is currently evaluating the effect that the implementation of these standards will have on its results of operations and financial position.

Section 1530 – Comprehensive Income

Comprehensive income represents the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investments by and distributions to owners.

A statement of comprehensive income would be required in a complete set of financial statements for both interim and annual periods. The new statement would present net income and each component to be recognized in comprehensive income, such as certain gains and losses arising from changes in fair value.

Section 3855 – Financial Instruments – Recognition and Measurement

An entity would recognize a financial asset or financial liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets would be classified as held for trading, held-to-maturity investments, loans and receivables or available-for sale. Financial assets and liabilities would, with certain exceptions, be initially measured at fair value. After initial recognition, gains and losses on financial assets and liabilities measured at fair value would be recognized in net income with the exception of gains or losses arising from financial assets classified as available-for-sale, for which unrealized gains and losses would be included in comprehensive income. For financial assets and financial liabilities not classified as held for trading, the initial value recorded would include transaction costs that are directly attributable to the acquisition or issuance of the financial asset or liability.

Section 3865 – Hedges

The new section sets out the circumstances when hedge accounting may be applied and the method of application and builds on the guidance previously included in Accounting Guideline 13 - Hedging Relationships. Under the new standard, the ineffective portion of the change in fair value of the derivatives forming part of a hedging relationship would be included in earnings in the period of the change, other elements of gains and losses related to the instruments would be included in comprehensive income.

14. CONTROLS AND PROCEDURES

14.1. Disclosure Controls and Procedures

Disclosure controls and procedures within Jazz are 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.

An evaluation of the effectiveness of Jazz's disclosure controls and procedures (as defined under National Instrument 52-109 of the Canadian Securities Administrators) as at December 31, 2005 was made by and under Jazz's management, including the Chief Executive Officer and the Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Jazz's disclosure controls and procedures are effective.

14.2. Financial Reporting

The annual financial statements together with the other financial information included in the MD&A fairly represent in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented.

15. RISK FACTORS

15.1. 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 recent 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 in 2005 have increased to and remained 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 from that time.

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 one 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 to the other of its intention not to renew the CPA 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 (as determined by an arbitration panel in accordance with the terms of the CPA). 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 to the other pursuant to the CPA are not paid when due, and such default continues for 30 days after receipt by the party in default of written notice from the other party identifying the default and demanding that it be rectified;

- failure by Air Canada or Jazz to comply with any other of its obligations pursuant to the CPA and such default continues for thirty days after receipt by the party in default of written notice from the other party identifying the default and demanding that it be rectified;
- 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 21consecutive 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. Force majeure is defined to include any cessation or 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, if 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.

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 has the option to 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.

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

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 the 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, 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 terminated. In such event, Jazz will 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, 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. Most of the airport facilities at Jazz's principal urban 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 or route authorities used for Jazz's 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, 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 under-utilized 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 2006 calendar year represents approximately 86% of the estimated Block Hours currently scheduled to be flown by Jazz's Covered Aircraft during such period, as contemplated in the 2006 annual operating plan provided by Air Canada to Jazz for budget and planning purposes only.

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 that 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. Upon the occurrence of an event of default, Air Canada and Jazz are to meet as soon as reasonably possible given the nature of the event of force majeure and work together to minimize the impact of such event of force majeure. As a result of any event of force majeure that occurs during the term of the CPA expiring in December 2015, 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, Jazz is relying on Air Canada's infrastructure for such matters as treasury, tax, inhouse legal, sales and distribution services. If the master services agreement between Jazz and Air Canada 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 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 a financial condition could be materially adversely affected.

In 2009 and 2012, Jazz and Air Canada shall 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 ending 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 ACPA and the Small Jets Settlement Agreement limit Jazz's ability to utilize regional jets. The restrictions contained in these agreements 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 class, 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 empede Jazz's planned 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.

Grievance by ACPA Regarding the Timing of the Transfer of Aircraft from Air Canada

ACPA has filed a grievance under its collective agreement with Air Canada challenging the timing of the transfer of 25 CRJ-100s from Air Canada to Jazz prior to the inclusion of the Embraer ERJ-190 aircraft into the Air Canada fleet. Air Canada has informed ACPA that it believes that this matter should be resolved through binding arbitration under the Small Jets Settlement Agreement. Although the outcome of the arbitration or the grievance resolution procedure cannot be determined with certainty, based on previous arbitrations relating to the deployment of aircraft at Jazz, Management expects that the current schedule for the transfer of the 25 CRJ-100s should not be affected. However, in the event that the matter is decided in favour of ACPA, Jazz's business, results from operations and financial condition could be materially adversely affected.

Constraints on Jazz's Ability to Establish New Operations

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

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

Exclusivity Arrangements

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

Potential Conflicts with Air Canada

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

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

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

In addition, Air Canada is a subsidiary of ACE. On the Closing, ACE will own LP Units representing 80.9% of the voting interests in Jazz (78.0% if the Over-Allotment Option is exercised in full). Voting control will enable ACE to determine all matters requiring securityholder approvals. Moreover, as long as ACE holds 20% or more of the shares of Jazz GP and of the limited partnership interests in Jazz LP, ACE will be entitled to appoint a majority of the directors of Jazz GP.

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 results from operations and financial condition could be materially adversely affected.

15.2. Risks Relating to Jazz

Employees

Jazz's business is labour-intensive and requires large numbers of pilots, flight attendants, mechanics and other personnel. Jazz anticipates that its expansion plans may require to locate, hire, train and retain a significant number of 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 expansion plans or replace departing employees. If Jazz is unable to hire and retain qualified employees at a reasonable cost, Jazz may be unable to complete its expansion plans, which could adversely affect its business, results from operations and financial condition.

Labour Costs

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. Jazz has collective bargaining agreements with its pilots, flight attendants, maintenance, customer service agents, dispatchers and crew schedulers which permit bargaining on wages in 2006 (in 2009 for the pilots group), but no strikes or lock-outs may lawfully occur until after the agreements expire in 2009. There may be pressure to increase wages and benefits for employees if the airline industry continues to recover from its recent downturns. 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.

Condition to Labour Productivity Enhancements

During the restructuring of Jazz under the CCAA, one of the improvements made in the collective agreement with ALPA 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. Failure by Jazz to maintain a minimum fleet of 114 aircraft after December 31, 2005 and 125 aircraft after December 31, 2006 will result in a loss of the productivity enhancements until the applicable target is met. 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 the minimum fleet described above could result in Jazz losing access to the productivity enhancements, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

Employee Relations

Most of Jazz's employees are unionized and new or modified collective bargaining agreements were recently concluded. 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.

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. In addition, labour problems at Air Canada's Star Alliance™ partners could result in lower demand for connecting traffic with Air Canada and, ultimately, could have 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 be provided to Jazz by Air Canada 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.

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

The New Credit Facilities will 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 its LP Units 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 New Credit Facilities will contain a number of financial covenants that will require Jazz to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the New 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 New Credit Facilities, including any possible hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of Jazz would be sufficient to repay in full that indebtedness. Jazz will have to refinance its available credit facilities or other debt and there can be no assurance that Jazz will be able to do so or be able to do so on terms as favourable as those presently in place. If Jazz is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on Jazz's financial position, which may result in a reduction or suspension of cash distributions to unitholders of the Fund and cause taxable income for unitholders of the Fund to exceed cash distributions. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive that the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of the Fund to pay cash distributions and cause taxable income for unitholders of the Fund to exceed cash distributions.

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, 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.

15.3. 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 fare airlines on its routes, including routes that Jazz flies. Competitors could rapidly enter markets Jazz serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Jazz's regional jet 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 and leisure travelers seek substitutes for 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 major United States airline networks is limited by existing relationships that all of the 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 will be able to charge. Customer expectations are changing rapidly and the demand for lower fares may limit revenue opportunities. An unsustained recovery in economic growth in North America, as well as geopolitical instability in various areas of the world would have the effect of reducing demand for air travel. In addition, 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 still 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. During 2005, fuel prices have increased to and remained at 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 as a whole and scheduled service in particular are characterized by low gross profit margins and high fixed costs. The costs of operating each 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, in the aggregate, 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 airline 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 obligation under the CPA.

Terrorist Attacks

The September 11, 2001 terrorist attacks and subsequent terrorist attacks, 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 or not involving Air Canada, Jazz or another carrier) 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 still 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) or Other Epidemic Diseases

As a result of the international outbreaks of SARS in 2003, the World Health Organization (the "WHO") issued a travel advisory against non-essential travel to Toronto, Canada which lasted for eight days in April 2003. The 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. A further outbreak of SARS or of another epidemic disease (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. Though, under the terms of the CPA any resulting reduction in passenger revenues is principally at Air Canada's risk, such an event could still 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 impact on Jazz's business, results from operations and financial condition.

Dependence on Technology

Jazz, similar to other airlines, 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.

The technology systems of airlines, including Jazz, may be vulnerable to a variety of sources of interruption due to events beyond such airlines' control, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While Jazz has in place, 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. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Seasonably low passenger demand results in significantly lower operating cash flow and margins in the first and fourth quarters for each calendar year compared to the second and third quarters.

Demand for air travel is also affected by factors such as economic conditions, war or the threat of war, 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 security, safety, licensing, competition, noise levels and the environment. Additional laws and regulations may be proposed from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional limitations by governments, the Competition Bureau and/or the Competition Tribunal or other 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 regulations will not be adopted. The adoption of such new regulations or revisions could be materially adverse to Jazz's business, results from operations and financial condition.

In July 2000, the Government of Canada amended the *Canadian Transportation Act*, the *Competition Act* (Canada) and the *Air Canada Public Participation Act* (Canada) to address the competitive airline environment in Canada and ensure protection for consumers. This legislation increased the powers of the Canadian Transportation Agency with respect to pricing on non competitive domestic routes, and domestic terms and conditions of carriage. In addition, this legislation included airline-specific provisions concerning "abuse of dominance" under the *Competition Act* (Canada).

In February 2001, the Competition Bureau released draft guidelines outlining the approach it proposed to take in enforcing the airline-specific "abuse of dominance" provisions of the *Competition Act* (Canada). The guidelines were never finalized in light of the letter issued in 2004 by the Commissioner of Competition described below outlining her approach to enforcement of the airline abuse of dominance provision on a going forward basis.

In March 2001, the Commissioner of Competition brought an application under the "abuse of dominance" provisions of the *Competition Act* (Canada), seeking an order prohibiting Air Canada from charging fares on flights on certain routes in eastern Canada where such fares would not cover the avoidable costs of such flights. The application was divided into two phases. Phase I involved a review of all of Air Canada's costs from April 2000 to March 2001 and a determination of which of those cost items would be considered avoidable costs. The Competition Tribunal released its reasons and findings regarding Phase I on July 22, 2003, and adopted a broadly crafted avoidable cost test. The decision of the Competition Tribunal did not constitute a determination that Air Canada breached the *Competition Act* (Canada).

In September 2004, following extensive discussion with Air Canada, the Competition Bureau terminated the Competition Tribunal application with the agreement of Air Canada and published a letter describing the enforcement approach to be taken by the Competition Bureau to any new complaint made against a dominant domestic carrier in light of the changes in the airline industry that have occurred since 2000. In addition, on November 2, 2004, the Minister of Industry tabled amendments to the *Competition Act* (Canada) in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the *Competition Act* (Canada). 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 light of these developments, and as part of the agreement to terminate the March 2001 application to the Competition Tribunal, Air Canada determined that it would not appeal the Competition Tribunal's decision in Phase I of the application. The Competition Bureau has expressed its view that the principles established by the Competition Tribunal in Phase I of the application regarding the application of the avoidable cost test would be relevant for any future cases which may arise in similar circumstances. These principles could have application to Jazz in the event that it was found to be a dominant domestic air carrier (either alone or in conjunction with Air Canada). In the event that the Commissioner of Competition commences inquiries or brings similar applications making such allegations 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 Canadian and United States laws regarding privacy of passenger and employee data. In addition to the heightened level of concern regarding privacy of passenger data in Canada, certain United States government agencies are initiating inquiries into airline privacy practices. 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, Jazz and other industry participants would have to turn to the commercial insurance market to seek such coverage. Alternative solutions, such as that envisioned by International Civil Aviation Organization ("ICAO"), have not developed as planned due to actions taken by other countries and the recent availability of commercial insurance. ICAO's plan is to set up a non-profit single purpose insurance company which would cover third party war liability in excess of U.S. $50 million. Initial support would be provided by various governments, with their respective contributions based on their ICAO contribution percentages. Airlines would pay a premium on a per passenger segment basis. 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 the ICAO 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, spares, passenger and third party liability policies that will exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or bio-chemical materials.

Casualty Losses

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

15.4. Risks Related to the Structure of the Fund and the Offering

Dependence on Jazz

The Fund is an unincorporated open-ended trust which will be entirely dependent on the operations and assets of Jazz through the indirect ownership of 19.1% of the limited partnership units of Jazz LP ("LP Units") (22.0% if the over-allotment option is exercised in full). Cash distributions to unitholders will be 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 will be 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 of the Fund, 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 of the Fund is not guaranteed and will depend upon numerous factors, including Jazz's profitability and its ability to sustain EBITDA and the fluctuations in Jazz's working capital and capital expenditures, all of which are susceptible to a number of risks.

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 will 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 will be trust units and trust notes. The price per unit is a function of anticipated distributable income.

Unitholder Liability

The declaration of trust of the Fund 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, Québec and Alberta, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable, despite such statement in the declaration of trust of the Fund, 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 declaration of trust of the Fund 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 Fund without the approval of any unitholders of the Fund. The unitholders will have no pre-emptive rights in connection with such further issues. Additional units will be issued by the Fund in connection with the indirect exchange of the LP Units held by ACE. In addition, Jazz LP is permitted to issue additional LP Units for any consideration and on any terms and conditions.

Control of Jazz and Related Party Relationship

Following the initial public offering of the Fund, ACE will own LP Units representing 80.9% of the voting interests in Jazz (78.0% if the over-allotment option is exercised in full). Voting control will enable ACE to determine all matters requiring securityholder approval. As a result of its voting interest in Jazz and its board appointment rights, ACE will exercise control over corporate transactions submitted to Jazz's board of directors and/or Jazz's securityholders for approval. ACE will effectively have sufficient voting power to prevent a change in control of Jazz. At the Closing, the Fund will have a minority interest in Jazz and the right to appoint a minority of the directors of Jazz GP and will therefore have limited influence over corporate transactions involving Jazz.

The interests of ACE may conflict with those of unitholders of the Fund.

Future Sales of Units by or for ACE

Following the initial public offering of the Fund, ACE will hold 80.9% of the outstanding LP Units of Jazz LP (78.0% if the over-allotment option is exercised in full) which can be liquidated at any time, subject to certain conditions thereby causing the issuance of additional units of the Fund. ACE has also been granted certain registration rights by the Fund. If ACE liquidates substantial amounts of units in the public market, the market price of the units could fall. The perception among the public that these sales will occur could also produce such effect. During the period ending 90 days from the Closing, the Fund and ACE are restricted in their ability to sell, distribute, or issue for sale or resale any Units. CIBC World Markets Inc., on behalf of the underwriters, may release the Fund and ACE from such restrictions at any time and without notice, which would allow for earlier sales of units.

Income Tax Matters

On September 8, 2005, the Department of Finance released a consultation paper and launched public consultations on tax and other issues related to publicly listed flow-through entities, including income funds. The focus of the paper was to, among other things, assess whether the tax system should be modified. In the consultation paper, the Department of Finance identified three possible policy responses to issues relating to flow-through entities: (i) limiting deductibility of interest expense by operating entities, (ii) taxing flow-through entities in a manner similar to corporations, or (iii) making the tax system more neutral with respect to all forms of business organization by better integrating the personal and corporate tax system. The Department of Finance indicated that this was not an exhaustive list of the possible policy responses. On September 19, 2005, the Minister of Finance (Canada) announced, with the support of the Minister of National Revenue (Canada), that the CRA would postpone providing advance rulings respecting flow-through entity structures effective immediately, that the Department of Finance was closely monitoring developments in the flow-through entity market with a view to proposing measures in relation to the consultations and that consideration would be given to what, if any, transitional measures would be appropriate. On November 23, 2005, the Minister of Finance (Canada) announced that the public consultation process was ended and tabled in the House of Commons a Notice of Ways and Means Motion to implement a reduction in personal income tax on dividends with a view to establishing a better balance between the treatment of large corporations and that of income trusts. No measures were announced with respect to the taxation of flow-through entities and their investors. No assurance may be given that further review of the tax treatment of flow-through entities will not be undertaken or that Canadian federal income tax law respecting flow-through entities will not be changed in a manner which adversely affects the Fund and the unitholders of the Fund. To the extent that changes are made, such changes could result in the income tax being materially different in certain respects.

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.

Restrictions on Certain Unitholders and Liquidity of Units

The declaration of trust of the Fund imposes various restrictions on unitholders of the Fund. Non-resident unitholders are prohibited from beneficially owning more than 49.9% of the units of the Fund. 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.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2005, the Successor Partnership took delivery of 1 CRJ-200 aircraft and 2 CRJ-100 aircraft and entered into related sublease agreements with Air Canada Capital Ltd. The incremental annual lease payments under these new subleases are approximately as follows:

	$(000)
Year ending December 31, 2006	2,314
2007	3,127
2008	2,523
2009	2,523
2010	1,840
Thereafter	-