



Jazz Air Income Fund

Unaudited Consolidated Financial Statements
March 31, 2009

May 14, 2009

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 some amounts and assumptions based on management's best estimates which 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 ensure 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"
Senior Vice President and
Chief Financial Officer

Jazz Air Income Fund
Unaudited Consolidated Balance Sheets
As at March 31, 2009 and December 31, 2008



(expressed in thousands of Canadian dollars)

| | March 31, 2009 \$ | December 31, 2008 \$ |
|---|-------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 128,554 | 131,876 |
| Accounts receivable - trade and other (note 6) | 66,146 | 71,618 |
| Spare parts, materials and supplies | 45,911 | 46,150 |
| Prepaid expenses | 13,423 | 12,905 |
| Total current assets | 254,034 | 262,549 |
| Property and equipment | 215,823 | 219,028 |
| Intangible assets | 711,577 | 722,102 |
| Other assets | 28,023 | 29,072 |
| | 1,209,457 | 1,232,751 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 6) | 189,278 | 197,046 |
| Distributions payable | 10,296 | 10,296 |
| Current portion of obligations under capital leases | 3,002 | 2,837 |
| Current portion of long-term debt (note 3) | 114,957 | - |
| Total current liabilities | 317,533 | 210,179 |
| Obligations under capital leases | 20,533 | 20,581 |
| Long-term debt (note 3) | - | 114,729 |
| Future income tax | 21,563 | 23,561 |
| Other long-term liabilities | 53,046 | 55,672 |
| | 412,675 | 424,722 |
| Unitholders' Equity | 796,782 | 808,029 |
| | 1,209,457 | 1,232,751 |

Economic dependence (note 6)

Commitments (note 8)

Contingencies (note 9)

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Unitholders' Equity
For the three-month period ended March 31, 2009 and year ended December 31, 2008



(expressed in thousands of Canadian dollars)

| | Unitholders' capital \$ | Retained earnings (deficit) | | Contributed surplus \$ | Accumulated other comprehensive income (loss) \$ | Total \$ |
|---|-------------------------------|-------------------------------|---------------------|------------------------------|--|-------------|
| | | Accumulated earnings \$ | Distributions \$ | | | |
| Balance - December 31, 2007 | 1,034,656 | 29,512 | (127,186) | 5,952 | (158) | 942,776 |
| Change in fair value during the period | - | - | - | - | (1,196) | (1,196) |
| Distributions | - | - | (30,888) | - | - | (30,888) |
| Units held by unit based compensation plans | (987) | - | - | (1,152) | - | (2,139) |
| Accretion related to the initial long-term incentive plan | - | - | - | 477 | - | 477 |
| Accretion related to the ongoing long-term incentive plan | - | - | - | 291 | - | 291 |
| Net income for the period | - | 21,765 | - | - | - | 21,765 |
| Balance - March 31, 2008 | 1,033,669 | 51,277 | (158,074) | 5,568 | (1,354) | 931,086 |
| Change in fair value during the period | - | - | - | - | (1,832) | (1,832) |
| Distributions | - | - | (92,664) | - | - | (92,664) |
| Units held by unit based compensation plans | 782 | - | - | (474) | - | 308 |
| Accretion related to the initial long-term incentive plan | - | - | - | 1,373 | - | 1,373 |
| Accretion related to the ongoing long-term incentive plan | - | - | - | 933 | - | 933 |
| Net loss for the period | - | (31,175) | - | - | - | (31,175) |
| 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 plans | 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 |

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, 2009 and 2008



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

| | Three months ended March 31, | |
|--|-------------------------------------|--------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Operating revenue (note 6) | | |
| Passenger | 367,343 | 393,913 |
| Other | 2,091 | 2,448 |
| | 369,434 | 396,361 |
| Operating expenses (note 6) | | |
| Salaries and wages | 71,505 | 74,523 |
| Benefits | 14,845 | 14,613 |
| Aircraft fuel | 57,422 | 93,188 |
| Depreciation and amortization of property and equipment and other | 7,460 | 7,049 |
| Amortization of Capacity Purchase Agreement ("CPA") intangible asset | 10,525 | 10,525 |
| Food, beverage and supplies | 3,255 | 3,466 |
| Aircraft maintenance materials, supplies and services | 40,093 | 30,212 |
| Airport and navigation fees | 46,087 | 48,829 |
| Aircraft rent | 36,941 | 29,680 |
| Terminal handling services | 32,939 | 33,264 |
| Other | 27,276 | 27,392 |
| | 348,348 | 372,741 |
| Operating income | 21,086 | 23,620 |
| Interest revenue | 295 | 1,316 |
| Interest expense | (1,899) | (2,112) |
| Gain on disposal of property and equipment | 608 | 2 |
| Foreign exchange loss | (965) | (282) |
| Unrealized loss on asset backed commercial paper | - | (2,985) |
| | (1,961) | (4,061) |
| Income before future income taxes | 19,125 | 19,559 |
| Recovery of future income taxes | 1,998 | 2,206 |
| Net income for the period | 21,123 | 21,765 |
| Weighted average number of Units | 121,970,966 | 122,149,797 |
| Earnings per Unit, basic and diluted | \$0.17 | \$0.18 |

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, 2009 and 2008



(expressed in thousands of Canadian dollars)

| | Three months ended March 31, | |
|---|------------------------------|---------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Net income for the period | 21,123 | 21,765 |
| Other comprehensive income | | |
| Change in fair value of derivatives designated as cash flow hedges | 756 | (1,299) |
| Reclassification of net realized (gains) losses on derivatives designated as cash flow hedges to income | (472) | 103 |
| Comprehensive income | 21,407 | 20,569 |

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, 2009 and 2008



(expressed in thousands of Canadian dollars)

| | Three months ended March 31, | |
|---|------------------------------|----------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income for the periods | 21,123 | 21,765 |
| Charges (credits) to operations not involving cash | | |
| Depreciation and amortization of property and equipment and other | 7,460 | 7,049 |
| Amortization of CPA intangible asset | 10,525 | 10,525 |
| Amortization of prepaid aircraft rent and related fees | 482 | 481 |
| Gain on disposal of property and equipment | (608) | (2) |
| Unit based compensation | 479 | 768 |
| Foreign exchange loss | 748 | 164 |
| Future income taxes | (1,998) | (2,206) |
| Unrealized loss on asset backed commercial paper | - | 2,985 |
| Other | (685) | (1,980) |
| Funding of unit based compensation plan, net of forfeitures | (2,245) | (2,139) |
| | 35,281 | 37,410 |
| Net changes in non-cash working capital balances related to operations (note 5) | (4,917) | (2,475) |
| | 30,364 | 34,935 |
| Financing activities | | |
| Repayment of obligations under capital leases | (704) | (515) |
| Distributions | (30,888) | (30,888) |
| | (31,592) | (31,403) |
| Investing activities | | |
| Additions to property and equipment | (3,121) | (4,464) |
| Decrease in long-term receivables | 419 | 210 |
| Proceeds on disposal of property and equipment | 608 | 2 |
| | (2,094) | (4,252) |
| Net change in cash and cash equivalents during the periods | (3,322) | (720) |
| Cash and cash equivalents - Beginning of periods | 131,876 | 122,874 |
| Cash and cash equivalents - End of periods | 128,554 | 122,154 |
| Cash payments of interest | 2,541 | 2,626 |
| Cash receipts of interest | 401 | 1,446 |
| Cash and cash equivalents comprise: | | |
| Cash | 19,994 | 62,271 |
| Term deposits and fixed income securities | 108,560 | 59,883 |

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, 2009



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

1 Nature of operations and economic dependence

Jazz Air Income Fund (“Jazz”) 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 the first amendment to the amended and restated declaration of trust dated as of March 23, 2009 (the “Jazz Declaration of Trust”). Jazz qualifies as a “mutual fund trust” for the purposes of the Income Tax Act (Canada). The principal and head office of Jazz is located at 1000 de la Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5. Jazz 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 Jazz (the “Trustees”) may determine. Reference to Jazz in the following notes to the consolidated financial statements refers to, as the context may require, Jazz and its subsidiaries Jazz Air Trust (the “Trust”) and the Partnership collectively, Jazz and one or more of its subsidiaries, one or more of Jazz’s subsidiaries or Jazz itself.

Jazz operates a regional airline in Canada and the United States. Effective January 1, 2006, Jazz entered into a CPA with Air Canada whereby Air Canada purchases the aircraft capacity flown under the tradename “Air Canada Jazz” and on the routes specified by Air Canada. Air Canada receives all passenger and cargo revenue related to passenger seats and cargo services sold on scheduled flights operated by Jazz pursuant to the CPA and Air Canada pays Jazz for the capacity. 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 Summary of 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, 2008.

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, 2008.

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.

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 \$48,038 for the three months ended March 31, 2009 (\$39,793 for the three months ended March 31, 2008). This amount was recorded in passenger revenue of Jazz’s consolidated statements of income.

Jazz Air Income Fund
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2009



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

2 Summary of significant accounting policies (continued)

Goodwill

Goodwill represents the excess of the acquisition cost of companies over the fair value of the identifiable net assets acquired and is not amortized. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. When the carrying value of goodwill exceeds its estimated fair value, an impairment loss is recognized equal to the excess. At December 31, 2008, Jazz determined its goodwill was fully impaired and recorded a write-down of \$153,230.

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, which consists of internal resources and an external consultant. A changeover plan is being established to convert to the new standards within the allotted timeline and 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. At this time, Jazz does not believe any major changes to the financial reporting system will be necessary to facilitate the change-over.

3 Long-term debt

The following provides a breakdown of Jazz's authorized and outstanding credit facilities:

| | Authorized \$ | Drawn at March 31, 2009 \$ | Drawn at December 31, 2008 \$ |
|---|------------------|----------------------------------|--|
| Revolving term facility ^(a) | 35,000 | - | - |
| Term facility ^(b) | 115,000 | 115,000 | 115,000 |
| Prepaid interest ^(c) | - | (43) | (213) |
| Unamortized commitment fee ^(c) | - | - | (58) |
| | 150,000 | 114,957 | 114,729 |
| Less: Current portion | - | (114,957) | - |
| Total | 150,000 | - | 114,729 |

(a) The revolving term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at March 31, 2009, there were no borrowings under the revolving term facility. Available credit under the revolving term facility, after deducting letters of credit, bears interest at 0.50%.

Jazz Air Income Fund
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2009



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

3 Long-term debt (continued)

Letters of credit

Jazz has issued irrevocable letters of credit in the aggregate amount of \$3,439. This amount reduces the available credit under the revolving term facility and bears interest at 2.875%.

- (b) The term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at March 31, 2009, of borrowings under the term facility, \$114,400 were in the form of bankers' acceptances with a 90 day term and an effective interest rate of 3.87%. A further \$600 was in the form of prime rate advances bearing interest at 4.25%. As at March 31, 2009, Jazz had entered into interest rate swap agreements with a third party in respect of \$115,000 of debt which has effectively resulted in a fixed interest rate of 5.98% until February 2, 2010.
- (c) Long-term debt is presented net of prepaid interest and unamortized financing charges.

Borrowings under the credit facilities are secured by substantially all the present and future assets of Jazz. The continued availability of the credit facilities is subject to Jazz's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants. As at March 31, 2009, Jazz is in compliance with all debt covenants.

4 Distributions

Jazz declared a distribution for the month ended March 31, 2009 of \$0.0838 per Unit (March 31, 2008 - \$0.0838 per Unit). The distribution of \$10,296 (2008 - \$10,296) is payable April 15, 2009 to Unitholders of record on March 31, 2009.

Distributions declared to the Unitholders of record on the last business day of each month during the months ended March 31, 2009 and 2008 aggregated to approximately \$30,888, respectively, as follows:

| | March 31, 2009 | | March 31, 2008 | |
|----------|----------------|--------------------------|----------------|--------------------------|
| | Amount \$ | Amount per Unit \$ | Amount \$ | Amount per Unit \$ |
| January | 10,296 | 0.0838 | 10,296 | 0.0838 |
| February | 10,296 | 0.0838 | 10,296 | 0.0838 |
| March | 10,296 | 0.0838 | 10,296 | 0.0838 |
| | 30,888 | 0.2514 | 30,888 | 0.2514 |

5 Statement of cash flows - supplementary information

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

| | Three months ended March 31, | |
|---|------------------------------|------------|
| | 2009 \$ | 2008 \$ |
| Decrease (increase) in accounts receivable - trade and other | 5,472 | 4,141 |
| Decrease (increase) in spare parts, materials and supplies | 239 | (2,089) |
| Decrease (increase) in prepaid expenses | (518) | (1,679) |
| Increase (decrease) in accounts payable and accrued liabilities | (7,484) | (1,362) |
| Increase (decrease) in other long-term liabilities | (2,626) | (1,486) |
| | (4,917) | (2,475) |

Jazz Air Income Fund
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2009



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

6 Economic dependence

The transactions between Air Canada and its subsidiaries and Jazz are summarized in the table below.

| | Three months ended March 31, | |
|---------------------------|-------------------------------------|-------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Operating revenue | | |
| Air Canada | 367,037 | 393,847 |
| Operating expenses | | |
| Air Canada | 13,222 | 10,691 |
| Air Canada Capital Ltd. | 26,927 | 21,543 |
| ACGHS Limited Partnership | 18,878 | 20,938 |

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

| | As at | As at |
|---|------------------|---------------------|
| | March 31, | December 31, |
| | 2009 | 2008 |
| | \$ | \$ |
| Accounts receivable | | |
| Air Canada | 57,256 | 58,353 |
| ACGHS Limited Partnership | 288 | 169 |
| Accounts payable and accrued liabilities | | |
| Air Canada | 39,826 | 58,752 |
| Air Canada Capital Ltd. | 13,962 | 9,405 |
| ACGHS Limited Partnership | 14,467 | 14,777 |

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. The CPA has a term of ten years and will automatically renew for two additional periods of five years unless either party gives notice to the other of its intention not to renew, no less than one year prior to the expiry of the then current term. 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. Pass-through costs amounted to \$118,894 for the three months ended March 31, 2009 (\$158,052 for the three months ended March 31, 2008).

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.

Jazz Air Income Fund
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2009



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

6 Economic dependence (continued)

Pursuant to the terms of the CPA, Jazz and Air Canada agreed to re-set detailed rates (subject to the terms of the contract, including the controllable target margin requirements) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the quarter, 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 in the next three-year period (2009 to 2011, inclusive). The new rates are 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 under the CPA have been established so as to achieve a controllable target margin of 14.32% for Jazz, effective January 1, 2009 (for the years 2006 to 2008, the target margin was 14.09%), excluding incentive and pass-through revenue, and before the deduction of profit sharing expenses paid to employees as a result of performance achievements on the CPA services provided to Air Canada.

Margin adjustment

With respect to each calendar year subsequent to January 1, 2009, during the remaining term of the CPA, if the annual margin for flights provided under the CPA is greater than 14.32%, Jazz will pay Air Canada an amount equal to 50% of the margin exceeding 14.32%. 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 for the three months ended March 31, 2009 of \$nil (\$nil for the three months ended March 31, 2008) is accounted for as a reduction of revenue.

Master Services Agreement

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

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

Other

Air Canada provides certain supplies from third parties, primarily fuel, to Jazz and subsequently collects payment from Jazz. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed. ACGHS Limited Partnership, which is wholly owned by 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 named party.

7 Post-employment expenses

Jazz has recorded pension and other post-employment future benefit expenses for the three months ended March 31, 2009 of \$3,977 (\$4,405 for the three months ended March 31, 2008).

Jazz Air Income Fund
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2009



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

8 Commitments

Jazz is committed to the following 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.

| | As at March 31, 2009 | |
|-------------------------------|----------------------|---------------------------------|
| | Other third parties | Air Canada and its subsidiaries |
| | \$ | \$ |
| Year ending December 31, 2009 | 10,114 | 114,197 |
| 2010 | 11,982 | 127,130 |
| 2011 | 9,262 | 109,013 |
| 2012 | 5,815 | 102,026 |
| 2013 | 5,250 | 99,961 |
| Thereafter | 38,170 | 765,579 |

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

Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Jazz. These leases have been disclosed as "Air Canada and its subsidiaries" leases above.

9 Contingencies

The Fund 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 Fund 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. 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.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, the defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming \$850,000 in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. Jazz maintains that Porter's counterclaims in both jurisdictions are without merit. These counterclaims are being vigorously contested by Jazz in court.

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.



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

9 Contingencies (continued)

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 essentially all cities that it serves. It is common in such commercial lease transactions for Jazz as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to Jazz use or occupancy of the leased or licensed premises. Exceptionally, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, Jazz typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

In aircraft 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 usually 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. 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).

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

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).