



Jazz Air Income Fund

Unaudited Consolidated Financial Statements
March 31, 2010

May 13, 2010

Management's Report

The accompanying unaudited interim consolidated financial statements of **Jazz Air Income Fund** are the responsibility of management and have been approved by the Board of Trustees. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The unaudited interim consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the financial statements. The Audit, Finance and Risk Committee of the Board of Trustees reviewed and approved Jazz's unaudited interim consolidated financial statements, and recommended their approval by the Board of Trustees.

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

(signed) "Allan D. Rowe"
Chief Financial Officer

Jazz Air Income Fund
Unaudited Consolidated Balance Sheets
As at March 31, 2010 and December 31, 2009



(expressed in thousands of Canadian dollars)

	March 31, 2010 \$	December 31, 2009 \$
Assets		
Current assets		
Cash and cash equivalents	105,369	223,559
Accounts receivable - trade and other (note 5)	58,279	59,044
Spare parts, materials and supplies	38,406	40,755
Prepaid expenses	21,100	19,909
Total current assets	223,154	343,267
Property and equipment	198,405	202,994
Intangible assets	674,431	682,479
Other assets	39,305	37,731
	1,135,295	1,266,471
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	175,197	179,216
Distributions payable	6,143	6,143
Current portion of obligations under capital leases	2,651	2,681
Current portion of long-term debt (note 3)	-	114,706
Total current liabilities	183,991	302,746
Obligations under capital leases	13,909	15,097
Convertible debentures	78,414	78,180
Future income tax	12,650	13,294
Other long-term liabilities	52,303	52,699
	341,267	462,016
Unitholders' Equity	794,028	804,455
	1,135,295	1,266,471

Economic dependence (note 5)

Contingencies (note 7)

Subsequent events (note 8)

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Unitholders' Equity

For three-month period ended March 31, 2010 and year ended December 31, 2009



(expressed in thousands of Canadian dollars)

	Retained earnings (deficit)			Contributed surplus	Accumulated other comprehensive income (loss)	Equity component of convertible debentures	Total
	Unitholders' capital	Accumulated earnings	Distributions				
	\$	\$	\$	\$	\$	\$	\$
Balance - December 31, 2008	1,034,451	20,102	(250,738)	7,400	(3,186)	-	808,029
Change in fair value during the period	-	-	-	-	284	-	284
Distributions	-	-	(30,888)	-	-	-	(30,888)
Units held by unit based compensation plan	634	-	-	(2,879)	-	-	(2,245)
Accretion related to the ongoing long-term incentive plan	-	-	-	479	-	-	479
Net income for the period	-	21,123	-	-	-	-	21,123
Balance - March 31, 2009	1,035,085	41,225	(281,626)	5,000	(2,902)	-	796,782
Change in fair value during the period	-	-	-	-	2,100	-	2,100
Distributions	-	-	(71,899)	-	-	-	(71,899)
Issue of convertible debentures	-	-	-	-	-	4,324	4,324
Units held by unit based compensation plan	195	-	-	-	-	-	195
Accretion related to the ongoing long-term incentive plan	-	-	-	1,438	-	-	1,438
Net income for the period	-	71,515	-	-	-	-	71,515
Balance - December 31, 2009	1,035,280	112,740	(353,525)	6,438	(802)	4,324	804,455
Change in fair value during the period	-	-	-	-	802	-	802
Distributions	-	-	(18,429)	-	-	-	(18,429)
Units held by unit based compensation plan	1,573	-	-	(1,446)	-	-	127
Accretion related to the ongoing long-term incentive plan	-	-	-	550	-	-	550
Net income for the period	-	6,523	-	-	-	-	6,523
Balance - March 31, 2010	1,036,853	119,263	(371,954)	5,542	-	4,324	794,028

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

Jazz Air Income Fund
Unaudited Consolidated Statements of Income
For the three-month periods ended March 31, 2010 and 2009



(expressed in thousands of Canadian dollars, except earnings per Unit)

	Three months ended March 31,	
	2010	2009
	\$	\$
Operating revenue (note 5)		
Passenger	353,015	367,343
Other	2,357	2,091
	355,372	369,434
Operating expenses (note 5)		
Salaries and wages	74,587	71,505
Benefits	15,904	14,845
Aircraft fuel	65,822	57,422
Depreciation and amortization of property and equipment and other	7,977	7,460
Amortization of Capacity Purchase Agreement ("CPA") intangible asset	8,048	10,525
Food, beverage and supplies	3,026	3,255
Aircraft maintenance materials, supplies and services	39,828	40,093
Airport and navigation fees	44,984	46,087
Aircraft rent	29,330	36,941
Terminal handling services	30,147	32,939
Other	26,940	27,276
	346,593	348,348
Operating income	8,779	21,086
Non-operating income (expenses)		
Interest revenue	127	295
Interest expense	(3,012)	(1,899)
Gain on disposal of property and equipment	335	608
Foreign exchange loss	(350)	(965)
	(2,900)	(1,961)
Income before future income taxes	5,879	19,125
Recovery of future income taxes	644	1,998
Net income for the periods	6,523	21,123
Earnings per Unit, basic and diluted	0.05	0.17

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2010 and 2009



(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2010	2009
	\$	\$
Net income for the periods	6,523	21,123
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	-	(188)
Reclassification of net realized gains on derivatives designated as cash flow hedges to income	802	472
Comprehensive income	7,325	21,407

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

Jazz Air Income Fund
Unaudited Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2010 and 2009



(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2010	2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the periods	6,523	21,123
Charges (credits) to operations not involving cash		
Depreciation and amortization of property and equipment and other	7,977	7,460
Amortization of CPA intangible asset	8,048	10,525
Amortization of prepaid aircraft rent and related fees	469	482
Gain on disposal of property and equipment	(335)	(608)
Unit based compensation	550	479
Foreign exchange (gain) loss	(533)	748
Accretion of debt component of convertible debentures	169	-
Future income taxes	(644)	(1,998)
Other	542	(685)
Funding of unit based compensation plan, net of forfeitures	127	(2,245)
	22,893	35,281
Net changes in non-cash working capital balances related to operations (note 4)	(3,814)	(4,917)
	19,079	30,364
Financing activities		
Repayment of obligations under capital leases	(647)	(704)
Repayment of long-term debt	(115,000)	-
Convertible debentures, net of deferred financing costs	(140)	-
Distributions	(18,429)	(30,888)
	(134,216)	(31,592)
Investing activities		
Additions to property and equipment	(3,388)	(3,121)
Decrease in long-term receivables	-	419
Proceeds on disposal of property and equipment	335	608
	(3,053)	(2,094)
Net change in cash and cash equivalents during the periods	(118,190)	(3,322)
Cash and cash equivalents - Beginning of periods	223,559	131,876
Cash and cash equivalents - End of periods	105,369	128,554
Cash payments of interest	1,285	2,541
Cash receipts of interest	140	401
Cash and cash equivalents comprise:		
Cash	29,825	19,994
Term deposits and fixed income securities	75,544	108,560

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

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

1 Nature of operations and economic dependence

Jazz Air Income Fund (the "Fund") is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated November 25, 2005 and amended by an amended and restated declaration of trust dated January 24, 2006, and an amending agreement dated as of March 23, 2009 (the "Jazz Declaration of Trust"). The Fund qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The principal and head office of the Fund is located at 1000 de la Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5. The Fund has been established to acquire and hold, directly or indirectly, investments in Jazz Air LP (the "Partnership") and its general partner Jazz Air Holding GP Inc. ("Jazz GP"), a regional airline, and such other investments as the Board of Trustees of the Fund (the "Trustees") may determine. Reference to Jazz in the following notes to the consolidated financial statements refers to, as the context may require, the Fund and its subsidiaries (Jazz Air Trust (the "Trust"), the Partnership and Jazz GP) collectively, the Fund and one or more of its subsidiaries, one or more of the Fund's subsidiaries or the Fund itself.

Jazz operates a regional airline in Canada and the United States. Jazz forms an integral part of Air Canada's domestic and transborder market presence. Jazz and Air Canada are parties to an amended and restated capacity purchase agreement, effective January 1, 2006, as amended by a letter agreement (the "Rate Amending Agreement") dated July 28, 2009 and an amending agreement (the "CPA Amending Agreement") dated September 22, 2009 (as amended, the "CPA"), under which Air Canada currently purchases substantially all of Jazz's fleet capacity on aircraft operated by Jazz (the "Covered Aircraft"), at predetermined rates (the "Rates"). Jazz is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being the primary source of revenue, these entities currently provide significant services to Jazz. In addition, Air Canada and its subsidiaries provide a substantial portion of the aircraft financing for Jazz.

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

2 Significant accounting policies

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, "Interim Financial Statements". Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Jazz for the year ended December 31, 2009.

In the opinion of management, these unaudited interim consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as otherwise indicated hereunder, these unaudited interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Jazz for the year ended December 31, 2009.

Principles of consolidation

These unaudited interim consolidated financial statements include the accounts of Jazz and the consolidated accounts of the Partnership, the variable interest entity for which Jazz is the primary beneficiary. All inter-company and inter-entity balances and transactions are eliminated.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

2 Summary of significant accounting policies (continued)

Operating revenue

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse Jazz for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, *Determining Whether an Arrangement Contains a Lease*, Jazz has concluded that a component of its revenue under the CPA is rental income since the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is \$37,554 for the three months ended March 31, 2010 (\$48,038 for the three months ended March 31, 2009). This amount was recorded in passenger revenue of Jazz's consolidated statements of income.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Jazz will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. Jazz has created an implementation team, comprised of certain employees who deal with accounting, finance and reporting matters, and an external consultant. A changeover plan is being established to convert to the new standards within the allotted timeline and consists of the following phases: raise awareness and initial assessment; detailed assessment; and implementation and review. Phase 1 was completed in the third quarter of 2008. Jazz continues to work on Phase 2 and has commenced work on Phase 3. Jazz does not believe any significant changes to its financial reporting system will be necessary to facilitate the change-over. At this time, the quantitative effects on the financial statements cannot be reasonably estimated.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Section 1582, *"Business Combinations"*, Section 1601, *"Consolidated Financial Statements"*, and Section 1602, *"Non-controlling Interests"* which replace Section 1581, *"Business Combinations"* and Section 1600, *"Consolidated Financial Statements"*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the entity chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time.

3 Long-term debt

The credit facilities matured on February 1, 2010 and all amounts owing thereunder were repaid and the related security was released. As a result, excluding \$3,312 in cash encumbered in support of issued letters of credit, Jazz has all of its assets unencumbered and available to support future debt financing. Jazz has sufficient liquidity to operate its business after such repayment, which was funded out of cash and cash equivalents with a payment of \$115,000.

Jazz Air Income Fund
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

4 Statement of cash flows - supplementary information

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

	Three months ended March 31,	
	2010	2009
	\$	\$
Decrease in accounts receivable - trade and other	765	5,472
Decrease in spare parts, materials and supplies	2,349	239
Increase in prepaid expenses	(1,191)	(518)
Increase in other assets	(2,124)	-
Decrease in accounts payable and accrued liabilities	(3,217)	(7,484)
Decrease in other long-term liabilities	(396)	(2,626)
	(3,814)	(4,917)

5 Economic dependence

The transactions between Air Canada and its subsidiary and Jazz are summarized in the table below:

	Three months ended March 31,	
	2010	2009
	\$	\$
Operating revenue		
Air Canada	352,732	367,037
Operating expenses		
Air Canada ⁽¹⁾	26,910	32,100
Air Canada Capital Ltd.	20,999	26,927

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

	March 31,	As at December 31,
	2010	2009
	\$	\$
Accounts receivable		
Air Canada ⁽¹⁾	52,926	53,335
Accounts payable and accrued liabilities		
Air Canada ⁽¹⁾	53,565	59,048
Air Canada Capital Ltd.	11,546	8,422

(1) Includes amounts related to the former ACGHS Limited Partnership, now a division of Air Canada.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

5 Economic dependence (continued)

Capacity Purchase Agreement

Jazz is party to the CPA with Air Canada, under which Air Canada purchases the capacity of certain specified aircraft operated by Jazz under the tradename of "Air Canada Jazz" on routes specified by Air Canada. Under this agreement, Jazz is required to provide Air Canada with the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance, and airport operations for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays Jazz for the capacity provided.

Jazz is paid fees, on a monthly basis, for the capacity provided. These fees consist of a number of variable components based on different metrics, including block hours flown, flight hours, cycles (number of take-offs and landings), number of passengers and number of aircraft covered by the CPA. The Rates for these metrics are fixed for annual periods and vary by aircraft type with current Rates in effect until December 31, 2011. In addition, Air Canada is required to reimburse Jazz for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. As these costs are required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue.

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

Pursuant to the terms of the CPA, Jazz and Air Canada agreed to re-set detailed Rates (subject to the terms of the contract) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the first quarter of 2009, Jazz reached an agreement with Air Canada regarding the establishment of new Rates for controllable costs that are payable by Air Canada under the CPA for the three-year period ending December 31, 2011. The new Rates were retroactive to January 1, 2009.

Jazz is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria. Rates negotiated under the CPA were established to provide a mark-up of 16.72% on Jazz's controllable costs.

Amendments to the CPA

On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives. On September 22, 2009, Jazz and Air Canada executed the CPA Amending Agreement to document certain amendments to the CPA, including those amendments described below.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

5 Economic dependence (continued)

The CPA Amending Agreement extends the initial term of the CPA from December 31, 2015 to December 31, 2020 and provides greater certainty regarding the number of annual Block Hours to be scheduled for flying by Jazz. Block Hours are calculated by adding 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 ("Block Hours"). Under the CPA Amending Agreement, Air Canada agreed to use reasonable commercial efforts to provide a minimum of 375,000 total annual Block Hours to Jazz, as measured by the sum of the twelve monthly schedules delivered by Air Canada to Jazz for a calendar year (the "Annual Delivered Block Hours"). In addition, Air Canada and Jazz agreed that the minimum average daily utilization per aircraft, as stated in Block Hours, will not result in less than 339,000 annual Block Hours (the minimum average daily utilization guarantee or "MADUG"), notwithstanding the temporary reduction in the number of Covered Aircraft to 123 aircraft and the subsequent permanent reduction in the number of Covered Aircraft to 125, subject to Air Canada's one-time right to revise the MADUG in the circumstances described below.

The CPA Amending Agreement also amended the Rates established for the rate period commencing January 1, 2009 and ending on December 31, 2011 (the "2009-2011 Rate Period"). The Rates negotiated provide a mark-up of 16.72% on Jazz's Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective commencing August 1, 2009, an agreed set of revised Rates became effective, under which Jazz applies a Controllable Mark-Up of 12.50% on Jazz's Controllable Costs.

The CPA Amending Agreement also provides for adjustments to the Controllable Mark-Up in certain circumstances. Commencing January 1, 2010, if the Annual Delivered Block Hours are less than 375,000 Block Hours, the Controllable Mark-Up will be increased, to a maximum of 16.72%, to compensate Jazz for increased unit costs and lost margin due to the reduction in flying. If, on the other hand, the Annual Delivered Block Hours are greater than 375,000 Block Hours, the Controllable Mark-Up of 12.50% shall only apply to Jazz's fixed controllable charges and the Controllable Mark-Up of 12.50% shall be reduced to 5% on Jazz's variable controllable charges for Block Hours in excess of 375,000.

The CPA Amending Agreement provides for amendments to the long range fleet plan, reflecting the agreement of Air Canada and Jazz to renew the fleet of Covered Aircraft. Air Canada and Jazz agreed that the fleet of Covered Aircraft shall be reduced from 133 aircraft to a guaranteed minimum number of 125 aircraft (the "Guaranteed Minimum Number of Covered Aircraft"). The reduction in Covered Aircraft to the Guaranteed Minimum Number of Covered Aircraft shall commence with the return of eight CRJ 200 and two CRJ 100 aircraft upon the expiry of the subleases for such aircraft. Following the return of these aircraft the fleet of Covered Aircraft shall be temporarily reduced to 123 aircraft.

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz also agreed, effective as of August 1, 2009, to treat the rent charged to Jazz for five of the CRJ 100 aircraft as a pass-through cost. Jazz and Air Canada have also agreed to use commercially reasonable efforts to agree by March 31, 2010 to terms and conditions relating to deploying up to eight CRJ 100 aircraft ("Swing Aircraft"). Jazz and Air Canada are currently discussing the applicable terms and conditions and have agreed to extend the deadline for their agreement to June 30, 2010. If an agreement is reached, Air Canada may commence the use of such Swing Aircraft to operate Scheduled Flights commencing in 2011, following the delivery of the third new turboprop aircraft. The rent to be charged for the Swing Aircraft shall also be treated as a pass-through cost. All or some of these Swing Aircraft may be removed from Jazz's fleet by Air Canada. The Swing Aircraft in Jazz's fleet from time to time, if any, are in addition to the Guaranteed Minimum Number of Covered Aircraft.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

5 Economic dependence (continued)

Margin adjustment

As a result of the CPA Amending Agreement, the controllable target margin has been reduced from 14.32% to 11.11% effective August 1, 2009. With respect to each calendar year after 2009, during the remaining term of the CPA, if the annual margin for flights provided under the CPA is greater than 11.11%, Jazz will pay Air Canada an amount equal to 50% of the dollar value of the margin exceeding 11.11%. Margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights, including employee profit sharing expenses; however, it excludes incentive and pass-through revenue. This margin adjustment is \$nil for the three months ended March 31, 2010 and for the three months ended March 31, 2009.

Master Services Agreement

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

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

Other

Air Canada provides certain supplies from third parties, primarily fuel, to Jazz and subsequently collects payment from Jazz. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed. Air Canada ground handling services (formerly ACGHS Limited Partnership) a division of Air Canada, provides ground handling services.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA.

The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by the applicable party.

6 Post-employment expenses

Jazz has recorded pension and other post-employment future benefit expenses for the three months ended March 31, 2010 of \$4,058 (\$3,977 for the three months ended March 31, 2009).

7 Contingencies

The Jazz Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interest of Jazz and in connection with that duty, will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Jazz Declaration of Trust provides that each Trustee will be entitled to indemnification from Jazz in respect of the exercise of the Trust's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all Unitholders, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful. The Trustees are covered by directors' and officers' liability insurance. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

7 Contingencies (continued)

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against the Toronto Port Authority ("TPA"), Porter Airlines Inc. ("Porter") and other defendants (collectively with Porter, the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, Porter counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming \$850,000 in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the TPA before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking damages similar to those in the Ontario Superior Court counterclaim. On October 16, 2009, Jazz discontinued its action in the Ontario Superior Court against the Porter Defendants and the TPA. On the same date, the counterclaim filed by Porter in the Ontario Superior Court against Jazz and Air Canada was stayed pending the outcome of the proceeding in Federal Court. On March 29, 2010, Jazz discontinued its action in the Federal Court of Canada against the TPA, in which the Porter Defendants intervened and were made parties. Porter's counterclaim in the Federal Court is continuing and the trial for it is currently scheduled to commence on January 17, 2011. Jazz maintains that Porter's counter-claim is without merit. The counter-claim is currently being vigorously contested by Jazz and Air Canada in court. If Jazz is not successful in defending the counter-claim, it could be subject to a material damages award.

Various other lawsuits and claims that have arisen in the normal course of business are pending by and against Jazz and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of Jazz.

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

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

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

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

Jazz Air Income Fund

Notes to the Unaudited Consolidated Financial Statements

For the period ended March 31, 2010



(expressed in thousands of Canadian dollars, except per Unit amount)

7 Contingencies (continued)

The maximum amount payable, if any, under the foregoing indemnities cannot be reasonably estimated. Jazz carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities).

8 Subsequent events

- a) On April 5, 2010, Jazz announced that it had signed a flight services agreement with Thomas Cook Canada Inc. to operate no less than six Boeing 757-200 aircraft on their behalf to various sun destinations from Canadian gateways during the winter season (November through April). Subject to Jazz obtaining the required regulatory approvals and the execution of definitive leasing and maintenance agreements with Thomas Cook Airlines Ltd., the service will commence in November 2010.
- b) On April 30, 2010, Jazz announced that it completed a \$15,000 US investment in Latin American Regional Aviation Holding Corp. ("LARAH") in return for a 33⅓% non-voting equity interest in the company. LARAH holds an indirect 75% equity interest in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna"). The remaining 25% equity interest in Pluna is held, indirectly, by the Government of Uruguay. Jazz's \$15,000 US investment, together with an additional \$5,000 US to be invested by the Government of Uruguay, will be used by Pluna to complete a restructuring of its business and to fund growth. Joseph Randell, Jazz's President and Chief Executive Officer, has been appointed as one of the seven members of the board of directors of Pluna. Jazz has established a 100% wholly-owned subsidiary, 7503695 Canada Inc., to hold this investment.
- c) On April 30, 2010, Jazz signed a purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft regarding an order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft. Subject to satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. As required by the purchase agreement, Jazz made a \$18,300 US pre-payment.