EVENT:	JAZZ AIR INCOME FUND SECOND QUARTER 2006 RESULTS CONFERENCE CALL
TIME:	12:30 p.m. EST
REFERENCE:	21198280
LENGTH:	APPROXIMATELY 33 MINUTES
DATE:	AUGUST 11, 2006

OPERATOR: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Jazz Air Income Fund Second Quarter 2006 Results Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If anyone has any difficulties hearing the conference, please press * 0 for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded on Friday, August 11, 2006, at 12:30 p.m. Eastern time.

I will now turn the conference over to Nathalie Megann, Director, Corporate Communications. Please go ahead.

NATHALIE MEGANN (Director, Corporate Communications): Thank you, Operator. Good afternoon, and thank you for joining us today in our Second Quarter conference call and audio webcast.

With me today, from Jazz, are Joe Randell, President and Chief Executive Officer, and Allan Rowe, Senior Vice President and Chief Financial Officer.

We'll start by giving a brief overview of the results, and then go on to questions from the analyst community.

Because some of the discussion in this call may be forward-looking, I'm going to read some standard cautionary language, in that certain statements made in this call may be forward-looking and subject to important risks and uncertainties. The results indicated in these statements may differ materially from actual results for a number of reasons, including risk factors and uncertainties outlined in publicly-filed documents. Any forward-looking statements made in this call represent expectations of Jazz as of this current date, and are subject to change after such date. Jazz disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

I will now turn the call over to Joe Randell.

JOSEPH D. RANDELL (President and Chief Executive Officer, Jazz Air): Thank you, Nathalie, and good afternoon, everyone.

I'm pleased to report that we continue to be on track with our business plan, and we are delivering strong results. This is evident in the significant profit increase we've experienced in this quarter and year-to-date, over last year.

Solid cost-control and continuously seeking means to operate more efficiently have enabled us to attain these strong results, while implementing our fleet plan.

To give you an idea of the amount of growth we've experienced this quarter, versus the second quarter of 2005, here are a few statistics. The number of departures increased by 24.4 percent. We carried 70.9 percent more passengers. Our Block Hours increased by 27.8 percent, and I'll have more to say about Block Hours in just a moment.

Available seat miles, or ASMs, grew by 66.8 percent, and revenue passenger miles, or RPMs, grew by 71.4 percent.

From an operations point of view, we also had a strong quarter that resulted in our performance incentives reaching a record 2.2 percent of the scheduled flight revenue, equating to a $4.7 million contribution towards operating revenue. This is significant, as the maximum incentive opportunity is 2.3 percent.

The hard work and dedication of our employees made this tremendous transition happen economically and, most importantly, safely. I'm very proud of the work that they've done, and I thank them.

We continue to align the interests of our employees with those of our unitholders, and I'm pleased to report that approximately half of Jazz employees are unitholders of the Jazz Air Income Fund, and that number continues to grow.

Overall, we are very pleased with the way we've managed our growth and our costs.

As discussed last quarter, we expect that Block Hour growth this year will fall slightly short of our 385,000 Block Hour target level. It's now looking more like 376,000 Block Hours for this year.

There are several reasons for this shortfall. First, actual block times on many routes are lower than planned. This is affected by a number of factors, such as reductions in flight or taxi times, and variations in flight plans.

Second, actual Block Hours will be lower than the target for this year due to flight cancellations. Controllable cancellations are slightly higher than anticipated in the plan. However, non-controllable cancellations, arising mainly from weather or air traffic control issues, have been much greater than planned. Under the Capacity Purchase Agreement, Jazz is compensated for non-controllable cancellations, including weather, air traffic control, and close-in cancellations by Air Canada for commercial reasons.

As such, even though our overall Block Hours are falling short because of these non-controllable cancellations, we are still earning revenue for these flights not operated.

Finally, a portion of the shortfall in Block Hours is the result of ongoing capacity planning adjustments by our customer, Air Canada, in response to changes in the North American market.

With continued good cost management, and the compensation we receive under the CPA for uncontrollable flight cancellations, the impact of this reduction in Block Hours is mitigated, and we are confident that we'll achieve our target level of $154 million EBITDA.

So, with that, I'd like to turn the call over to Allan, to take you through the financials for this last quarter. Allan?

ALLAN ROWE (Senior Vice President and Chief Financial Officer, Jazz Air): Thank you, Joe, and good afternoon, everyone.

Well, I really liked the headline of our news release again this quarter: "A 51 percent increase in profits, and net income of $35.6 million." Here's how it breaks down for the second quarter of this year.

Operating revenue increased from $231 million to $340 million, representing an increase of $109 million, or 47 percent.

The increase in revenues is attributable to a net increase in the number of aircraft operated by Jazz; a 28 percent increase in Block Hours flown; and a $55 million increase in pass-through costs, including fuel costs, which are reimbursed by Air Canada on an at-cost basis.

Joe talked about our performance incentive earned for this quarter. This is good news, and I echo his thanks to our employees. We *do* have a great team here at Jazz.

"Other revenue" decreased from $2.8 million to $1.9 million. "Other revenue" results from charter flights; maintenance, repair, and overhaul operations; and other activities such as ground-handling services and flight simulator revenue.

Operating expenses increased by $99.8 million, or 48.9 percent.

Fuel expense, which is a pass-through cost to Air Canada, increased by $34 million, or 91.6 percent, due to the increasing price of fuel, Block Hours flown, and the growing proportion of regional jet flying.

Aircraft rent increased by $18.2 million, or about 119 percent. The combination of fuel and aircraft rent cost increases account for 52.5 percent of the total increase in operating expense, and are due mainly to the 8 CRJ-200s, 12 CRJ-705s, and 24 CRJ-100s that were received in the last half of 2005, and the first half of this year.

Capacity, as measured by available seat miles, increased by 66.8 percent. Cost per available seat mile, as measured by operating expenses per available seat mile, is an important unit cost metric, which indicates how effectively we are managing our growth and our costs. I am pleased to report that cost per available seat mile decreased by 11.1 percent, or 18.2 percent when fuel is excluded.

Unit cost reductions were achieved in all expense categories except fuel and aircraft rent. Unit aircraft rental costs increased, reflecting the new regional jet deliveries since 2005.

EBITDAR was $76.5 million, compared with $47.3 million, an increase of $29.2 million, or 61.9 percent, which is the result of increased capacity, and cost control.

This quarter saw operating income of $36.5 million, an improvement of $9.1 million, or 33.2 percent.

Non-operating expenses amounted to just under $1 million, a decrease of $2.8 million. The cost savings are due mainly to the restructuring of long-term debt of Jazz Air LP, after the Initial Public Offering of Jazz Air Income Fund, and increased interest income on short-term investments.

As mentioned earlier, net income was $35.6 million, compared to $23.6 million recorded in the second quarter last year, an improvement of $11.9 million, or 50.6 percent from last year. The increase is due to the larger fleet, and effective cost control.

Estimated distributable cash was $33.9 million, compared to $19.7 million, an increase of 72.1 percent.

For the second quarter in a row, the Jazz Air Income Fund has exceeded the target level of planned, regular, quarterly distributions of $26.9 million, by recorded distributable cash of $33.9 million.

That concludes my overview of the financials. Now, let me turn the call back to Joe for some additional comments.

JOSEPH D. RANDELL: Thank you, Allan. I'm going to touch on some of the developments at Jazz since we last reported, and most of these are discussed in the MD&A.

We did introduce a new dress uniform for flight attendants and customer sales and service agents last May, and the feedback from customers and employees has been positive.

We've also outfitted 6 of our 15 CRJ-705s with the in-seat audio and personal television systems. The balance of the CRJ-705 fleet is expected to be finished with this installation in the fourth quarter.

We're also on our way to implementing a replacement maintenance and engineering system that will provide significant improvements in various areas of our business. This project is in schedule, and we'll see the implementation of the first phase in the fourth quarter.

Continuous improvement in all areas of our company is a major focus. This includes cost reduction. We've dedicated important resources, including some of our strongest people, to Six Sigma, to find means of working smarter, and to improve processes. This is evident in the decrease in CASM this quarter by 11.1 percent, or 18.2 percent when fuel is excluded.

Our cost-savings initiatives support reductions in both controllable *and* non-controllable categories. Fuel is a major area of focus, and we're developing a number of fuel-efficiency programs that are expected to deliver approximately $4.3 million in savings for this year.

On the labour front, the wage review award for our employees represented by the Canadian Auto Workers was provided by arbitrator Michel Picher on July 19th. These employees are our maintenance, crew scheduling, and customer service and sales agents. Aside from modest fixed adjustments to the scales applicable to employees hired after July 31st, 2003, Mr. Picher's award granted these employees a 1 percent wage increase, effective July of this year; 1.75 percent increases effective in July 2007 and July 2008.

Discussions with Teamsters Canada, who represent our flight attendants, began earlier this month, and, as of yet, no date has been set to meet with the Canadian Airline Dispatchers Association, who represent our dispatchers.

Our pilot group is excluded from these wage reviews, as per their collective agreement.

Perhaps the hot topic of the day for us is the challenge we're facing to reinstate service at Toronto City Centre Airport. First of all, I want to confirm for you that any changes in service at this airport is not material to our financial results.

For those of you who have not been following this story, the short version is that when our lease on the facility we were operating out of was cancelled by the landlord, we were unable to find alternate space. As a result, we had to temporarily suspend our services. During this time, we were very disappointed by the lack of support we received from the Toronto Port Authority to secure new facilities.

Furthermore, the Toronto Port Authority insisted that we sign a new Commercial Carrier Operating Agreement that was very restrictive, and, in our view, anti-competitive.

I'm unable to discuss the terms of the agreement, because I was required to sign a confidentiality agreement -- highly unusual, in such a circumstance, and a requirement that we have *never* experienced with any airport before.

Then, in what seems to me to be another attempt to stifle our return to the airport, the Port Authority would not provide the necessary approvals for our replacement facility provider, Stolport Corporation, to conduct the necessary renovations for the return of our operation.

We have found it impossible to reconcile the Port Authority's actions, which clearly and without question favour the corporate interests of a single entity, to the detriment of all others, and will ultimately serve to establish a monopoly at this airport.

The saga continues. Today, the situation is one where we've announced we're unable to resume service on August 28th, and we're pursuing these matters through the appropriate avenues, including through the courts, and we remain committed to returning to the Toronto City Centre Airport as soon as possible.

We're also hopeful that the investigation currently being conducted by Mr. Tassé will be helpful in our efforts to reinstate service.

Thank you for listening, and, Operator, we can now open the call to questions from the analyst community, whenever you are ready.

OPERATOR: Thank you. One moment, please. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please queue up now. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset, if you're using a speakerphone, before pressing any keys.

Your first question comes from Mike Linenberg of Merrill Lynch. Please go ahead.

MIKE LINENBERG: Hi, gentlemen, good afternoon. I guess, two questions. As we look at your fleet, out over the next couple of years, I believe you don't have any more planes on order, but you do have an option position, which, if you could just kind of update us on. And as we look at your fleet, on the turboprops, is that fleet anticipated to shrink, or do you have second thoughts about maybe potentially scaling that back, and maybe looking at other turboprop opportunities, given the high price of fuel, and maybe the better efficiencies of turboprops versus jets?

JOSEPH D. RANDELL: Thank you, Mike. Well, first of all, we continuously look at our fleet, and the fleet alignment that we have. Air Canada, and through the restructuring, and in its arrangements with Bombardier, had negotiated financing on additional regional jets, so that capability is certainly there, and we are engaged with Air Canada in looking at, in particular, the narrow-body segment of Air Canada's fleet, and how that overlaps with Jazz, and looking for opportunities to grow our role, certainly within the Air Canada network.

We're very pleased, and Air Canada is very pleased, especially with the financial performance of the CRJ-705s, which we feel is good news, and bodes well for our future. These airplanes are very versatile, and we are attaining some very high utilization levels on these aircraft, and have been well received.

So, we're certainly working away at increasing the level of business that we have, under the current Capacity Purchase Agreement with Air Canada, in that area.

With respect to turboprops, of course, with fuel prices the way that they've been -- and we've always been, of course, and were... we were a major operator, and predominantly a turboprop operator, and remain a large turboprop operator today. We have no plans to decrease the fleet further, other than what we've put out there in our go-forward plan. The economics of those airplanes are even more appealing now, in today's market, with today's fuel prices, and we see those aircraft being fully utilized, going forward.

MIKE LINENBERG: Okay. That said, Joe, do you have--... I know you gave us Block Hours, sort of what the goal would be for the year. How should we think about your ASKs for the third and fourth quarter, or you could give us a 2006 number. And then, as we look into 2007, assuming that the fleet stays flat, but you had a huge amount of growth in the first half of this year. What type of ASK and Block Hours assumption should we use? I realize it's a little early, but maybe preliminarily, what we should use for 2007.

JOSEPH D. RANDELL: We had provided some guidance for 2007, in terms of Block Hours, that it would be at a level of 410,000, and that is still our outlook, and that's with the fleet that we presently have in place, versus the original plan that we had for this year of 385,000. So that would give you an idea of the Block Hour growth, year over year, from this year into next. And, of course, 2007 will be at close to a state of full production, with the existing fleet.

MIKE LINENBERG: Okay. All right, thank you.

JOSEPH D. RANDELL: You're welcome.

OPERATOR: Your next question comes from Tim James of CIBC World Markets. Please go ahead.

TIM JAMES: Good afternoon. Thank you. A quick question here -- what were your controllable costs in the quarter that were not associated with the Air Canada CPA?

ALLAN ROWE: They would be, in the second quarter, in the order of $800,000.... $800,000 to $1 million. I don't have the specific number, but that's in the range, Tim.

TIM JAMES: Okay, great, thank you. Can you talk about your capital spending plans for the balance of the year? I assume the bulk of it is going to be in Q4, relative to Q3, but how do those numbers look, for the second half of the year, in total?

ALLAN ROWE: Clearly, our capital spending, year-to-date, has been relatively light. We said, at the time we did the Road Show, and communicated our outlook for the year, we expected an ongoing annual average of about $25 million in capex, with this year being a little higher than that norm.

In fact, we've been doing some work in recent weeks, refining our outlook. We haven't got a specific number to give, at this point in time, other than to say I expect we will be less than we indicated for this year. I think we'd indicated $32 million. We don't expect to hit that level at all for this year now. And further, as we look out, we'll probably not be $25 million on an annual basis -- probably something more like $22 million or $23 million per annum.

TIM JAMES: Okay.

JOSEPH D. RANDELL: We are investing, and continue to invest, in the fleet, and in particular, in the CRJs, which we have taken from Air Canada, the 25 100s, in terms of certain navigational system upgrades, and also, we are replacing the seats in those aircraft with new seats.

TIM JAMES: Can I ask what has caused you to feel that you will need to spend less in capex, relative to the indications earlier in the year?

ALLAN ROWE: I can't specify any specific--... It's not as if we're aborting any specific projects we had in mind. It's simply refining our cost estimates, as we get closer to the activity.

TIM JAMES: Okay.

JOSEPH D. RANDELL: There may be a little slippage of some things into the first quarter of next year, as our fleet is being kept very busy throughout the summer and into the early fall. But again, there's nothing, for instance, that we have had identified as a large or significant capital expenditure that we have decided to cancel.

ALLAN ROWE: Yes. Certainly, the other factor is the strengthening Canadian dollar. Much of our capital acquisitions are denominated in U.S.

currency, and we've certainly seen strengthening of the Canadian dollar since the time we prepared the prospectus.

TIM JAMES: Okay, great. Thank you. Just one final question. If I look out to the second half of the year, just a bit of a back-of-the-envelope calculation here. You're looking for your Block Hours to grow by, I think the number is almost 17 percent, relative to the first half of the year. Yet, if we look at EBITDA of $154 million -- and I realize you're saying it could be higher than that now -- that actually represented a decline in EBITDA, relative to the first half of the year. Can you help me understand, just in general terms, what's driving that kind of divergence there, in growth in Block Hours but decline in EBITDA?

ALLAN ROWE: Well, I think we've expressed confidence that we'll get the original target of $154 million. I think it's becoming obvious to anybody who closely follows our number, we're probably going to outperform that. We aren't prepared to specify a new level, other than increasing confidence that we'll deliver.

TIM JAMES: Okay, so it sounds like my kind of reflection on the 154, or slightly more, is too conservative, and that may be part of the reason why the Block-Hour-growth-relative-to-EBITDA expectations. Is that fair to say?

ALLAN ROWE: I think that's a fair assumption.

TIM JAMES: Okay, great. Thank you very much.

OPERATOR: Your next question comes from Cameron Doerksen of Versant Partners. Please go ahead.

CAMERON DOERKSEN: Good afternoon. Just another quick question on the capex. I think I read in the MD&A something about the purchase of a couple of Dash 8's that were previously being leased. Is that part of the capex plan in the second half of the year?

ALLAN ROWE: It wasn't part of the original plan. What happened there, Cameron, was we had a... We came to maturity on leases we had, with a couple of Dash 8-300s. The market has firmed considerably, and in review of that, we had a very attractive purchase option, versus any kind of market lease renewal we'd be faced with, so we decided to do it. We think we've clearly got room to accommodate those capital acquisitions inside the capital spending we targeted for the year.

CAMERON DOERKSEN: Okay. Just, secondly, on the cash, you grew the cash balance quite nicely in the quarter. Just wondering if you have sort of a targeted cash level. I mean, I would think that you don't need to have that much cash on your balance sheet than what you have right now. Is there a target you have in mind?

ALLAN ROWE: We haven't got a specific target in mind, but clearly, we recognize that we're outperforming the original targets we'd established, and I think we'll be considering appropriate levels to think about increasing distributions in future periods.

CAMERON DOERKSEN: Okay. Just, thirdly, a question on the Toronto Island issue. I'm just wondering about the legal costs here. I mean, it seems to me this is not so much a Jazz issue as it is an Air Canada issue. Are you going to have to foot the bill if there's significant legal costs? Or is Air Canada going to pay for that?

JOSEPH D. RANDELL: As the debate with the Toronto Port Authority relates to the commercial matters and the commercial schedules, while we are the operator, as you know, under the CPA, Air Canada determines the schedules and the frequencies, etc. And since that's the case, the costs associated with the legal costs are to be borne by Air Canada.

CAMERON DOERKSEN: Okay. And just one final quick question, on a number I was looking for. You mentioned the growth in passengers in Q2, and I was wondering what the actual number of passengers carried was, in Q2.

ALLAN ROWE: Yes, I think it's provided in the MD&A.

CAMERON DOERKSEN: Okay. I must have missed it in there.

ALLAN ROWE: Our actual passenger count in the second quarter was 2,167,000.

CAMERON DOERKSEN: Okay, perfect. That's all I had. Thanks.

OPERATOR: Your next question comes from Nick Morton of RBC Capital Markets. Please go ahead.

NICK MORTON: Hi. Just talking about your fleet, you were hinting that -- I thought you were hinting; maybe not -- that you could grow your fleet if you could come to an arrangement with Air Canada, and perhaps with Air Canada's pilot union. What about buying aircraft? Are the prices going up? Does it make sense for you to buy more aircraft? Have you been investigating that? Could you elaborate?

JOSEPH D. RANDELL: Well, generally, the purchase decision, and the purchase prices under our CPA with Air Canada, would become negotiated between Air Canada and the manufacturer, and the aircraft would in turn be leased to us.

But just as a general comment, the pricing on the regional jet market has not really been increasing dramatically. As you know and as you're aware, on this particular type of aircraft, there isn't a very large order book, and on the other hand, the pricing on the turboprops, there's been a greater demand in that area. So, obviously, the pricing is affected by the level of demand.

Generally, the pricing is important, it's an important factor, but there's a little bit of a divergence right now between the market, or the pricing, on the regional jets side, versus the turboprop.

NICK MORTON: Okay. And do you feel there's more of a push from Air Canada, so you take on more work now than there was, say, six months ago?

JOSEPH D. RANDELL: Well, there's been a considerable amount of work that we have taken from Air Canada, and quite a number of Air Canada's former routes. New routes -- for instance, especially in Western Canada, into California, into Las Vegas etc. So these are all new roles for us, and generally, those roles are being filled with the 705, and that's what makes the aircraft certainly so interesting to Air Canada.

As you know, Air Canada, through the labour restructuring, was in a position that it was necessary to take delivery of 15 Embraer 175s, which are the same size, and slightly different mission, in that the 705 has longer stage-length capabilities. However, in our discussions with Air Canada, when we compare the economics of the two aircraft, there is no doubt that the 705 is vastly superior, with its operating characteristics, and with Jazz operating costs. And the aircraft, being in that 75-seat size, with an Executive Class cabin, we feel there's some very good opportunities there.

And on the labour front, there is a mechanism through the Martin Teplitsky, whereby the number of regional jets that are flown by Jazz can be increased. And normally, the considerations that are put forward, or that the arbitrator considers, relates first of all to the relative economic argument, and we think we've got that one, certainly, beaten hands down. And the second argument is to whether there are any Air Canada pilots or others that may be laid off, for instance, as a result of any of the flying that Jazz would do. But as you know, Air Canada's order book is very full, taking delivery of, I believe it's close to 37 new aircraft next year. So we don't feel that that would be a negative factor, either.

So, if and when we worked with Air Canada and decided to bring in more regional jets, and particularly the 705 side, we feel very positive about that.

NICK MORTON: So, I think the market looks at your Trust, and says "Some growth next year, but then kind of flattish for the next few years." But it sounds like something could be done to give you a little bit more growth in the future.

JOSEPH D. RANDELL: We feel very much that way, both within the agreement that we have with Air Canada to expand the amount of flying that we do with Air Canada. We feel we're at a floor level here.

And as well, we're looking at other ways of diversifying and growing our business as well, but of course, we don't want to take away the focus that we have on producing under the CPA, and anything that we bring in would certainly have to fit with our operation, and make sense, from a unitholder perspective.

NICK MORTON: Okay, great. Thanks very much.

JOSEPH D. RANDELL: You're welcome.

OPERATOR: Ms. Megann, there are no further questions at this time. Please continue.

NATHALIE MEGANN: All right. Well, then, thank you, Operator, and thank you, everyone, for being present on this call.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

****