



**JAZZ AIR INCOME FUND  
ANNUAL INFORMATION FORM**

**March 30, 2010**

## TABLE OF CONTENTS

EXPLANATORY NOTES .....	1
CORPORATE STRUCTURE .....	1
DEFINITION OF EBITDA .....	3
THE JAZZ BUSINESS .....	3
REGULATORY ENVIRONMENT .....	19
DESCRIPTION OF THE FUND .....	24
DESCRIPTION OF THE TRUST .....	36
DESCRIPTION OF JAZZ LP .....	40
DESCRIPTION OF JAZZ GP .....	43
PEOPLE .....	44
RISK FACTORS .....	44
DISTRIBUTIONS .....	59
MARKET FOR SECURITIES .....	61
TRADING PRICE AND VOLUME .....	61
TRANSFER AGENT AND REGISTRAR .....	61
MANAGEMENT, TRUSTEES AND DIRECTORS .....	62
CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS .....	70
CONFLICTS OF INTEREST .....	71
PROMOTER .....	71
INTEREST OF EXPERTS .....	71
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	71
MATERIAL CONTRACTS .....	72
ADDITIONAL INFORMATION .....	72
GLOSSARY OF TERMS .....	74
 SCHEDULE "A" CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE .....	 A-1

## EXPLANATORY NOTES

The information in this Annual Information Form is stated as at December 31, 2009, unless otherwise indicated.

Unless otherwise indicated or the context otherwise requires, “Fund” refers to Jazz Air Income Fund; “Trust” refers to Jazz Air Trust; “Jazz GP” refers to Jazz Air Holding GP Inc.; “Jazz LP” refers to Jazz Air LP; and “Jazz” or the “Company” refer to Jazz LP, together with its general partner, Jazz GP, and their respective subsidiaries and predecessors.

For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the “Glossary of Terms” at the end of this Annual Information Form. Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

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

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to the Fund’s relationship with Air Canada, risks relating to the airline industry, energy prices, general industry, market, credit and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this Annual Information Form and in, particular, the Risk Factors section of this Annual Information Form. The forward-looking statements contained in this Annual Information Form represent the Fund’s expectations as of the date of this Annual Information Form, and are subject to change after such date. However, the Fund disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario by the Fund Declaration of Trust. The Fund was established to acquire and hold the Trust Units and the Trust Notes.

The Trust is an unincorporated, open-ended trust established under the laws of the Province of Ontario by the Trust Declaration of Trust. The Trust was established to acquire and hold the LP Units and a corresponding interest in Jazz LP’s general partner, Jazz GP.

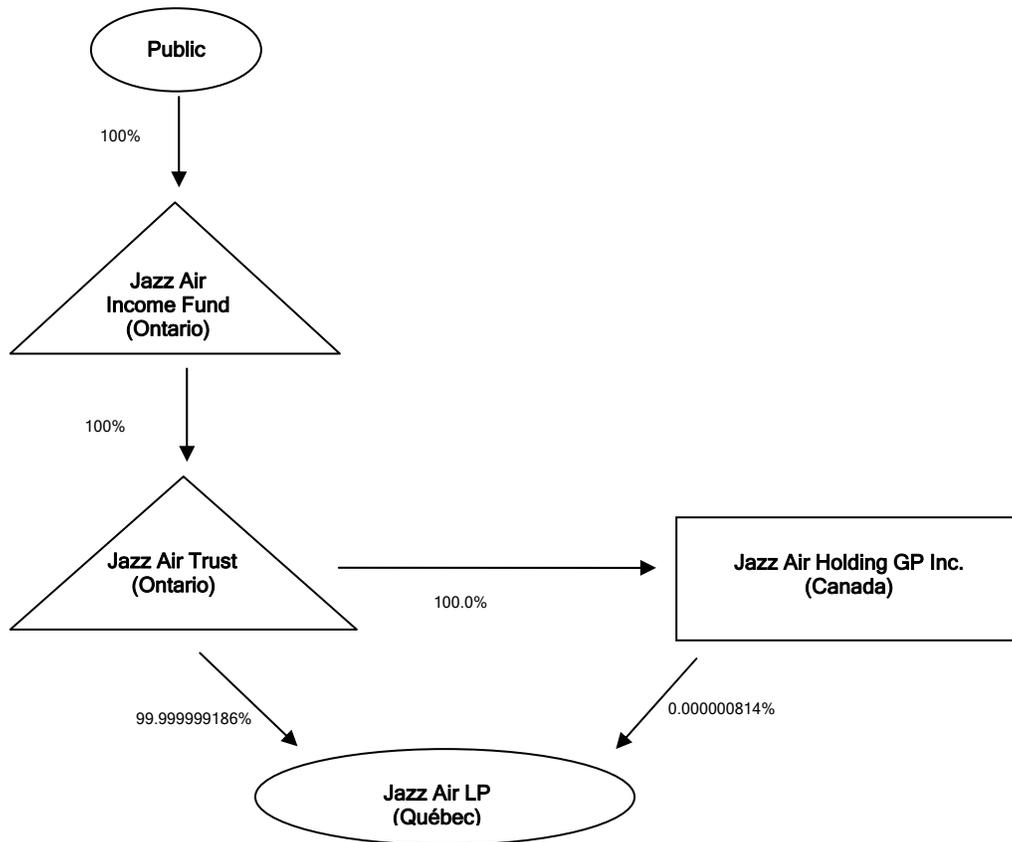
Jazz LP is a limited partnership existing under the laws of the Province of Québec pursuant to the Jazz LP Partnership Agreement.

Jazz GP is a corporation incorporated under the laws of Canada and is the general partner of Jazz LP.

The head office of the Fund is located at 1000 de la Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5.

### Intercorporate Relationship

The following chart illustrates, on a simplified basis, the structure of the Fund (including jurisdiction of establishment or incorporation of the various entities).



### Conversion of the Fund to a Corporation

During 2010, the Fund intends to pursue a conversion to a corporate structure. As a consequence, certain tax uncertainties described in “Risks Relating to the Structure of the Fund - Income Tax Matters” should be alleviated. It is anticipated that the conversion will occur pursuant to a court-approved plan of arrangement which Unitholders will be asked to approve at a special meeting to be held in the Fall of 2010. The conversion will require approval of Unitholders holding at least 66 2/3’s of the Units of the Fund. If approved, it is anticipated that Unitholders will exchange their Units for shares of a new corporation on a tax deferred basis. The Fund expects the conversion to be effective as of January 1, 2011. (Refer to caution regarding forward-looking statements included in “Explanatory Notes” on page 1 of this Annual Information Form.)

## DEFINITION OF EBITDA

References to “EBITDA” are to net income of Jazz before interest expense, interest income, income taxes, depreciation, amortization, gains and losses on disposal of property and equipment and other non-operating income and expenses.

EBITDA is not an earnings measure recognized under generally accepted accounting principles (“GAAP”) in Canada and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as an indicator of Jazz’s performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

## THE JAZZ BUSINESS

### Overview

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada’s domestic and transborder market presence and strategy. Jazz and Air Canada are parties to the CPA, under which Air Canada currently purchases substantially all of Jazz’s fleet capacity at predetermined rates. Under the CPA, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 775 departures per weekday to 56 destinations in Canada and 26 destinations in the United States using 130 Covered Aircraft. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada’s mainline routes.

Under the CPA, Jazz operates flights on behalf of Air Canada. Air Canada controls and is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service handling at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft.

Under the CPA, Jazz is paid fees based on certain variables, including Block Hours flown, flight hours, cycles (number of take-offs and landings) and passengers carried, in addition to certain variable and fixed aircraft ownership rates. Jazz is also entitled to repayment of certain pass-through costs specified in the CPA, including fuel, navigation, landing and terminal fees and certain other costs. Jazz is also eligible to receive incentive payments each quarter for successfully achieving certain specific standards related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction. 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 to Jazz under the CPA for the three year period ending December 31, 2011. The new rates are retroactive to January 1, 2009.

Jazz and Air Canada agreed to amend the terms of the CPA under amendments dated July 28, 2009 and September 22, 2009 (collectively, the “CPA Amendments”) in response to uncertainty in the airline industry and Air Canada’s need to implement cost reduction initiatives.

### Integral Part of Air Canada’s Strategy

Under the CPA, Jazz acts as a contract carrier for Air Canada, which purchases substantially all of Jazz’s fleet capacity at predetermined rates. Management understands that Jazz represents 52% of the flights in Air Canada’s schedule.

Air Canada does not have the capacity or the ability in its current fleet to replace the services currently offered by Jazz. In the absence of a CPA with Jazz, Air Canada passengers would have to resort to other

airlines or charters to fulfill travel needs currently served by Jazz. Certain locations may not have access to air service at all if Jazz did not operate flights under the CPA.

For Air Canada, the agreement provides commercial flexibility, lower costs, and connecting traffic to main airport hubs. For Jazz, the agreement reduces business and financial risk, generates predictable and sustainable long-term cash flow, and provides a solid foundation on which the company can grow the business going forward.

### **Market Position in the Canadian Regional Airline Industry**

Through its affiliation with Air Canada, Jazz serves more destinations in Canada than any other airline. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 775 departures per weekday to 56 Canadian destinations and 26 U.S. destinations with an operating fleet of 130 Covered Aircraft. Management believes that the scope and diversity of Jazz's coverage area is a significant competitive advantage. As the only pan-Canadian regional airline, Jazz can shift capacity across regions as demand dictates.

Of the 114 North American destinations served by Air Canada and Jazz as at December 31, 2009, 75 (or approximately 66%) of these destinations were served by Jazz and Jazz was the sole provider at 39 (or approximately 34%) of these destinations. As of December 31, 2009, Jazz was the sole operator of aircraft of 37 seats or greater at 22 airports.

As at December 31, 2009, Jazz's fleet of 134 operating aircraft consisted of 70 Bombardier regional jets and 64 Dash 8 turboprop aircraft. See "The Jazz Business – Fleet". Jazz's fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of turboprop aircraft, generally operating aircraft in the 19 to 50 seat range. These carriers are primarily stand-alone operators in niche markets. None of these carriers approaches the size and scope of operation of Jazz. Low-cost carriers, including WestJet, also compete with Air Canada on certain routes in Canada operated by Jazz.

### **Predictable and Stable Business Model**

Jazz derived substantially all of its revenues (99%) from Air Canada during each of its 2007, 2008 and 2009 fiscal years. The CPA will expire on December 31, 2020, subject to renewal for two additional five-year periods. See "The Jazz Business – Capacity Purchase Agreement with Air Canada – Term and Termination of Agreement".

Management believes that Jazz's risk profile is much lower than other air transport companies, as Jazz is not directly exposed to the risks relating to the volatility of certain variable costs and relating to passenger revenues. The CPA provides Jazz with stable, sustainable, and predictable cash flows while also generating profit opportunities through incentive payments for on-time performance, flight completion, baggage handling, and customer satisfaction.

The benefits of the CPA include:

- Less exposure to revenue volatility associated with ticket prices and passenger traffic. The number of aircraft operated by Jazz and Block Hours flown by such aircraft are the main drivers determining Jazz's revenues. Out of the 134 aircraft in Jazz's fleet, as of December 31, 2009, 130 were Covered Aircraft used to provide services under the CPA.
- Less exposure to cost volatility, given that fuel costs, navigation fees, landing and terminal fees are passed through to Air Canada under the CPA. These pass-through costs represented approximately 36.3% of Jazz's total costs for the year ended December 31, 2009. Although Jazz bears the risk of changes to its Controllable Costs, which represented approximately 63.7% of its total costs for the year ended December 31, 2009, it is compensated by Air Canada for this risk by a mark-up on its estimated Controllable Costs. Jazz has been able to, and continues to seek to, reduce its exposure to

fluctuations in certain of these Controllable Costs such as salaries, wages and benefits, aircraft maintenance costs, materials and supplies costs, aircraft rent, depreciation on owned aircraft and interest on financed aircraft.

- Ability to increase its profitability by reducing its Controllable Costs over time. In addition, Jazz is able to earn performance incentive payments if it achieves or exceeds certain operational targets.
- A guarantee of certain minimum levels of operating capacity until the expiry of the CPA in December 2020.

### **History of Operational Performance**

Jazz has a proven track record of profitability. Management believes that it is uniquely positioned to capitalize on Air Canada's commercial business model for the domestic and transborder markets.

Jazz has a history of strong operational performance, along with an excellent safety record. For the calendar year 2009, Jazz ranked second among the top 19 U.S. carriers for arrivals within 15 minutes of scheduled arrival times. In addition to the fees Jazz receives from Air Canada under the CPA, Jazz can earn specific performance incentive payments for meeting certain standards, including in respect of on-time performance. See "Capacity Purchase Agreement with Air Canada – Performance Incentives".

### **Growth Strategy**

Management anticipates that Jazz's growth over the next several years will be generated mainly through new business development opportunities. (Refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this Annual Information Form.)

#### *Charter and ACMI Operations*

Jazz offers charter services to Canadian and international locations. Jazz has been able to attract a wide variety of charters including sports teams, fishing lodges, oil and gas companies, various provincial forestry ministries, musical groups and corporate clients. All revenues from the charter operations accrue directly to Jazz as ancillary revenues. Generally, margins on charter services are higher as customers are prepared to pay a premium for flights that fit their needs and schedule.

Jazz currently operates two 37-seat Dash 8-100 and two 50-seat Dash 8-300 aircraft as part of its dedicated charter fleet. Jazz is targeting growth within its charter operation through the pursuit of ongoing charter programs and through ACMI contracts which provide aircraft, crews, maintenance support and insurance.

Under the CPA, Jazz is permitted to use the Covered Aircraft for ad hoc charter services in consideration for the payment of a charter fee to Air Canada, provided such services do not interfere with the CPA schedule.

#### *Relationships with Other Carriers and Customers*

Jazz continues to explore various types of relationships with other domestic and international carriers and other types of customers. Opportunities may exist for additional capacity purchase type arrangements, and advisory arrangements capitalizing on Jazz's expertise relating to airline operations.

#### *Maintenance, Repair and Overhaul Operations*

Jazz's technical operations team performs regional jet and turboprop line maintenance, heavy maintenance and aircraft modifications to support Jazz's operations. Jazz operates two primary heavy maintenance, repair and overhaul facilities, one located in Halifax, Nova Scotia and the other in London, Ontario. Component shop support is also provided from a third facility located in Calgary, Alberta. The

technical operations team maintains one of the largest Dash 8 fleets in the World. Jazz is also developing considerable expertise in the repair and overhaul of CRJ 100, 200 and 705 series Bombardier regional jets. Jazz has line maintenance staff and facilities in ten Canadian cities. Jazz does not currently have surplus maintenance capacity available for third party maintenance and repair. However, this could be a potential ancillary business opportunity in the future.

#### *Relationship with Air Canada*

Management believes that Jazz's operations are integral to Air Canada's strategy and complement Air Canada's operations. The operational capabilities of regional aircraft allow Jazz to profitably service lower demand markets and higher demand markets at off-peak times. Management believes that it is uniquely positioned to capitalize on Air Canada's commercial business model for the domestic and transborder markets, including:

- building a high frequency "mass transit" schedule between the larger markets in Canada;
- expanding this concept to smaller secondary markets;
- adding new services with the smaller regional jets that can support point-to-point travel and bypass hubs; and
- introducing new transborder services using smaller regional jets to develop these new markets.

#### **Fleet**

Unless otherwise specified herein, information relating to Jazz's fleet is provided as of December 31, 2009. As at such date, Jazz's operating fleet was made up of 134 aircraft, 70 of which were regional jets and 64 of which were turboprop aircraft.

Jazz's operating fleet as at December 31, 2009 and 2008 was as follows:

<u>Aircraft (number of seats)</u>	<b>Operating Fleet as at</b>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
CRJ - 100/200 (50 seats).....	54	57
CRJ - 705 (75 seats).....	16	16
Dash 8 - 300 (50 seats) .....	28	28
Dash 8 - 100 (37 seats) .....	<u>36</u>	<u>36</u>
Total.....	<u>134</u>	<u>137</u>

All aircraft in Jazz's operating fleet as of December 31, 2009 are Covered Aircraft under the CPA other than two Dash 8-100 and two Dash 8-300 aircraft (which are used for charter purposes).

Air Canada's commitment to Jazz's minimum fleet of Covered Aircraft was reduced from 133 to 125 aircraft as per the CPA Amendments. Eight CRJ-200 and two CRJ-100 aircraft will be removed from the Jazz fleet upon the expiry of the subleases of such aircraft, with all of such subleases expiring by April 30, 2010. Following the return of these aircraft, the fleet operated by Jazz, on behalf of Air Canada, will be temporarily reduced to 123 aircraft. On February 9, 2010, Jazz announced that it signed a letter of intent with Bombardier Commercial Aircraft regarding an order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft. Subject to the negotiation of definitive documents and the satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. The aircraft will accommodate 74 passengers, and will be configured with a single economy class cabin.

*CRJ-100/200*

The 50-seat Bombardier CRJ-100/200 is a twin engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The CRJ-200 has more efficient engines than the CRJ-100, a longer flight range and larger pay-load capability. Of the 54 CRJ-100/200 in Jazz's fleet, 34 are subleased from Air Canada and 20 are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada. These subleases expire between 2010 and 2024.

*CRJ-705*

Jazz was the first carrier in the world to operate the state-of-the-art Bombardier CRJ-705 regional jet aircraft. Jazz's CRJ-705s feature leather seats and are configured into ten Executive Class seats and 65 Economy Class seats and offer more Economy Class legroom than any other Canadian carrier's aircraft. In-flight entertainment systems have been installed in every seat back of these aircraft. The CRJ-705 provides Jazz with the capability to offer services comparable to a mainline aircraft.

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

15 CRJ-705 aircrafts currently in Jazz's fleet are subleased from Air Canada Capital Ltd., and one is leased from a third party. These subleases and leases expire in 2022 and 2024.

*Dash 8-300*

The 50-seat Bombardier Dash 8-300 has advanced turboprop characteristics that approach those of a jet aircraft. Of the 28 Dash 8-300 in Jazz's fleet, 19 are owned by Jazz and nine are leased from third parties. These leases expire between 2015 and 2016.

*Dash 8-100*

The Dash 8-100 is a twin engine turboprop medium range aircraft with seating capacity of 37 passengers. Of the 36 Dash 8-100 aircraft in Jazz's fleet, 29 are owned by Jazz and seven are leased from Air Canada Capital Ltd. These leases expire between 2012 and 2013.

**Scope Clause**

Scope clauses are an industry norm for network airlines operating in conjunction with regional carriers and are usually found in collective agreements of pilot union groups. Jazz, like many regional airlines, is restricted in the type of services it can provide to Air Canada by scope provisions in the collective agreement between Air Canada and ACPA, which represents Air Canada's pilots. Prior to the CCAA restructuring of Air Canada and Jazz, completed in 2004, Jazz's operations were limited by, among other things, scope provisions restricting Jazz's operations for Air Canada to 39 55-seat regional jet aircraft including ten grandfathered BAe-146 aircraft, which have since been retired. The small jets settlement agreement entered into by Jazz, Air Canada, ACPA and ALPA (the "Small Jets Settlement Agreement") provides for a process under which orders for regional jets are allocated between Air Canada and Jazz, provides for the types and number of jets that can be flown by Jazz on behalf of Air Canada and sets out a mechanism for resolving disputes regarding regional jet additions to either fleet. More specifically, the Small Jets Settlement Agreement provides that:

- Jazz may maintain a fleet of Covered Aircraft of 57 CRJ-100s/200s and 16 CRJ-705 aircraft.
- If either Air Canada or Jazz seeks to increase the fleet of Covered Aircraft, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if

possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to an arbitrator or a mediator who will then make a decision, taking into account the business case put forward by the respective parties and the impact of the matter at hand on the respective pilots groups.

- Jazz may not operate the CRJ-705 as Covered Aircraft if configured in excess of 75 seats, inclusive of all classes.
- There are no limits to the number of turboprop aircraft that Jazz may operate for Air Canada.
- As was previously the case, Air Canada must ensure that a minimum number of ASMs are flown by Air Canada compared to ASMs flown by Jazz under the CPA, as defined in the ACPA collective agreement.

On two separate occasions the Jazz fleet of Covered Aircraft has been modified through the Small Jets Settlement Agreement process. In 2005, Jazz took delivery of an additional eight CRJ-200 aircraft beyond the 50 aircraft maximum described in the Small Jets Settlement Agreement. The additional eight Covered Aircraft were permitted to be added to Jazz's fleet following an arbitration as per the Small Jets Settlement Agreement. In 2007, Jazz took delivery of the sixteenth CRJ-705, also a Covered Aircraft, pursuant to the Small Jets Settlement Agreement process.

## **Capacity Purchase Agreement with Air Canada**

### *Overview and Scope of Agreement*

Pursuant to the CPA, Air Canada purchases from Jazz the capacity of the Covered Aircraft in consideration for the payment of certain fees by Air Canada to Jazz. During the period from October 1, 2004 to December 31, 2009, Jazz derived substantially all of its revenues (99%) from services provided under the Initial CPA and current CPA. On July 28, 2009, Jazz announced that a mutually beneficial agreement had been reached with Air Canada to amend the terms of the CPA. See "The Jazz Business - Amendments to the CPA".

Under the CPA, Jazz operates its flights on behalf of Air Canada using the Covered Aircraft and provides scheduled passenger service, including but not limited to, flight and cabin crews, aircraft maintenance, flight dispatch and in some cases, airport operations. Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for these flights. Air Canada is entitled to all revenues (except bar and buy-on board sales) resulting from the Scheduled Flights, including ticket sales, baggage charges, passenger charges and employee pass travel service charges. Air Canada is also entitled to all revenues resulting from all Cargo Services.

Jazz and Air Canada have agreed on a long range fleet plan which sets out the number of Covered Aircraft, by aircraft type, for the term of the CPA. The total number of Covered Aircraft cannot, at any time during the term of the CPA, be reduced below the numbers set forth in the existing long range fleet plan without the mutual agreement of Air Canada and Jazz, except if Jazz enters into an agreement with another air carrier to provide regional airline services (other than charter flights). Air Canada has the right to reduce the number of Covered Aircraft, on a one-for-one basis, based on type, by the number of aircraft to be operated under such an agreement.

Air Canada may periodically require changes to the fleet composition, including any increase in aircraft of any type, provided that any such changes do not reduce the total number of Covered Aircraft set forth in the existing long range fleet plan and that any replacement aircraft does not reduce the economic benefits to Jazz under the CPA.

### *Fees Payable by Air Canada*

The fees payable by Air Canada to Jazz on a monthly basis are broken down into a number of categories. These payment categories fall into two broad groups: those that vary based on Covered Aircraft utilization and those that are fixed.

The most important of the variable payments are the Block Hour and flight hour payments paid by Air Canada for each Block Hour and flight hour flown by Jazz's Covered Aircraft. Other variable payments, such as cycle payments and the passenger payments, are relatively small. The other group of payments, such as aircraft rent, do not change regardless of the Covered Aircraft's utilization and are designed to meet Jazz's costs for these items plus a mark-up.

<b>Type of Fee</b>	<b>Calculation</b>	<b>Included in Rate</b>
Block Hour Payments	Block Hour rate for each aircraft type multiplied by actual Block Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> <li>• Salaries, wages, and benefits for flight and cabin crew</li> <li>• Block Hour-driven direct maintenance labour costs</li> <li>• Block Hour-driven direct maintenance, material, and supply costs</li> </ul>
Flight Hour Payments	Flight Hour Rate for each aircraft type multiplied by actual Flight Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> <li>• Flight Hour-driven direct maintenance, material, and supply costs</li> </ul>
Cycle Rate Payments	There are a number of cycle rates applicable for each aircraft type, each of which is multiplied by actual number of cycles (being one take off and one landing) completed by each aircraft type in the month although certain of the cycle rates apply only for departures from certain airports	<ul style="list-style-type: none"> <li>• Total crew cycle costs</li> <li>• Cycle or frequency-driven direct maintenance, materials and supplies</li> <li>• Aircraft parking</li> <li>• Aircraft services labour (internal Jazz provided passenger, ground handling and other airport support services) and purchased terminal handling (ground handling supplied by ACGHS or any other third party)</li> <li>• At certain airports, the salaries, wages and benefits of Jazz's employees stationed at that airport</li> </ul>
Passenger Rate Payments	There are a number of passenger rates applicable to each aircraft type, each of which is multiplied by the actual number of passengers carried onboard each aircraft type in the month	<ul style="list-style-type: none"> <li>• Catering delivery charges</li> <li>• Onboard product</li> <li>• Passenger inconvenience</li> <li>• Baggage delivery</li> <li>• Other factors</li> </ul>

Type of Fee	Calculation	Included in Rate
Aircraft Ownership Payment (Variable)	The aircraft ownership payment is comprised of two components: (i) the aircraft ownership variable rate for each aircraft type which is multiplied by the number of aircraft of that type subject to the CPA in that month, and (ii) aircraft ownership variable rate per Flight Hour for each aircraft type which is multiplied by the Flight Hours flown in that month (for all aircraft of the relevant type)	<ul style="list-style-type: none"> <li>• Interests costs, lease costs, and depreciation and amortization costs relating to the Covered Aircraft</li> <li>• Depreciation costs and amortization costs</li> <li>• Transaction and service fees on aircraft leases</li> <li>• Aircraft hull insurance costs</li> <li>• Third party component inventory ownership charges</li> </ul>
Aircraft Ownership Payment (Fixed)	Aircraft Ownership Payment for each aircraft type	<ul style="list-style-type: none"> <li>• Depreciation on rotables/tooling</li> <li>• Insurance management fee</li> <li>• Spare engine lease costs</li> </ul>
Fixed Cost Payment	Fixed cost rate for all Covered Aircraft	<ul style="list-style-type: none"> <li>• Salaries, wages, and benefits for management, administrative, and technical services staff and some unionized staff</li> <li>• Rent and facilities costs</li> <li>• Employee uniform costs</li> <li>• Communications</li> <li>• Non-aircraft insurance</li> <li>• Utilities</li> <li>• Office equipment rentals, office supplies</li> <li>• Workers' compensation costs</li> <li>• Travel costs</li> <li>• Training and development costs</li> <li>• Information system costs</li> <li>• Ground service equipment costs</li> <li>• Brand image costs</li> <li>• Miscellaneous costs, fees and services</li> </ul>

In addition to the principal categories described above, Air Canada compensates Jazz for:

- Scheduled Flights cancelled at the request of Air Canada or as a result of Air Canada-directed schedule changes occurring after the date when Jazz crews have been determined and crew schedules committed for the month; and
- Scheduled Flights cancelled due to weather or air traffic control directives during the month. Air Canada and Jazz share the costs related to ferry flights (flights to position aircraft for Scheduled Flights) during the month.

Jazz also receives certain fees from Air Canada for ground handling services provided by Jazz to Air Canada.

Air Canada also reimburses Jazz, without mark-up, for certain pass-through costs incurred directly by Jazz, such as fuel, navigation, landing and terminal fees and certain other costs.

#### *Rates and Specified Mark-Up*

The rates for the payments of fees described above have been agreed upon for each calendar year until December 31, 2011. Notwithstanding such agreement, these rates may be revised from time to time:

- as a result of permitted changes in Jazz's fleet which are not contemplated in the long range fleet plan and which result in an aggregate increase or decrease in the number of Covered Aircraft of any single type in excess of 20% of what is contemplated in the current long range fleet plan; or
- with respect to certain rate components, based on Jazz's actual costs incurred during a particular period.

Under the CPA, Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated Controllable Costs for each calendar year marked-up by a specified percentage.

Jazz and Air Canada agreed to re-set rates 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 such rates. The new rates, which were retroactive to January 1, 2009, were established so as to achieve a controllable target margin of 14.32% for Jazz (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. The mark-up on Jazz's Controllable Costs for each of 2009, 2010 and 2011 was set at 16.72% (for the years 2006 to 2008 the mark-up was 16.40%).

As a result of the CPA Amendments, effective August 1, 2009, the mark-up on fixed controllable charges and variable controllable charges is 12.50%, assuming 375,000 Block Hours are delivered. Such mark-up will be reduced from 12.50% to 5% on variable controllable charges only in respect of any Block Hours in excess of 375,000.

Jazz and Air Canada have agreed to compare and benchmark Jazz's Controllable Costs to those of a group of comparable operators (the "Comparable Group") in 2010 for the 2009 calendar year (the "2009 Benchmark") and in 2016 for the 2015 calendar year (the "2015 Benchmark"). If the percentage difference identified in the 2009 Benchmark between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference for the twelve month period beginning July 1, 2006 and ending June 30, 2007, then the Controllable Mark-Up will be reduced with effect as of January 1, 2010. If the percentage difference identified in the 2015 Benchmark between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference determined as a result of the 2009 Benchmark, the Controllable Mark-Up then in effect shall be reduced with effect as of January 1, 2016.

#### *Performance Incentives*

In addition to the fees described above, Jazz can earn certain performance incentive payments up to 2.36% of its Scheduled Flights Revenue for the relevant period based on four operational performance incentive categories: on-time performance, flights actually flown, incidences of mishandled luggage at airports where Jazz is responsible for luggage handling, and other customer satisfaction measures related to in-flight and check-in satisfaction.

### *Operating Plans and Scheduling*

Air Canada provides Jazz with a high level three-year operating plan, which sets out any changes to the number of Covered Aircraft and Active Aircraft on a monthly basis and the frequencies, Block Hours, airport activity, load factors and ASMs for each aircraft type for the next three calendar years, subject to any agreed upon changes during such period. Air Canada also delivers each year a high level operating plan for the upcoming calendar year for budget and planning purposes.

Air Canada and Jazz also jointly agree on a seasonal operating plan prior to the start of each summer and winter schedule period, which includes Air Canada's forecast regarding:

- Block Hours and departures by aircraft type, ASMs and passenger volume;
- the airports to which Jazz will operate Scheduled Flights; and
- specific dates for the commencement of service to or from new airports, if any.

Air Canada also delivers rolling monthly schedules which may vary from the final seasonal schedules. Jazz operates based on such monthly schedules as long as the volume of flying required to meet the schedule change does not increase or decrease the total Block Hours for any aircraft type by more than 5% as compared with the Guaranteed Block Hours. If the variance is greater than 5%, Air Canada and Jazz will come to an agreement on changes to rates and aircraft.

### *Return of Aircraft*

The CPA provides that Air Canada shall bear the cost and expense of the removal of aircraft from the Covered Aircraft fleet, the return of such aircraft to lessors and all return condition obligations contained in any lease, sublease or loan arrangement relating to the Covered Aircraft or the spare engines used to support the Covered Aircraft (the "Spare Engines") after October 1, 2004. Any such return condition obligations attributable to the possession, use or operation of any Covered Aircraft or any Spare Engine prior to October 1, 2004 shall be borne by Jazz.

### *Minimum Average Daily Utilization Guarantee*

Under the CPA, Air Canada agreed to pay Jazz for certain daily minimum levels of operating capacity ("MADUG") calculated based on the assumption that total annual Block Hours will not be less than 339,000. The MADUG will not apply in the event Jazz fails to reach the minimum number of Block Hours due to its own default or an inability to supply sufficient capacity. In the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 is 10% less than its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009, Air Canada will have the right to revise MADUG. If Air Canada and Jazz have not agreed upon a revised MADUG by November 17, 2015, Air Canada will have the right to unilaterally set a revised MADUG by sending Jazz notice by November 20, 2015. Jazz will then be required to provide Air Canada with notice by December 18, 2015 accepting the revised MADUG or Jazz will then have the right to terminate the CPA on December 31, 2016 by providing notice to Air Canada on December 18, 2015.

### *Minimum Capacity Guarantee*

Payments are made by Air Canada to Jazz based on Block Hours actually flown during a given seasonal period. However, such payments may not be less than a minimum of 95% of the Block Hours set forth in the applicable final seasonal schedule delivered by Air Canada (expressed in Block Hours per aircraft type per day) (the "Guaranteed Block Hours"), unless 95% of such Guaranteed Block Hours are less than the total Block Hours pursuant to the MADUG set out in the CPA for that aircraft type. In the event that in any Schedule Period the Guaranteed Block Hours for any aircraft type (expressed in Block Hours per day per aircraft) is less than the MADUG for that aircraft type, the Minimum Capacity Guarantee calculation will be made using the MADUG for that aircraft type instead of 95% of the Guaranteed Block Hours.

### *Force Majeure*

Air Canada's and Jazz's obligations under the CPA (other than any financial obligations) will be suspended if, and for so long as, any event of force majeure (as defined in the CPA) prevents that party from meeting its obligations pursuant to the CPA. Upon the occurrence of an event of force majeure, Air Canada and Jazz will, as soon as reasonably possible given the nature of the event of force majeure, meet and work together to minimize the impact of such event of force majeure.

### *Code-sharing*

The CPA requires Jazz to use Air Canada's two-letter flight designator code (AC), or any other code specified by Air Canada and belonging to a Star Alliance™ partner or other partner of Air Canada, to identify its flights operated by Jazz under the CPA in the computer reservation system.

### *Ground Handling and Cargo Services*

Under the CPA, Air Canada is responsible for providing ground handling services at airports where Air Canada performs ground handling services. Jazz is responsible for performing or obtaining such services at all other locations. Jazz performs such services for Air Canada at certain airports for a fee. As of December 31, 2009, out of the 86 airports serviced by Jazz, Air Canada provided ground handling services at 18 airports, Jazz provided ground handling services at six airports, and ground handling services at the remaining airports were provided to Jazz by other third parties. Jazz and Air Canada have entered into a separate agreement for the provision of such ground handling services to Jazz at airports serviced by ACGHS.

Air Canada has sole responsibility for, and is entitled to all revenue from, Cargo Services. Air Canada has the right to transfer the cargo capacity of the Scheduled Flights to a party of its choice. Jazz has access to limited cargo capacity for purposes of moving aircraft parts and other materials.

### *Charter Flights*

Jazz is entitled to operate charter flights during the term of the CPA, with the Covered Aircraft (subject to the payment of a charter fee to Air Canada) or with other aircraft provided that Jazz continues to meet its obligations under the CPA and does not market such flights as Air Canada flights. Jazz is responsible for all incremental costs and expenses associated with such flights and is entitled to all revenues. Jazz is required to obtain Air Canada's consent in respect of certain charter program services, which consent may not be unreasonably withheld.

### *Facilities*

Under the CPA, Air Canada is responsible for the costs associated with:

- opening, closing and moving maintenance and crew bases, where such changes are due to changes required by Air Canada to operate the Scheduled Flights;
- any additional facilities required as a result of increased frequency of Scheduled Flights; and
- any required relocation of Jazz to comparable airport facilities reasonably acceptable to Jazz contiguous to Air Canada leased premises, ramp, gate and office space.

### *Term and Termination of Agreement*

The CPA will expire on December 31, 2020, subject to renewal on terms to be negotiated for two additional five-year periods unless either party gives written notice of non-renewal to the other not less than one year prior to the end of the initial term or the first renewal term. Either party is entitled to terminate the CPA at any time upon occurrence of an event of default.

Upon the expiry or termination of the CPA, other than termination as a result of a default by Jazz or Air Canada, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and Spare Engines will automatically be terminated and Air Canada (or the affiliate of Air Canada) will have the right to repossess the Covered Aircraft and the Spare Engines. In the event that the CPA is terminated as a result of Jazz's default, all such leases will not be terminated and Jazz will remain liable for its obligations under the aircraft leases. If the CPA is terminated as a result of a default by Air Canada, Jazz will have the right to terminate any of such leases, which right must be exercised concurrently with the termination of the CPA.

### **Other Agreements with Air Canada**

#### *Master Services Agreement*

In addition to the CPA, Jazz and Air Canada have entered into a MSA under which Air Canada provides certain services to Jazz in return for a fee based on the fair market value of the services provided by Air Canada to Jazz. The services contemplated by the MSA provide Jazz with infrastructure support and are mostly administrative in nature, including information technology, insurance and tax services, corporate real estate, environmental affairs and some legal services. The most significant services relate to information technology whereby Jazz benefits from the agreements signed by Air Canada with each of IBM and BCE Nexxia, as well as Air Canada's internal information technology resources.

Jazz and Air Canada may elect to terminate any services under the MSA (without terminating the whole MSA) or the entire MSA, upon one year's prior written notice. Also, the MSA shall terminate upon the termination of the CPA. Unless Air Canada terminates the MSA following a default by Jazz of its obligations under the MSA, Jazz benefits from certain transitional obligations to be provided by Air Canada.

#### *ACGHS Agreement*

Jazz and ACGHS recently agreed to new pricing under the contract which became effective January 1, 2009. Pursuant to the ACGHS Agreement, ACGHS has agreed to provide certain aircraft related ground handling services to Jazz, including baggage handling and processing, baggage, cargo and mail loading and unloading, and aircraft servicing at 18 airports in Canada.

The ground handling services must be provided by ACGHS in accordance with Jazz's procedures and instructions. Jazz may maintain a representative to supervise the services rendered by ACGHS. In respect of passenger related ground handling services for charter flights operated by Jazz, Jazz and ACGHS shall negotiate and agree on the specific services to be rendered by ACGHS and the fees payable by Jazz in connection with any such charter flights.

The term of the ACGHS Agreement expires on December 31, 2010, subject to automatic renewal for additional three-year periods at the end of the initial term and each renewal term unless Jazz or ACGHS provides notice of its intention not to renew the agreement at least one year prior to the initial term or any renewal term.

#### *Trademark Agreements*

Under the Trademark License Agreement, Air Canada has granted Jazz a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks owned or registered by Air Canada around the world including Jazz and those which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the Jazz business. The Trademark License Agreement can be terminated in the event the CPA is terminated.

## **Passenger Services, Route Network, and Hubs**

Jazz operates both domestic and transborder services for Air Canada under the CPA. Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. The current Jazz route network extends coast to coast in Canada from British Columbia to Newfoundland and Labrador, to three territories in Northern Canada, and into the United States as far south as Houston, Texas. Jazz's route network represents one of the largest geographical territories operated by a regional carrier.

The maximum capacity that Jazz may provide as a feeder to the Air Canada network is linked to the capacity of the Air Canada mainline network. Pursuant to the Small Jets Settlement Agreement, Air Canada must ensure that a minimum number of ASMs are flown by Air Canada compared to the ASMs flown by Jazz under the CPA. Management does not expect this limitation to be a constraint on Jazz's growth given its understanding of Air Canada's plans to continue growing with larger aircraft on longer flights.

As a key part of the overall Air Canada network, Jazz has an important presence at the major Air Canada hubs located in Toronto, Vancouver, Montreal and Calgary, each of which has extensive access to domestic, transborder and international markets. Jazz flies to destinations in Canada and the United States from each such hub. As approximately 35% of the passengers carried by Jazz connect to the Air Canada mainline network, the Jazz network provides substantial network revenue to Air Canada.

## **Other Services; Trade Receivables**

Air Canada provides certain third party supplies, primarily fuel, to Jazz and subsequently collects payment from Jazz. ACGHS, a division of Air Canada, provides ground handling services to Jazz.

Substantially all of the trade receivables from Air Canada relate 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 Air Canada.

## **Logos and Trademarks**

Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks are trademarks owned or registered by Air Canada in Canada and the United States. Air Canada has granted Jazz a license to use the Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks in Canada and the United States in association with the provision of scheduled airline services in regions of Canada and across the Canada – United States border. Jazz also owns additional trademarks in connection with its regional airline business. The Fund and the Trust have been granted licenses to use the Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks in Canada. See "Other Agreements with Air Canada – Trademark Agreements".

Jazz's trademarks and brand name assets are an important part of its business. Jazz benefits from the goodwill established for the Jazz brand name. Jazz protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures.

## **Amendments to the CPA**

As a result of CPA Amendments entered into in 2009:

- The initial term of the CPA was extended from December 31, 2015 to December 31, 2020.
- 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 to a MADUG that will not result in less than 339,000 annual Block Hours, notwithstanding the temporary reduction in the number of Covered Aircraft to 123 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.

- Rates for the 2009-2011 Rate Period were set. Such rates were established to enable Jazz to achieve a Controllable Target Margin of 14.32%, corresponding to a Controllable Target Mark-Up of 16.72% on Jazz's Controllable Costs. However, as part of the CPA Amendments, Air Canada and Jazz agreed that the Controllable Mark-Up of 16.72% would only apply as of and from January 1, 2009 through to July 31, 2009. Commencing August 1, 2009, an agreed set of revised rates became effective, under which Jazz achieves a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Jazz's Controllable Costs.
- Three remaining CPA rate periods were established: (i) January 1, 2012 to December 31, 2014; (ii) January 1, 2015 to December 31, 2017 and; (iii) January 1, 2018 to December 31, 2020. Prior to the commencement of each rate period, Jazz and Air Canada will review and agree in writing on the rates for the next rate period. The components of each rate type to be considered in developing each new rate are set out in the schedules to the CPA and are based on costs incurred by Jazz. The CPA also specifies that the rates are to be established so as to enable Jazz to achieve the Controllable Target Margin which corresponds to the Controllable Mark-Up. If Jazz and Air Canada can not agree on new rates, the matter is subject to the arbitration provisions in the CPA.
- The parties agreed that the Controllable Mark-Up will be adjusted 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 Controllable Mark-Up may also be reduced as a result of the 2009 Benchmark process and the 2015 Benchmark process described above.
- Changes were made to the long range fleet plan, reflecting the commitment of Air Canada and Jazz to renew the fleet of Covered Aircraft. Air Canada and Jazz agreed that the fleet of Covered Aircraft will 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.
- Jazz and Air Canada have agreed to use commercially reasonable efforts to agree to the rates to be charged for the new Q400 turboprop aircraft prior to their delivery (delivery of one aircraft per month is scheduled to begin in May 2011), failing which the matter shall be determined in accordance with the dispute resolution provisions in the CPA. Following the delivery of the second new Q400 turboprop aircraft in June 2011, the number of aircraft comprising the Covered Aircraft will return to the Guaranteed Minimum Number of Covered Aircraft and two of the CRJ 100 aircraft may be treated as unassigned aircraft for scheduling purposes. Upon the arrival of each remaining Q400 turboprop aircraft, one CRJ 100 or CRJ 200 will be removed from the fleet of Covered Aircraft and replaced with one arriving Q400 turboprop aircraft, such that the number of aircraft shall remain at the Guaranteed Minimum Number of Covered Aircraft. Upon the removal of the twelfth CRJ 100 or CRJ 200 aircraft, Air Canada and Jazz are required to use commercially reasonable efforts to agree to new rates for this aircraft type. Air Canada agreed to pay the costs associated with the removal of the CRJ 100 and CRJ 200 aircraft from the fleet of Covered Aircraft.

- Effective as of August 1, 2009, rent charged to Jazz for five of the CRJ 100 aircraft will be treated as a Pass-Through Cost. Jazz and Air Canada also agreed to use commercially reasonable efforts to agree by March 31, 2010 to terms and conditions relating to 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.

## Competition

As Canada's only nationwide regional airline operating scheduled air services and as the only regional carrier operating regional jets in Canada, Jazz enjoys a unique position in the Canadian regional airline market.

Jazz's fleet is ten times larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of primarily turboprop aircraft, most of which operate aircraft in the 19 to 70 seat range. These carriers operate primarily independent services, flying in niche markets. Few other regional airlines in Canada operate under capacity purchase agreements, and those who do have relationships with Air Canada for turboprop aircraft with 19 seats or less. None of these carriers approach the size and scope of operation of Jazz as their fleets usually have less than 15 aircraft. These smaller regional carriers include Air Georgian, Central Mountain Air, Hawkair, Pacific Coastal Airlines, Corporate Express, and Transwest Air in Western Canada; Calm Air, Air Creebec in Central Canada; Provincial Airlines and Air Labrador in Atlantic Canada; and First Air, Air Norterra and Air Inuit in Canada's North. Low-cost carrier WestJet also competes with Air Canada on certain routes in Canada and in the U.S. on routes operated by Jazz. As well, Porter Airlines, which operates from the TCCA, competes with Air Canada in various domestic and transborder market pairs operated by Jazz.

Air Canada and Jazz compete against a variety of United States network airlines and their regional carriers in respect of transborder markets, most of whom operate under capacity purchase agreements with various major United States network airlines. These carriers operate under their capacity purchase agreement partner brands such as United Express, US Airways Express, Continental Express, Delta Connection, American Eagle and Horizon Airlines.

## Facilities

Jazz owns two buildings, one in Halifax, Nova Scotia, where Jazz's Chief Executive Offices are located, and one in London, Ontario. Jazz conducts heavy maintenance, repair and overhaul operations at both of its Halifax and London facilities. The Halifax facility is located at the Halifax Robert L. Stanfield International Airport and is comprised of office and hangar space. The London facility is located at the London International Airport and is comprised of office and hangar space. The land comprising Jazz's Halifax and London facilities is leased from the applicable airport authority.

The following is a description of the principal facilities leased by Jazz. The first four facilities listed below are leased by Jazz from Air Canada.

Hangar, parking and office space at Toronto Pearson

Hangar and office space at Calgary International Airport

Hangar and office space at Montreal-Pierre Elliott Trudeau International Airport

Jazz GSE Shop Hangar A at Toronto Pearson

Hangar and office space at Vancouver International Airport

Office space at Airway Center at Toronto

In addition to the foregoing, Jazz currently leases shop hangar space, airport terminal building spaces, hangars, office spaces, counters, maintenance offices, baggage make-up, and parking spaces throughout Canada. See "The Jazz Business—Capacity Purchase Agreement with Air Canada – Facilities".

## Debt Financing

On November 25, 2005, Jazz entered into a commitment letter with CIBC World Markets Inc.'s and RBC Dominion Securities Inc.'s parent Canadian chartered banks in respect of the establishment of \$150.0 million senior secured syndicated credit facilities (the "Credit Facilities"). The Credit Facilities were provided by a syndicate of lenders (the "Lenders") with RBC Dominion Securities Inc.'s parent bank acting as the administrative agent (the "Agent"). The Credit Facilities consisted of a \$115.0 million (or the U.S. dollar equivalent thereof) term facility (the "Term Facility"), and a \$35.0 million (or the U.S. dollar equivalent thereof) revolving credit facility (the "Revolving Facility"). The Credit Facilities were entered into on February 2, 2006 for a three year term. During the first quarter of 2007, the Lenders approved a one year extension of the initial term of the Credit Facilities to February 1, 2010.

The Credit Facilities matured on February 1, 2010 and all amounts owing thereunder were repaid and the related security was released. As a result, Jazz has all of its assets unencumbered (excluding \$3.3 million in cash encumbered in support of issued letters of credit) and available to support future debt financing. Such repayment was funded out of cash and cash equivalents with a payment of \$115.0 million. The letters of credit remain outstanding and have been cash collateralized.

## Lease financing

In 2007 Jazz entered into a common terms agreement with Air Canada which governs two of Jazz's aircraft leases and which will also apply to any future aircraft leases with the same company. During the fourth quarter of 2009, Jazz renegotiated the terms of the leases for the two aircraft such that the minimum cash balance covenant in the common terms agreement is no longer applicable. Jazz was in compliance with the tangible asset disposal covenant contained within the common terms agreement.

## Convertible debentures

Pursuant to the Underwriting Agreement, the Fund agreed to sell to the Underwriters \$75.0 million principal amount of 9.50% convertible unsecured subordinated Debentures. The transaction closed on November 12, 2009. The offering was made in all provinces and territories of Canada. The Fund granted the Underwriters an option, exercisable in whole or in part at any time until 30 days after the closing date, to purchase an additional \$11.25 million in principal amount of Debentures, at the same price. This option was exercised on November 25, 2009. The total gross proceeds of the financing was \$86.25 million. The net proceeds received by the Fund from the sale of Debentures was \$82.3 million, after deduction of the Underwriters' fee and the expenses of the offering. The Underwriters' fee and the expenses of the offering were paid out of the gross proceeds of the offering. Proceeds from the offering are being used for working capital requirements and for general purposes of the Fund.

The Trust Indenture provides for the issue of the Debentures and governs the terms of the Debentures. The Debentures bear interest at a rate of 9.50% per annum payable semi-annually in arrears on June 30 and December 31 in each year commencing on June 30, 2010, and will mature on December 31, 2014 (the "Maturity Date"). The Debentures are convertible at the holder's option into Units of the Fund at any time prior to 5:00 pm (EST), on the earlier of the Maturity Date and the date fixed for redemption at a Conversion Price of \$5.25 per Unit. The Debentures are not redeemable on or before December 31, 2012, except on change of control or default. After December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed in whole or in part from time to time at the Fund's option at a price equal to their principal amount plus accrued interest, provided that the volume weighted average trading price for the Units is not less than 125% of the Conversion Price. On and after December 31, 2013 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the Fund's option at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of Units equal to the amount due divided by 95% of the market price for the units at that time, plus accrued interest in cash.

## REGULATORY ENVIRONMENT

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, aircraft airworthiness, pilot and cabin crew licensing and certification, safety and ground and navigation facilities, falls wholly within the jurisdiction of the federal government and is the responsibility of the Minister of Transport. Jazz aircraft, pilots, cabin crew, mechanics, maintenance operations and all aspects of its commercial and charter air service operations are subject to the inspection, licensing, certification and compliance requirements of Transport Canada under the *Aeronautics Act*, *Canadian Aviation Regulations* and the standards issued pursuant to the Act and Regulations. The Canadian Transportation Agency is responsible under the CTA and *Air Transport Regulations* for issuing air carrier licenses for both domestic and international services, and for regulating air charter operations, equipment and crew leasing (wet leases, block space and code share arrangements), certain air tariffs and the terms and conditions of carriage. The Agency may also investigate, mediate or hear air travel complaints. The commercial and charter air services of Jazz are subject to the licensing, charter operations, international fare, terms of carriage, insurance requirements and air travel complaint jurisdiction of the Canadian Transportation Agency, as further described below.

### Domestic Services

The 1987 deregulation of the domestic airline industry allowed carriers to establish fares as well as terms and conditions of carriage without government regulation. The CTA provides for free market entry to the extent that a carrier can demonstrate that (i) it is "Canadian", defined in the CTA as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the Air Transportation Regulations (Canada) adopted pursuant to the CTA.

On February 6, 2009, the Government of Canada introduced Bill C-10, the *Budget Implementation Act*, which proposed amendments to the CTA relating to foreign ownership restrictions on domestic air carriers. Bill C-10 received Royal Assent on March 12, 2009. The Governor in Council now has the authority on the recommendation of the Minister of Transport to fix by order, a day on which the Governor in Council may by regulation, set new foreign ownership limits up to a maximum of 49% foreign ownership. The regulations may specify that the new limits apply in the case of all non-Canadian investors or, alternatively, a specific class of non-Canadians identified in the regulations.

On May 13, 2009, Bill C-310, *An Act to Provide Certain Rights to Air Passengers*, was tabled for second reading in the House of Commons. The Bill provides obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. If enacted in its current form, Bill C-310 could lead to significant costs for air carriers, including Jazz, which could have a material adverse effect on Jazz's business, results from operations and financial condition. On November 24, 2009 the Standing Committee on Transport, Infrastructure and Communities recommended that Bill C-310 not be enacted. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-310 or otherwise.

Due to the uncertainty of long-term regulatory requirements, Jazz cannot provide assurance that it will not incur substantial costs to meet requirements or whether they will be material.

### Competition matters

In July 2000, the Government of Canada amended the CTA, the *Competition Act* (Canada) and the *Air Canada Public Participation Act* (Canada) to address the competitive airline environment in Canada and ensure protection for consumers. This legislation included airline-specific provisions concerning "abuse of dominance" under the *Competition Act*, later supplemented by creating "administrative monetary penalties" for a breach of the abuse of dominance provisions by a dominant domestic air carrier.

Legislative proposals were made in November 2004, and again in October 2007, to repeal the airline-specific provisions from the *Competition Act*. However, the legislative process in each case was

terminated due to the dissolution of Parliament. Legislative amendments relating to the airline specific provisions of the *Competition Act* were included in Bill C-10. With the enactment of Bill C-10, the airline specific provisions of the *Competition Act* concerning "abuse of dominance", as well as the administrative monetary penalties for such abuses, have been repealed. Bill C-10 has introduced administrative monetary penalties for abuses of dominance by dominant firms generally, with the result that the Competition Tribunal is now empowered to levy administrative monetary penalties for abuse of dominance by a dominant firm operating in any industry in an amount not exceeding \$10.0 million and, for each subsequent order, an amount not exceeding \$15.0 million.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Canada and Air Canada which had considered the approach to be taken in determining whether Air Canada was operating below "avoidable costs" in violation of one of the new airline-specific abuse of dominance provisions. The Competition Tribunal applied a very broadly crafted cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal's approach to avoidable costs remains relevant. While Bill C-10 repealed the airline specific provisions of the *Competition Act*, pricing below avoidable cost may be considered an anti-competitive act for purposes of the generally applicable abuse of dominance provisions.

### **Transborder Services**

Transborder services between Canada and the United States are provided pursuant to the 1995 Canada-US Air Services Agreement. This agreement gives Canadian air carriers unlimited route rights to provide "own aircraft" services between points in Canada and points in the United States. The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, continues to be prohibited.

Under the 1995 Canada-US Air Services Agreement, carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In November 1997, Canada and the United States concluded an agreement that allows Canadian and US carriers to code-share to, from and via each other's territory, with carriers from other countries provided the other country allows code-sharing and the carriers hold the underlying rights to serve that country. Air Canada code-shares with certain Star Alliance® partners via Canada and the United States and some of these Star Alliance® partners' codes appear on some Jazz operated transborder flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the United States had negotiated an Open Skies Agreement which further liberalizes air transportation services. On March 12, 2007, the Open Skies Agreement came into force. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. Cabotage, the right to operate flights between two points within the other country, remains prohibited.

In the United States, the FAA prohibits a United States certificated air carrier from wet leasing an aircraft from a foreign licensed air carrier. A wet lease is an arrangement whereby a carrier leases an aircraft together with crew to operate the aircraft. Until March 24, 2008, this rule prohibited a capacity purchase type of agreement whereby a United States air carrier would buy and hold out in its own name all of the capacity of an aircraft operated by a foreign air carrier. Effective March 24, 2008, the United States Department of Transportation ("DOT") published a Notice concerning its policy on leasing arrangements between United States certificated air carriers and non-United States air carriers. The policy has now been changed to relax the prohibition. Contracts for non-United States airlines to provide aircraft and crew will now be permitted if, on application to the DOT, it is determined the non-United States air carrier meets

the regulatory criteria. Flying operated under such newly permitted contracts cannot include point-to-point flying within the United States.

### **Charter Services**

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the 1995 Canada-US Air Services Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one way travel. To preserve a distinction between charter and scheduled international services, this policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter carriers be prohibited from selling seats directly to the public.

### **Official Languages Act**

Air Canada is subject to the OLA, which among other things, compels it to ensure that any member of the traveling public can communicate with and obtain services in either official language, French and English, where there is significant demand for those services in that language (Part IV of the OLA) and to allow employees to work in either official language (Part V of the OLA). In 2000, Parliament passed amendments to the Air Canada Public Participation Act to impose on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services.

Pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

On December 10, 2007, Bill C-36, *An Act to amend the Air Canada Public Participation Act (Canada)*, was tabled in the House of Commons. Bill C-36 proposes provisions which would impose requirements on an air service undertaking owned and operated by Jazz, to offer customer or consumer services in both official languages. The 39<sup>th</sup> Parliament was dissolved September 7, 2008. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons.

### **Security Initiatives**

Jazz's first priority is to ensure the safety and security of all passengers and crew members on all flights.

Following the September 11, 2001 terrorist attacks, the Minister of Transport issued new air security measures, including increased passenger and baggage screening and enhanced security procedures at check-in gates and on-board the aircraft. Other countries such as the United States and the United Kingdom have similarly imposed additional security requirements. In response to these new measures, Jazz reinforced the cockpit doors on all of its aircraft and requires passengers to produce valid identification prior to boarding all flights. In December 2001, the Minister of Transport announced several security initiatives including a new Canadian Air Transport Security Authority responsible for the provision of key air security services, an expanded program of armed police on aircraft to cover selected domestic and international flights, and an air traveler's security charge. The air traveler's security charge was introduced on April 1, 2002. The charges have been revised in subsequent federal budgets. Since April 1, 2005, the maximum charge is \$10 for domestic travel and \$17 for transborder and international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by

regulation to provide the Canada Border Services Agency with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide access to passenger name records in the carriers' internal reservation systems. Foreign countries including the United States have enacted and have established similar information requirements with respect to flights operating into and/or from their territory.

On August 10, 2006, Transport Canada announced the implementation of heightened security measures after a foiled attack with liquid explosives at Heathrow Airport in London, England. Since September 26, 2006, in accordance with new Transport Canada security measures, Jazz allows passengers to bring on board limited and prescribed quantities of liquids, gels and aerosols.

On October 27, 2006, Transport Canada announced the details of a new Passenger Protect Program and draft regulations pursuant to which the Government of Canada will create a list of specified persons who will be deemed to pose an immediate threat to aviation security should they attempt to board a flight. Air carriers will be expected to screen passengers against the specified persons list through a secure online system. The Government of Canada has also proposed new identity screening regulations which will require air passengers to present government-issued identification showing name, date of birth and gender prior to boarding an aircraft. Jazz has implemented the new measures imposed by Transport Canada under the Passenger Protect Program. Similar requirements imposed by the Transport Security Agency, a U.S. government agency, for its "no-fly" and "selectee" lists have already been implemented.

Jazz is also working with the Canadian Air Transport Security Agency and other agencies to continuously improve security measures and to ensure that any innovation adopted by Jazz maintains the highest degree of security.

On May 6, 2004, Bill C-7, *An Act to amend certain Acts of Canada in order to enhance public safety* (known as the *Public Safety Act, 2002*) received royal assent. The legislation amends certain provisions of the *Aeronautics Act (Canada)* so as to further develop the scope and objectives of the existing national aviation security regime. The amendments include requirements for Canadian carriers and foreign carriers operating into Canada to provide, upon request, information concerning specified flights or persons to the Minister of Transport, the Royal Canadian Mounted Police and the Canadian Security Intelligence Service for transportation security or national security purposes. These amendments came into force on May 11, 2004.

### **Safety Initiatives**

On June 15, 2005, the Minister of Transport announced regulatory amendments to further improve the safety performance of Canadian air operators and increase accountability in the aviation sector through the implementation of safety management systems. The goals of safety management systems are to increase industry accountability, to instil a consistent and positive safety culture, and to help improve the safety performance of air operators. Amendments to the *Canadian Aviation Regulations* require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31, 2005. On April 27, 2006, Bill C-6, *An Act to amend the Aeronautics Act and to make consequential amendments to other Acts (Canada)*, was tabled for first reading in the House of Commons. Bill C-6 seeks, among other things, to address integrated management systems and to authorize the establishment of voluntary reporting programs under which information relating to aviation safety and security may be reported. On October 29, 2007, Bill C-7, which represents the same version of Bill C-6 as adopted by the House of Commons at Report Stage, was tabled for first and second reading in the House of Commons. Bill C-7 has been debated, but has not yet received third reading. The 39<sup>th</sup> Parliament was dissolved September 7, 2008. Management cannot predict if or when such proposed legislation will be re-instated in the House of Commons.

Jazz implemented a safety management system in accordance with the amendments to the *Canadian Aviation Regulations*. The President and Chief Executive Officer, Joseph D. Randell, has been appointed as the executive currently accountable for Jazz's safety management system and Jazz's Director of

Corporate Safety is responsible for the implementation of the safety management system. Jazz is in compliance or surpasses all regulatory requirements.

### **Environmental Matters**

In 2002, Canada ratified the Kyoto Protocol thereby committing it to legislating reductions in air emissions which contribute to climate change. On October 21 2006, the federal government issued a Notice of intent to develop and implement regulations and other measures to reduce air emissions. As part of this Regulatory Framework for Air Emissions, the federal government continues to support harmonized international efforts to limit or reduce both domestic and international aviation emissions of greenhouse gases and air pollutants. In December 2009, representatives from approximately 170 countries met in Copenhagen, Denmark to negotiate a successor treaty to the Kyoto Protocol. The resulting Copenhagen Accord is non-binding, representing the political consensus of the participating states. On January 31, 2010 Canada submitted a non-binding commitment under the Copenhagen Accord to the United Nations Framework on Climate Change to reduce greenhouse gas emissions by 17% from 2005 levels by 2020. At this time, there are no specific targets for aviation emissions.

In 2005, Canada reached a voluntary agreement on the reduction of GHG emissions with its aviation industry. This voluntary agreement between the Government of Canada and the members of ATAC sets out a GHG emission reduction goal on a per unit basis. ATAC members are committed to a fuel efficiency improvement target of 24% from 1990 levels by 2012 (measured in litres of jet fuel/revenue tonne kilometre). Jazz was a member of ATAC at the time the voluntary agreement was signed. Jazz is committed to improving fuel efficiency and has a number of fuel efficiency initiatives underway which are monitored closely at an executive level.

Jazz believes that it is in compliance in all material respects with the terms of applicable government regulations. Jazz is committed to conducting its operations in a manner that complies with all legal requirements relating to health and safety and the environment, and regularly evaluates and monitors its related activities.

To date, environmental laws and regulations have not had a material adverse effect on the business or financial condition of Jazz. However, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. Jazz is not able to predict future costs which may be incurred in order to comply with future environment regulations.

Jazz's Corporate Environmental Policy is available at [www.flyjazz.ca](http://www.flyjazz.ca).

### **Privacy**

Jazz is subject to applicable Canadian and United States privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. Among other things, Canada's federal private sector privacy legislation, the PIPEDA, governs the collection, use and disclosure of personal information in the course of commercial activities by a federally regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally regulated employers. The PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders. The PIPEDA requires notice to, and informed consent by, the individuals whose personal information is collected, used or disclosed. The personal information may then only be used for the purposes for which it was originally collected and for which consent from individuals has been obtained or for limited other purposes specified in, or allowed by, the PIPEDA. Jazz has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Management believes that its privacy policy and practices comply with applicable law in Canada and the United States.

## DESCRIPTION OF THE FUND

### General

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust. The Fund qualifies as a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. Reference is made to the Fund Declaration of Trust for a complete description of the Units and the full text of its provisions. See “Material Contracts”.

### Activities of the Fund

The Fund Declaration of Trust provides that the Fund is restricted to:

- (i) acquiring, investing in, transferring, disposing of, and otherwise dealing with securities including those of the Trust or a wholly-owned subsidiary of the Fund which is a “Canadian corporation” (within the meaning of the Tax Act) (“ExchangeCo”);
- (ii) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to the Unitholders;
- (iii) issuing Units and other securities (including warrants, options or other rights to acquire Units or other securities of the Fund), including for the following purpose of (i) obtaining funds to conduct the activities of the Fund, including raising funds to conduct the activities described above in (i), (ii) satisfying non-cash distributions to Unitholders, (iii) implementing any Unitholder rights plan, unit purchase plans, distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, or (iv) giving effect to the rights of exchange under the Investor Liquidity Agreement;
- (iv) issuing debt securities (including debt securities convertible into or exchangeable for Units or other securities of the Fund) or otherwise borrowing and mortgaging, hypothecating, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- (v) guaranteeing the payment of any indebtedness, liability or obligation of Jazz LP, Jazz GP or their respective subsidiaries or the performance of any obligation of any of them, and mortgaging, hypothecating, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness, in each case to the extent permitted under the *Tax Act*;
- (vi) disposing of any part of the assets of the Fund;
- (vii) repurchasing securities issued by the Fund;
- (viii) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (ix) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust,

provided that the Fund will not undertake any activity, take any action, omit to take any action or make or retain any investment which would result in the Fund not being considered a “mutual fund trust” for

purposes of the Tax Act, or would result in the Units being treated as “foreign property” for the purposes of the Tax Act.

### **Units**

An unlimited number of Units may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains allocated and distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

All Units are of the same class with equal rights and privileges. The Units issued pursuant to the Initial Public Offering are not subject to future calls or assessments, and except as set out below under “Voting Right” entitle the holders thereof to one vote for each whole Unit held at all meetings of Unitholders.

Except as set out under “Description of the Fund - Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

### **Issuance of Units**

The Fund Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any Unitholder rights plan, distribution reinvestment plan, unit purchase plan or any incentive option or other compensation plan established by the Fund. Units may also be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis to the extent that the Fund does not have available cash to fund such distributions. The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will automatically be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder’s share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

### **Trustees**

The Fund has a minimum of three Trustees and a maximum of ten Trustees, all of whom must be Canadian within the meaning of the CTA. In addition, the Tax Act requires that the Fund be a resident in Canada within the meaning of the Tax Act. The Trustees are to supervise the activities, and manage the affairs, of the Fund. As at December 31, 2009, Gary M. Collins, Sydney John Isaacs, Katherine M. Lee, G. Ross MacCormack, Richard H. McCoy, John T. McLennan and Joseph D. Randell were the trustees of the Fund.

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and supervise the investments and conduct the affairs of the Fund. Subject to such terms and conditions, the Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a holder of Trust Units and Trust Notes;

- maintaining records and providing reports to Unitholders;
- supervising the activities and managing the investments and affairs of the Fund;
- effecting payments of distributable cash from the Fund to Unitholders, subject to certain limitations;
- voting in favour of the Fund's nominees to serve as trustees of the Trust;
- investing funds of the Fund; and
- issuing Units or securities convertible into or exchangeable for Units.

Any one or more of the Trustees may (i) resign upon 30 days' written notice to the Fund, unless such resignation would cause the number of remaining Trustees to be less than a quorum, in which case the resignation is effective only upon the appointment of a successor trustee, or (ii) be removed by an Ordinary Resolution. The vacancy created by the removal or resignation may be filled at the same meeting or failing which, it may be filled by the affirmative vote of a quorum of the Trustees.

Trustees are appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Trustees, being the majority of the Trustees then holding office, provided that a majority of the Trustees comprising such quorum shall not be non-residents for purposes of the Tax Act, may fill a vacancy in the Trustees, except a vacancy resulting from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of the Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Unitholder may call the meeting. The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees shall not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Fund Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty 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 is entitled to indemnification from the Fund in respect of the exercise of the Trustee'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 the Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful.

### **Officers**

The Trustees may from time to time appoint one or more officers of the Fund. A majority of the officers of the Fund shall be residents of Canada within the meaning of the Tax Act and Canadians within the meaning of the CTA.

### **Cash Distributions**

The Fund intends to make distributions of its available cash to its Unitholders net of estimated cash amounts required for expenses and other obligations of the Fund, including any tax liability, sufficient liquidity, and cash redemptions or repurchases of Units. Any such distributions are made to Unitholders of record on the last business day of each month, within 15 days, after the end of the month. (Refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this Annual Information Form.)

In addition, on December 31 of each year, the Fund shall make payable to the Unitholders, and such Unitholders will have an enforceable right to payment (either in cash, in Units or otherwise) on such date, of a distribution of income and net realized capital gains for such year which are in excess of monthly distributions during such year, as the Trustees may determine, to ensure that the Fund does not have an income tax liability under Part I of the Tax Act.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution shall, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Those additional Units shall be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Holders of Units who are non-residents of Canada (as defined in the Tax Act) are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

### **Redemption at the Option of Unitholders**

Units are redeemable at any time on demand by the holders thereof. As the Units were issued in book-entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- (i) 90% of the "market price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and
- (ii) 100% of the "closing market price" on the Redemption Date.

For purposes of this calculation, the "market price" of a Unit as at a specified date, will be:

- (i) an amount equal to the volume weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;
- (ii) an amount equal to the volume weighted average of the closing prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a volume weighted average trading price; or
- (iii) if there was trading on the applicable exchange or market for fewer than five of the ten trading days, an amount equal to the volume weighted average of the following prices established for each of the ten consecutive trading days ending on such date: the volume weighted average of the last bid and last asking prices of the Units for each day on which there was no trading; the volume closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the volume weighted average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

The "closing market price" of a Unit for the purpose of the foregoing calculations, as at any date, will be:

- (i) an amount equal to the volume weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date if the

principal exchange or market provides information necessary to compute a volume weighted average trading price of the Units on the specified date;

- (ii) an amount equal to the closing price of a Unit on the principal market or exchange, if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;
- (iii) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or
- (iv) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

The aggregate redemption price payable by the Fund in respect of all Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- (i) the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- (ii) at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and
- (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10-day trading period ending on the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption shall, subject to any applicable regulatory approvals (which the Fund shall use reasonable commercial efforts to obtain forthwith), be redeemed by way of a distribution in specie. In such circumstances, Series 1 Trust Notes and Trust Units of a value as determined by the Trustees equal to the Redemption Price will be redeemed by the Trust in consideration of the issuance to the Fund of Series 3 Trust Notes and Series 2 Trust Notes, respectively. The Series 2 Trust Notes and the Series 3 Trust Notes will then be transferred to ExchangeCo, in exchange for Exchange Notes. The Series 2 Exchange Notes and Series 3 Exchange Notes will have terms similar to the Series 2 Trust Notes and Series 3 Trust Notes, respectively, except that the interest rates on the Series 2 Exchange Notes and Series 3 Exchange Notes will be 0.05% less than the interest rates on the Series 2 Trust Notes and Series 3 Trust Notes. The Exchange Notes will then be distributed in satisfaction of the Redemption Price. No fractional Exchange Notes in integral multiples of less than \$100 will be distributed and, where the number of securities to be received by a Unitholder includes a fraction or a multiple less than \$100, that number shall be rounded to the next lowest whole number or integral multiple of \$100 and the balance shall be paid by cheque. The Fund will be entitled to all interest paid or accrued and unpaid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities on the redemption of Units of a Unitholder, the Trustees currently intend to make payable and designate to that Unitholder any income or capital gain realized as a result of any disposition of property by the Fund undertaken to facilitate the redemption of the Unitholder's Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Exchange Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Exchange Notes and they may be subject to resale restrictions under applicable securities laws. Exchange Notes so distributed may not be qualified investments under the Tax Act for Plans, depending on the circumstances at the time.

### **Repurchase of Units**

The Fund is permitted, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase shall constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

### **Meetings of Unitholders**

The Fund Declaration of Trust provides that meetings of Unitholders shall be called and held annually for the election of Trustees, the presentation of the audited financial statements and the appointment of auditors of the Fund. The Declaration of Trust provides that the Unitholders shall be entitled to pass resolutions that will bind the Trustees only with respect to:

- the election or removal of Trustees;
- the election or removal of nominees of the Fund chosen by the Unitholders to serve as trustees of the Trust (except filling casual vacancies);
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under “Amendments to the Fund Declaration of Trust”);
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of the Trust held by the Fund (as set out under “Description of the Fund – Exercise of Certain Voting Rights Attached to Securities of the Trust” below);
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Unitholder approval;
- the dissolution of the Fund prior to the end of its term; and
- any other matters required by securities law, stock exchange rules or other applicable laws or regulations to be submitted to Unitholders for their approval.

No other action taken by Unitholders or any other resolution of the Unitholders at any meeting shall in any way bind the Trustees.

A resolution electing or removing nominees of the Fund to serve as trustees of the Trust (except filling casual vacancies) or with respect to the exercise of certain voting rights attached to the securities of the Trust held by the Fund, and a resolution appointing or removing the Trustees or the auditors of the Fund must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by a resolution passed by the affirmative vote of the holders of more than 66 2/3% of the Units who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of more than 66 2/3% of the Units entitled to vote on such resolution.

A meeting of Unitholders may be convened at any time and for any permitted purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy holder need not be a Unitholder. At any meeting of Unitholders, a quorum is present if Unitholders holding Units of not less than 25% of the Units entitled to vote at the meeting are present in person or represented by proxy.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

### **Voting Rights**

The CTA provides that a holder of domestic, scheduled international and non-scheduled international licenses must be controlled in fact, and that at least 75% of its voting interests must be owned and controlled, by Qualified Canadians.

In order to ensure compliance with the requirements of the CTA, the Fund Declaration of Trust includes certain constraints on the voting rights of Unitholders that are not Qualified Canadians. Each Unit that is owned and controlled by a Qualified Canadian will entitle the holder thereof to one vote. Each Unit that is not owned and controlled by a Qualified Canadian will entitle the holder thereof to one vote, except in the following circumstances:

- if more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding Units (determined on a fully diluted basis) are not owned and controlled by Qualified Canadians, the vote attaching to each Unit that is not owned and controlled by a Qualified Canadian will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes attaching to all outstanding Units that are not owned and controlled by Qualified Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding votes attaching to all outstanding Units; and
- if the aggregate number of votes that could be cast at any meeting in respect of Units that are not owned and controlled by Qualified Canadians would exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of votes that could be cast at such meeting, the vote attaching to each Unit that is not owned and controlled by a Qualified Canadian will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes that may be cast at such meeting in respect of all outstanding Units that are not owned and controlled by Qualified Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of votes that can be cast at such meeting by all Unitholders.

### Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, for so long as is required by the Tax Act to meet such test, the Fund Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners (on either a basic or fully diluted basis) of more than 49.9% of the Units, whether by way of conversion of Debentures into Units, repayment of Debentures by issuance of Units, or otherwise. This 49.9% limitation will be applied with respect to the issued and outstanding Units.

If at any time, the Trustees, in their sole discretion, determine that it is advisable and in the best interests of the Fund to act so that the Fund continues to qualify as a mutual fund trust for purposes of the Tax Act, the Trustees may take one or more actions including the following:

- the Trustees may perform residency searches of Unitholder and beneficial Unitholder mailing address lists and take such other steps specified by the Trustees, at the cost of the Fund, to determine or estimate, to the extent practicable, the residence of the beneficial owners of Units;
- the Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from Unitholders as to whether such Units are held by or for the benefit of Non-Resident Beneficiaries;
- the Trustees, following the issuance of a public announcement to such effect, may refuse to accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a Non-Resident (or, in the discretion of the Trustees, that the person is not a Non-Resident Beneficiary) and does not hold his or its Units for a Non-Resident Beneficiary;
- the Trustees may place such other limits on Unit ownership by Non-Residents as the Trustees may deem necessary in their sole discretion, including unilaterally altering the limit on Non-Resident ownership above, to the extent required, in the opinion of the Trustees, to maintain the Fund's status as a mutual fund trust; and
- if, notwithstanding the foregoing, the Trustees, in their sole discretion, determine that further action is required so that the Fund continues to qualify as a mutual fund trust for purposes of the Tax Act, the Trustees may send a notice to such Unitholders, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not Non-Residents and do not hold their Units for the benefit of Non-Resident Beneficiaries within such period, the Trustees may sell such Units on behalf of such Unitholders, and in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such sale, the affected holders shall cease to be Unitholders and their rights shall be limited to receiving the net proceeds of sale.

In any situation where it is unclear whether Units are held for the benefit of Non-Resident Beneficiaries, the Trustees may exercise their discretion in determining whether such Units are or are not so held.

In addition, the Debenture Trustee may, upon the instruction of the Fund, require declarations as to the jurisdictions in which beneficial owners of Debenture are resident. If the Fund notifies the Debenture Trustee that the beneficial owners (on either a basic or fully diluted basis) of more than 49% of the Units are, or may be, Non-Residents, or that such a situation is imminent, the Fund may require the Debenture Trustee to make a public announcement thereof and the Fund may instruct the Debenture Trustee not to register a transfer of Debentures to a person unless the person provides a declaration that the person is not a Non-Resident and does not hold his or her Debentures for the benefit of a Non-Resident. If,

notwithstanding the foregoing, the Fund notifies the Debenture Trustee that beneficial owners (on either a basic or fully diluted basis) of more than 49% of the Units are Non-Residents, the Fund may instruct the Debenture Trustee to, or the Fund's trustees may, send a notice to Non-Resident holders of Debentures or Units and holders of Debentures or Units for the benefit of Non-Residents, chosen in inverse order to the order of acquisition or registration of the Debentures or Units or in such manner as the Debenture Trustee or the Fund's trustees may consider equitable and practicable, requiring them to sell their Debentures or Units or a portion thereof within a specified period of not more than 60 days. If the Debenture holders or Unitholders receiving such notice have not sold the specified number of Debentures or Units or provided the Debenture Trustee and the Fund with satisfactory evidence that they are not Non-Residents and do not hold Debentures or Units for the benefit of a Non-Resident within such period, the Fund's trustees may or the Fund may instruct the Debenture Trustee, on behalf of such Debenture holder or Unitholder, and the Fund's trustees or the Debenture Trustee, as applicable, shall have the power of attorney of such holder to, sell or redeem such Debentures or Units, as the case may be, and, in the interim, shall suspend the rights attached to such Debentures or Units. Upon such sale or redemption, the affected holders shall cease to be holders of Debentures or Units, as the case may be, and their rights shall be limited to receiving the net proceeds of sale or redemption upon surrender of such Debentures or Units.

### **Additional Limitations**

The Fund intends to be treated as a publicly-traded corporation for United States federal income tax purposes as provided under Section 883 of the United States Internal Revenue Code of 1986, as amended and the Treasury Regulations promulgated thereunder. As a result, the fund must demonstrate either that (i) persons who own at least 5% of the vote and value of the outstanding Units ("5% Shareholders") do not own, in the aggregate, 50% or more of the vote and value of the outstanding Units (the "Widely-Held Test"); or (ii) if the Widely-Held Test is not met, that less than 50% of the total value of the outstanding Units are held by 5% Shareholders who, generally, are not resident of Canada during a prescribed period for income tax purposes. The Trustees may take measures to ensure that the Fund meets either of the foregoing tests.

### **Amendments to the Fund Declaration of Trust**

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Unitholders by a Special Resolution.

The Trustees, at their discretion and without the approval of the Unitholders, shall be entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- (i) which are required for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund, including ensuring that the Fund continues to qualify as a "mutual fund trust" and continues to be a Canadian for the purpose of the CTA and within the meaning of the Tax Act;
- (ii) which provide additional protection or added benefits for the Unitholders, provided that the Trustees receive a legal opinion from counsel to this effect;
- (iii) to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are necessary or desirable and not prejudicial to the Unitholders; and
- (iv) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws.

Notwithstanding the previous sentence, the Trustees may not amend the Fund Declaration of Trust in a manner which would result in (a) the Fund failing to qualify as a "mutual fund trust" under the Tax Act or (b) the Units being treated as "foreign property" for the purposes of the Tax Act.

On March 23, 2009, the Trustees amended the Declaration of Trust to clarify the provisions relating to a Special Resolution of Unitholders.

### **Term of the Fund**

The Fund has been established for a term ending 21 years after the date of death of the last surviving descendant of Her Majesty, Queen Elizabeth II, alive on November 25, 2005. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term. At any time prior to the expiry of the term of the Fund, the Unitholders may by Special Resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

The Fund Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustees will give notice thereof to the Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money the Trust Units, the Trust Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall, subject to obtaining all necessary regulatory approvals, distribute the remaining part of the proceeds of the sale of the Trust Units, the Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any of the Trust Units, the Trust Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, the Trust Notes or other assets in specie directly to the Unitholders in accordance with their pro rata interests subject to obtaining all required regulatory approvals.

### **Take-over Bids**

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (including Units held at the date of the take-over bid by or on behalf of the offeror or associates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

### **Exercise of Certain Voting Rights Attached to Securities of the Trust**

The Fund Declaration of Trust provides that, subject to the Jazz LP Partnership Agreement, the Fund shall not vote any securities of the Trust held by the Fund to authorize any transaction which is adverse to the Unitholders including, among other things:

- any sale, lease or other disposition of all or substantially all of the assets of the Trust or Jazz LP except in conjunction with an internal reorganization of the Trust or Jazz LP;
- any amalgamation, arrangement or other merger of the Trust or Jazz LP with any other entity, except in conjunction with an internal reorganization of the Trust or Jazz LP;
- any material amendment to the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes to the Fund that are identical in all respects to the Trust Notes issued in connection with the Initial Public Offering or in conjunction with an internal reorganization of the Trust or Jazz LP;

- the winding-up or dissolution of the Trust or Jazz LP prior to the end of the term of the Fund; or
- any material amendment to the constating documents of the Trust or Jazz LP to change the authorized share capital or partnership interests which may be prejudicial to the Fund,

without the authorization of the Unitholders by a Special Resolution at a meeting of Unitholders called for that purpose.

### **Information and Reports**

The Fund shall furnish to Unitholders, in accordance with applicable securities laws, all consolidated financial statements of the Fund (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees shall provide to the Unitholders (along with notice of the meeting) a form of proxy and all information as is required by applicable law and by the Fund Declaration of Trust to be provided to Unitholders.

Furthermore, the Trustees of the Fund are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units, and the rules under securities legislation regarding governance shall be applied to Jazz GP and its board of directors.

### **Book-Entry System**

Registration of interests in and transfers of the Units are made through the Book-Entry System. On or about the date of the closing of the Initial Public Offering, the Trustee delivered to CDS certificates evidencing the aggregate number of Units subscribed for under the Initial Public Offering. Units may be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled shall be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon a purchase of any Units, the Unitholder shall receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased. References in this Annual Information Form to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The Fund has the option to terminate registration of the Units through the Book-Entry System in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

### **Conflicts of Interest Restrictions and Provisions**

The Fund Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the CBCA, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with the Trust.

## Rights of Unitholders

Following the completion of the closing of the Initial Public Offering, the rights of the Unitholders were established by the Fund Declaration of Trust. Although the Fund Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the CBCA, there do exist significant differences.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Fund Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and auditors, except that the Unitholders that are not Qualified Canadians may have their voting rights restricted to comply with the CTA (see "Voting Rights"). The Fund Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which Unitholder approval is required under the Fund Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities. These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are "reporting issuers" or the equivalent or listed on the TSX.

The Fund Declaration of Trust contains provisions, similar to those contained in the CBCA, that require each Trustee or officer of the Fund to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a contract or transaction or proposed contract or transaction with the Fund. In any case, a Trustee or officer of the Fund who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the material contract or transaction unless the material contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, (ii) insurance or indemnity or (iii) a transaction with Jazz LP.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to redeem their Units, as described under "Description of the Fund – Redemption at the Option of Unitholders". Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregarding the interests of securityholders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Fund Declaration of Trust which permit the winding up of the Fund with the approval of a Special Resolution of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Fund Declaration of Trust allows Unitholders to call meetings to consider the appointment of an inspector to investigate the Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight or assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a

court. The Fund Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

## **DESCRIPTION OF THE TRUST**

The Trust Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund. The principal differences between the Trust Declaration of Trust and the Fund Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the text of the Trust Declaration of Trust and the Fund Declaration of Trust.

### **General**

The Trust is an unincorporated, open-ended trust established under the laws of the Province of Ontario pursuant to the Trust Declaration of Trust. The Trust will have a minimum of three Trustees and a maximum of ten Trustees, all of whom must be Canadians within the meaning of the CTA. In addition, the Tax Act requires that the Trust be a resident in Canada and, to this end, the Trust Declaration of Trust provides that a majority of the Trustees must be residents of Canada within the meaning of the Tax Act. The activities of the Trust are restricted to, among other things:

- investing in securities, including those issued by Jazz LP and Jazz GP;
- issuing Trust Units;
- issuing debt securities, including the Trust Notes;
- redeeming Trust Units;
- purchasing securities issued by the Trust;
- guaranteeing the obligations of Jazz LP, or any affiliate of the Trust or Jazz LP pursuant to any good faith debt for borrowed money incurred by Jazz LP, the Trust or any of their affiliates, as the case may be, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets, including, without limitation, securities held by the Trust as security for such guarantee; and
- satisfying the obligations, liabilities or indebtedness of the Trust.

As at the date of this Annual Information Form, the Trust does not intend to hold securities of any entities other than Jazz LP and Jazz GP, except in connection with its short-term cash management.

### **Restrictions on the Trust's Trustees' Powers**

The Trust Declaration of Trust provides that the Trust's Trustees may not, without approval by Ordinary Resolution:

- (i) take any action upon any matter which under applicable law (including policies of the Canadian securities regulatory authorities) or applicable stock exchange rules would require approval by Ordinary Resolution of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading; and
- (ii) subject to certain exceptions, appoint or change the auditors of the Trust.

Furthermore, the Trust Declaration of Trust states that, subject to the Jazz LP Partnership Agreement, the Trust's Trustees may not, without approval by Special Resolution of the holders of Trust Units:

- take any action upon any matter which under applicable law (including policies of the Canadian securities regulatory authorities) or applicable stock exchange rules would require approval by Special Resolution or super-majority (as defined or described therein) of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading;
- materially amend the Trust Declaration of Trust except in certain limited circumstances similar to those under which the Fund Declaration of Trust may be amended without the consent of Unitholders;
- materially amend the Jazz LP Partnership Agreement;
- materially amend the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes or in connection with an internal reorganization of the Trust or Jazz LP;
- sell, lease or exchange all or substantially all of the property of the Trust or Jazz LP other than in the ordinary course of business or in connection with an internal reorganization of the Trust or Jazz LP;
- authorize the termination, liquidation or winding-up of the Trust or Jazz LP, other than at the end of the term of the Trust; or
- authorize the amalgamation, arrangement, merger or similar transaction of the Trust or Jazz LP with any other person, except in connection with an internal reorganization of the Trust or Jazz LP.

### Redemption Right

The Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed notice requiring the Trust to redeem the Trust Units, in a form reasonably acceptable to the Trust's Trustees, together with the certificates for the Trust Units representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender of Trust Units by a holder thereof for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units other than the right to receive the redemption price for such Trust Units. The redemption price for each Trust Unit tendered for redemption will be equal to:

$$\frac{(A \times B) - C}{D}$$

Where:

- A = the cash redemption price per Unit of the Fund calculated as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;
- B = the aggregate number of Units outstanding as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;
- C = the aggregate unpaid principal amount of the Series 1 Trust Notes and accrued interest thereon and any other indebtedness held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than Trust Units) as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder; and

D = the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder.

The Trust's Trustees are also entitled to call for redemption, at any time, all or part of the outstanding Trust Units registered in the name of the holders thereof other than the Fund at the same redemption price as described above for each Trust Unit called for redemption, calculated with reference to the date the Trust's Trustees approved the redemption of Trust Units.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of the Trust's Trustees, (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose Trust Units are to be redeemed of such aggregate amount of Series 2 Trust Notes as is equal to the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest \$100, with the balance of any such aggregate redemption price not paid in Series 2 Trust Notes to be paid in immediately available funds by cheque; or (iii) by any combination of funds and Series 2 Trust Notes as the Trust's Trustees shall determine in their discretion, in each such case payable or issuable on the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 2 Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$100 and the balance shall be paid by cheque.

### **Cash Distributions**

The Trust intends to make distributions of its available cash to the Fund net of estimated cash amounts required for expenses and other obligations of the Fund, including any tax liability, sufficient liquidity, and cash redemptions or repurchases of Units. Such distributions will be paid within ten days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders. (Refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this Annual Information Form.)

In addition, on December 31 of each year, the Trust shall make payable to the Fund, and the Fund shall have an enforceable right to payment (either in cash, in Trust Units or otherwise) on such date, of such amount in respect of the taxable income and net realized capital gains, if any, of the Trust for such year as is necessary to ensure that the Trust will not be liable for taxes under Part I of the Tax Act in such year.

If the Trust's Trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Trust Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trust's Trustees, to be available for the payment of such distribution. The value of each Trust Unit so issued will be the redemption price thereof.

Any Trust Units transferred to Unitholders pursuant to a distribution in specie may be subject to resale and transfer restrictions and cannot be resold or transferred except as permitted by applicable securities laws.

### **Trust Notes**

Trust Notes were issued under the Trust Note Indenture. Trust Notes are issuable in Canadian currency in denominations of \$100 and integral multiples of \$100. No fractional Trust Notes are distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number shall be rounded down to the nearest whole number.

\$1,034.0 million principal amount of Series 1 Trust Notes issued by the Trust are held by the Fund.

Series 2 Trust Notes are reserved by the Trust to be issued exclusively to holders of Trust Units in full or partial payment of the redemption price of Trust Units, as the Trust's Trustees may decide or, in certain circumstances, be obliged to issue. Series 3 Trust Notes are reserved by the Trust to be issued exclusively in full or partial payment of the redemption price of Series 1 Trust Notes.

In the event that Series 2 Trust Notes and Series 3 Trust Notes are issued to the Fund by the Trust, the Series 2 Trust Notes and Series 3 Trust Notes shall be transferred by the Fund to ExchangeCo in exchange for Series 2 Exchange Notes and Series 3 Exchange Notes, respectively. The Series 2 Exchange Notes and Series 3 Exchange Notes issued by ExchangeCo will have terms similar to the Series 2 Trust Notes and Series 3 Trust Notes, respectively, except that the interest rate on the Series 2 Exchange Notes and Series 3 Exchange Notes will be 0.05% less than the interest on the Series 2 Trust Notes and Series 3 Trust Notes. Payment of interest on the Trust Notes and the Exchange Notes will be subject to applicable withholding taxes.

### **Interest and Maturity**

The Series 1 Trust Notes are payable on demand, mature on the 10th anniversary of the date of issuance and bear interest at a rate of three percent (3%) per annum, payable within ten days following each calendar month end that such Series 1 Trust Notes are outstanding. Each Series 2 Trust Note will mature on a date which is no later than the first anniversary of the date of issuance thereof and bear interest at a market rate to be determined by the Trust's Trustees at the time of issuance thereof, payable within 10 days following each calendar month that such Series 2 Trust Note is outstanding. Each Series 3 Trust Note matures on the same date as the Series 1 Trust Notes and bear interest at a market rate to be determined by the Trust's Trustees at the time of issuance thereof, payable within 10 days following each calendar month that such Series 3 Trust Note is outstanding.

#### *Payment upon Maturity*

On maturity, the Trust will repay the Trust Notes by paying to the trustee under the Trust Note Indenture in cash an amount equal to the principal amount of the outstanding Trust Notes which have then matured, together with accrued and unpaid interest thereon.

#### *Redemption*

The Trust Notes are redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of the Trust prior to maturity.

#### *Subordination*

Payment of the principal amount and interest on the Trust Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which is defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Trust Note Indenture. The Trust Note Indenture provides that upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness are entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

#### *Default*

The Trust Note Indenture provides that any of the following shall constitute an event of default:

- default in payment of the principal of the Trust Notes when the same becomes due and the continuation of such default for a period of 90 days;

- default in payment of any interest due on any Trust Notes and continuation of such default for a period of 90 days;
- default in the observance or performance of any other covenant or condition of the Trust Note Indenture and continuance of such default for a period of 90 days after notice in writing has been given to the Trust's Trustees specifying such default and requiring the Trust to rectify the same; and
- certain events of dissolution, liquidation, reorganization, bankruptcy, execution or other similar proceedings relative to the Trust.

The provisions governing an event of default under the Trust Note Indenture and remedies available thereunder do not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public.

### **Unit Certificates**

As Trust Units are not intended to be issued or held by any person other than the Fund, registration of interests in, and transfers of, the Trust Units are not made through the Book-Entry System administered by CDS. Rather, holders of Trust Units are entitled to receive certificates therefore.

### **Meetings of Unitholders**

An annual meeting of holders of Trust Units may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust's Trustees may determine or as may properly be brought before the meeting. In order to ensure compliance with the requirements of the CTA, the Trust Declaration of Trust contains restrictions on the voting rights of the holders of Trust Units that are not Qualified Canadians which are similar to the restrictions contained in the Fund Declaration of Trust. See "Description of the Fund – Voting Rights".

## **DESCRIPTION OF JAZZ LP**

The following is a summary of the material attributes and characteristics of the LP Units which were issued under the Jazz LP Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Jazz LP Partnership Agreement which contains a complete statement of those attributes and characteristics.

### **LP Units**

Jazz LP may issue an unlimited number of LP Units to any person. The Jazz LP Partnership Agreement authorizes Jazz GP to cause Jazz LP to issue additional LP Units for any consideration and on any terms and conditions as are established by Jazz GP.

### **Distributions**

The board of directors of Jazz GP has considerable discretion over the amount of cash distributions made by Jazz LP.

Any distributions to the holders of LP Units are paid on the last business day of each month. Distributions will be paid within seven days of the end of each month and are intended to be received by the Trust prior to its related cash distribution to holders of its Trust Units and payment of interest to holders of Trust Notes. Distributable cash for a given period will consist, in general, of Jazz LP's EBITDA for the particular period less any estimated cash amounts required for debt service obligations of Jazz LP, if any, other expense obligations, capital expenditures, taxes, reserves (including reserves intended to stabilize distributions to Unitholders), and such other amounts as may be considered appropriate by Jazz GP.

(Refer to caution regarding forward-looking statements included in “Explanatory Notes” on page 1 of this Annual Information Form.)

Jazz LP may, in addition, make distributions at any other time.

Distributable cash will be the primary metric used to establish the level of distribution during a given period. Factors which will influence Management’s determination of the distributable cash may include the operational and financial performance of Jazz, its debt covenants and obligations, its working capital requirements, its future capital expenditures, its cash on hand and its ability to sustain EBITDA, all of which are susceptible to a number of risks. See “Risk Factors” for a discussion of the risks that could affect the level of distributable cash.

### **Allocation of Net Income and Losses**

The income or loss for tax purposes of Jazz LP for a particular fiscal year will be allocated to each partner in an amount calculated by multiplying the total income or loss for tax purposes allocated to the partners by a fraction, the numerator of which is the sum of the cash distributions received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by Jazz LP to all partners with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Jazz LP to that partner.

Income and loss of Jazz LP for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

### **Limited Liability**

Jazz LP operates in such manner as to ensure, to the greatest extent possible, the limited liability of the Trust. The Trust may lose its limited liability in certain circumstances. If limited liability is lost by reason of the negligence of Jazz GP in performing its duties and obligations under the Jazz LP Partnership Agreement, Jazz GP has agreed to indemnify the Trust against all claims arising from assertions that its liability is not limited as intended by the Jazz LP Partnership Agreement.

### **Transfer of LP Units**

The LP Units are transferable subject to compliance with applicable securities restrictions. However, an LP Unit is not transferable in part and no transfer of an LP Unit will be accepted by Jazz GP unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of Jazz LP. A transferee of an LP Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the Jazz LP Partnership Agreement on the date on which the transfer is recorded.

### **Amendment**

The Jazz LP Partnership Agreement may be amended with approval by Special Resolution of the holders of LP Units, except for amendments, which require unanimous approval of holders of LP Units, to: (i) alter the ability of the limited partners to remove Jazz GP involuntarily; (ii) change the liability of any limited partner; (iii) change the right of a limited partner to vote at any meeting; (iv) allow a limited partner to take an active part in, exercise control over or manage the business of Jazz LP; (v) change Jazz LP from a limited partnership to a general partnership; or (vi) make a change that affects the rights and obligations of Jazz GP or any limited partner without similarly affecting the rights and obligations of all other partners.

Notwithstanding the foregoing,

- no amendment which would adversely affect the rights and obligations of Jazz GP, as general partner, may be made without its consent; and

- Jazz GP may make amendments to the Jazz LP Partnership Agreement to reflect: (i) a change in the name of Jazz LP or the location of the principal place of business of Jazz LP or the registered office of Jazz LP; (ii) a change in the governing law of the partnership to that of any other province of Canada; (iii) admission, substitution, withdrawal or removal of limited partners in accordance with the Jazz LP Partnership Agreement; (iv) a change that, as determined by Jazz GP, is reasonable, necessary or appropriate to qualify, or continue the qualification of, Jazz LP as a limited partnership in which the limited partners have limited liability under the applicable laws; (v) a change that, as determined by Jazz GP, is reasonable, necessary or appropriate to enable Jazz LP to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Jazz LP Partnership Agreement which may be defective or inconsistent with any other provision contained in the Jazz LP Partnership Agreement or which should be made to make the Jazz LP Partnership Agreement consistent with the disclosure set out in the Fund's prospectus dated January 25, 2006 prepared in connection with the Initial Public Offering; or (vii) a change that, as determined by Jazz GP, does not materially adversely affect the limited partners.

### Meetings and Voting Rights

Jazz GP may call meetings of partners and will be required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% of the outstanding LP Units in number. A quorum at a meeting of partners consists in the presence, in person or by proxy, of partners holding LP Units representing not less than 25% of the LP Units entitled to vote at the meeting.

The CTA provides that a holder of domestic, scheduled international and non-scheduled international licenses must be controlled in fact, and that at least 75% of its voting interests must be owned and controlled, by Qualified Canadians.

In order to comply with the applicable provisions of the CTA, the Jazz LP Partnership Agreement includes certain constraints on the voting rights of holders of LP Units that are not Qualified Canadians. Each LP Unit that is owned and controlled by a Qualified Canadian will entitle the holder thereof to one vote. Each LP Unit that is not owned and controlled by a Qualified Canadian will entitle the holder thereof to one vote, except in the following circumstances:

- if more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding LP Units (determined on a fully diluted basis) are not owned and controlled by Qualified Canadians, the vote attaching to each LP Unit that is not owned and controlled by a Qualified Canadian will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes attaching to all outstanding LP Units that are not owned and controlled by Qualified Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding votes attaching to all outstanding LP Units; and
- if the aggregate number of votes that could be cast at any meeting in respect of LP Units that are not owned and controlled by Qualified Canadians would exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of votes that could be cast at such meeting, the vote attaching to each LP Unit that is not owned and controlled by a Qualified Canadian will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes that may be cast at such meeting in respect of all outstanding LP Units that are not owned and controlled by Qualified Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify), of the aggregate, number of votes that can be cast at such meeting by all holders of LP Units.

## DESCRIPTION OF JAZZ GP

### Functions and Powers of Jazz GP

Jazz GP has exclusive authority to manage the business and affairs of Jazz LP, to make all decisions regarding the business of Jazz LP and to bind Jazz LP. Jazz GP is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Jazz LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in Jazz GP to manage the business and affairs of Jazz LP includes all authority necessary or incidental to carry out the objects, purposes and business of Jazz LP, including without limitation, the ability to engage agents to assist Jazz GP to carry out its management obligations or substantially administrative functions. Jazz GP cannot dissolve Jazz LP or wind up Jazz LP's affairs except in accordance with the provisions of the Jazz LP Partnership Agreement.

### Withdrawal or Removal of Jazz GP

Jazz GP may resign on not less than 180 days' written notice to the limited partners of Jazz LP, provided that Jazz GP will not resign if the effect would be to dissolve Jazz LP.

Jazz GP may not be removed as general partner of Jazz LP unless: (i) Jazz GP has committed a material breach of the Jazz LP Partnership Agreement, which breach has continued for 30 days after notice, and that removal is also approved by Special Resolution of the partners of Jazz LP; or (ii) the shareholders or directors of Jazz GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of Jazz GP, or Jazz GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the Jazz LP Partnership Agreement.

### Share Capital and CTA Restrictions

In order to ensure compliance with the restrictions of the CTA, the share capital of Jazz GP is composed of an unlimited number of Class A variable voting shares, an unlimited number of Class B voting shares, an unlimited number of Class A preferred shares and an unlimited number of Class B preferred shares. The Class A variable voting shares may only be held, beneficially owned or controlled by persons who are not Qualified Canadians and the Class B voting shares may only be held, beneficially owned and controlled by persons who are Qualified Canadians. The Class A preferred shares and the Class B preferred shares are non-voting.

The Class B voting shares are entitled to one vote per share. The Class A variable voting shares are entitled to one vote per share, except in the following circumstances:

- if the Class A variable voting shares represent more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding voting shares of Jazz GP (determined on a fully diluted basis), the vote attaching to each Class A variable voting share will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes attaching to all Class A variable voting shares does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding votes attaching to all outstanding shares of Jazz GP; and
- if the aggregate number of votes that could be cast at any meeting in respect of Class A variable voting shares would exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of votes that could be cast at such meeting, the vote attaching to each Class A variable voting share will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes that may be cast at such meeting in respect of all outstanding Class A variable voting does not exceed 25% (or any higher percentage that the

Governor in Council may by regulation specify) of the aggregate number of votes that can be cast at such meeting by all shareholders of Jazz GP.

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with similar restrictions, each issued and outstanding Class B voting share shall be converted into one Class A variable voting share, automatically and without any further act of Jazz GP or the holder, if such Class B voting share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by security only, by a person who is not a Qualified Canadian. Each issued and outstanding Class A variable voting share shall be converted into one Class B voting share, automatically and without any further act of Jazz GP or the holder, if (i) such Class A variable voting share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by security only, by a person who is a Qualified Canadian; or (ii) the foreign ownership restrictions of the CTA are repealed and not replaced with similar restrictions.

## PEOPLE

As at December 31, 2009, Jazz had 4,508 FTE employees compared to 4,388 FTE employees for 2008. This reflects a 2.7% increase from 2008.

Most of Jazz's employees are unionized and its collective bargaining agreements all expired at the end of June 2009. Jazz has pursued negotiations with each union. On August 30, 2009, Jazz reached a tentative three year agreement with its maintenance and engineering employees who are represented by the CAW. That tentative agreement was subsequently ratified on September 12, 2009, by a union vote. On December 3, 2009, Jazz reached a tentative three year agreement with its Customer Services and Aircraft Services divisions, also represented by the CAW. That tentative agreement was subsequently ratified on December 16, 2009 by a union vote.

On March 7, 2010 Jazz reached a tentative agreement with its dispatcher employees represented by the CALDA. That tentative agreement was subsequently ratified on March 25, 2010 by a union vote.

Jazz is currently in negotiations with all other unionized groups of employees.

## RISK FACTORS

### Risks Relating to the Relationship with Air Canada

#### *Dependence on Air Canada*

Jazz is directly affected by the financial and operational strength of Air Canada and its competitive position. In the event of any decrease in the financial or operational strength of Air Canada, Jazz's ability to receive payments from Air Canada, and the amount of such payments, may be adversely affected. In addition, if Air Canada's competitive position is materially weakened, it could affect the utilization of the Covered Aircraft.

In the recent past, Air Canada has, like other network carriers, sustained significant operating losses and may sustain significant losses in the future. Air Canada's business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft;
- fuel costs, which continue to fluctuate and recently reached historically high levels, constitute a significant portion of Air Canada's operating expenses;
- labour conflicts or disruptions can have a material adverse effect on Air Canada's business, results from operations and financial condition;
- the airline industry is highly competitive and subject to price discounting; and

- the risk factors described under “Risk Factors - Risks Relating to the Industry”.

Air Canada is the sole marketing agent for Jazz’s Covered Aircraft capacity and is solely responsible for establishing schedule, routes, frequency and ticket prices for Jazz. To the extent Air Canada does not effectively and competitively market the routes serviced through Jazz, the utilization of the Covered Aircraft could be reduced with the result that Jazz’s operating margin in dollar terms would be reduced.

In addition, Air Canada is responsible for establishing Jazz’s operating plans for the Covered Aircraft, including schedules, Block Hours, departures, ASMs and load factors for each aircraft type included in the Covered Aircraft, and any changes thereto. Should such operating plans not be provided to Jazz on a timely basis in accordance with the CPA, Jazz’s operations could be materially adversely affected.

#### *Liquidity issues*

Air Canada has significant ongoing capital and liquidity requirements. On July 24, 2009 the Minister of Finance (Canada) advised Air Canada that a regulation that had been approved to amend Air Canada’s funding obligations to permit a moratorium on past service contributions for a 21 month period. On July 29, 2009, Air Canada announced that it had entered into arrangements for a term credit facility for up to \$700 million. On October 27, 2009, Air Canada completed a public offering of Units for aggregate gross proceeds in the amount of \$249 million. Based on public filings, Air Canada intends to use the proceeds for working capital and general corporate purposes. There can be no assurance that these measures will provide Air Canada with sufficient liquidity to continue operations in the longer term. The failure of Air Canada to satisfy its liquidity requirements could have a material adverse effect on Jazz’s business, results from operations and financial condition. Such material adverse effect could arise as a result of any inability of Air Canada to pay the fees owing to Jazz under the CPA or any reduction in the utilization of the Covered Aircraft.

#### *Termination of the CPA*

Substantially all of Jazz’s current revenues are received pursuant to the CPA, which currently covers all of Jazz’s existing operating fleet (except four Dash 8 aircraft, which are used for charter purposes). The CPA Amendments extended the initial term of the CPA from December 31, 2015 to December 31, 2020. The CPA will be automatically renewed for two additional five year periods, unless either party gives notice to the other of its intention not to renew within one year prior to the expiry of the initial term or any renewal term. In addition, either party is entitled to terminate the CPA at any time upon the occurrence of an event of default.

Under the CPA, if a change of control of Jazz (other than in favour of the Fund) occurs without the consent of Air Canada, Air Canada may terminate the CPA. The existence of this right may limit Jazz’s ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

If the CPA is terminated, Jazz’s revenue and earnings would be significantly reduced or eliminated unless Jazz is able to enter into satisfactory substitute arrangements. There is no assurance that Jazz would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Jazz. Any failure by Jazz to enter into satisfactory substitute arrangements in these circumstances would have a material adverse effect on its business, results from operations and financial conditions.

The CPA provides that upon the expiry or termination of the CPA, other than termination as a result of a default by Jazz or Air Canada, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines shall automatically be terminated and Air Canada (or any affiliate of Air Canada) shall have the right to repossess the Covered Aircraft and the spare engines. There can be no assurance that Jazz will be able to find replacement aircraft in these circumstances. In the event that Jazz is able to find replacement aircraft, there can be no assurance that Jazz will be able to do so on terms as favourable as the terms of its current leases with Air Canada (or any affiliate of Air Canada). Unless Jazz is able to find replacement aircraft in these circumstances on reasonable terms,

Jazz's ability to offer scheduled and charter flights to any carrier would be materially adversely affected, which would have a material adverse effect on Jazz's business, results from operations and financial condition.

In the event that the CPA is terminated as a result of Jazz's default, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines will not be automatically terminated. In such event, Jazz would remain liable for its obligations under the aircraft leases with no corresponding ability to earn income under the CPA to cover its aircraft lease obligations, which would have a material adverse effect on Jazz's business, results from operations and financial condition.

The CPA Amendments also provide Air Canada with the right to revise the MADUG in the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 has decreased by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009. In the event Air Canada and Jazz do not agree upon a revised MADUG by November 17, 2015, Air Canada will have the right to unilaterally set a revised MADUG by sending Jazz notice by November 20, 2015. Jazz must then send Air Canada a notice by December 18, 2015, of Jazz's intention to either accept the revised MADUG or exercise its right to terminate the CPA as of December 31, 2016.

There can be no assurances that Jazz and Air Canada will, if required, agree to a revised MADUG or that, if the parties do not agree and Air Canada unilaterally sets a revised MADUG level, such revised MADUG level will be acceptable to Jazz. If the CPA is terminated, Jazz's revenue and earnings would be significantly reduced or eliminated unless Jazz is able to enter into satisfactory alternative business arrangements. There is no assurance that Jazz would be able to enter into satisfactory alternative business arrangements or that such arrangements would be as favourable to Jazz as the CPA. Any such termination, or failure to enter into satisfactory substitute arrangements, could have a material adverse effect on Jazz's business, results from operations and financial condition.

Upon the expiration or termination of the CPA, Jazz may lose access to airport facilities at key locations where Air Canada supplies facilities and other services to Jazz. Jazz may also lose access to such airport facilities should Air Canada not be able to secure such access to airport facilities in the future. Most of the airport facilities at Jazz's principal domestic destinations are leased by Air Canada from airport authorities. Under the CPA, Jazz is currently entitled to use these facilities to fulfill its obligations to Air Canada under the CPA. All of Jazz's airport takeoff or landing slots used for Scheduled Flights are under Air Canada's name. Upon the expiry or termination of the CPA, Jazz may lose access to those airport facilities, airport takeoff or landing slots and Jazz may have to enter into alternative arrangements to use the same or other airport facilities and slots at higher rates. There can be no assurance that Jazz would be able to have access to other airport facilities or slots or as to the terms upon which Jazz could do so. Jazz's inability to secure appropriate access to sufficient airport facilities or slots, or the possibility that such access would only be granted with a significant cost increase, would have a material adverse effect on Jazz's business, results from operations and financial condition.

#### *Reduced utilization levels*

While the CPA requires Air Canada to meet certain minimum utilization levels for Jazz's aircraft, Air Canada determines, in its sole discretion, which routes Jazz flies. If Air Canada was unable to find sufficient capacity for its own aircraft or was able to operate at a competitive cost compared to Jazz or use other suppliers at competitive cost, or for any other reason, Air Canada could reduce Jazz's flights to the minimum utilization levels or could require Jazz to fly its aircraft on routes that may underutilize Jazz's aircraft capacity or make it more difficult for Jazz to reach incentive targets, any of which could result in Jazz earning less revenue under the CPA. Though Jazz would still be guaranteed a minimum revenue, if its aircraft were underutilized by Air Canada, Jazz would lose the ability to recover a margin on the direct operating costs of flights that would otherwise have been realized had Jazz's aircraft been more fully utilized. Jazz would also lose the opportunity to earn incentive compensation. The minimum average

daily utilization guarantee will not apply in the event Jazz fails to reach the minimum number of Block Hours due to its own default or an inability to supply sufficient capacity.

*Force Majeure*

Air Canada's and Jazz's obligations under the CPA (other than any financial obligations) will be suspended if, and for so long as, any event of force majeure prevents a party from meeting its obligations pursuant to the CPA. Upon the occurrence of any event of force majeure, Air Canada and Jazz may decide to renegotiate certain terms of the CPA, including, without limitation, rates for the payment of fees by Air Canada, minimum capacity purchase guarantees or certain elements of the then current three-year, annual or seasonal operating plans and the long range fleet plan, including Block Hours and departures, ASMs, airports to which Jazz will operate and the number of Covered Aircraft. Such changes to the terms of the CPA, whether temporary or long-term, could have a material adverse effect on Jazz's business, results from operations and financial condition.

*Replacement of services provided by Air Canada under the CPA and the MSA*

Air Canada provides a number of important services to Jazz, including ticket sales, reservations and call center services, designator codes, information technology, de-icing services and glycol usage, fuel purchasing services as well as passenger, aircraft and traffic handling services. If the CPA is not renewed beyond its original term or subsequent renewal terms, or is otherwise terminated, Jazz would either need to provide these services internally or contract with third parties for such services. There can be no assurance that Jazz would be able to replace these services on a cost effective or timely basis. In addition, pursuant to the MSA, Air Canada provides certain services to Jazz for a fee. These services include insurance and tax services, corporate real estate services, environmental affairs services and legal services. If the MSA is terminated, Jazz would either need to provide these functions internally or contract with third parties for such functions. There can be no assurance that Jazz would be able to replace these services on a cost-effective or timely basis. Jazz's inability to replace these services on a cost effective or timely basis could have a material adverse effect on Jazz's business, results from operations and financial condition.

*Changes in costs and fees*

Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated controllable costs for the applicable calendar year marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for such calendar year. Air Canada is responsible for scheduling and pricing the flights, and absorbs the risk of variations in ticket prices, passenger loads and fuel prices.

For the periods commencing 2009 and 2012, Jazz and Air Canada established and will establish rates for each of the succeeding three years. There can be no assurance that the estimates of the future costs used and to be used in negotiating such rate resets is and will be accurate.

The rates applicable to the 2009-2011 period (reflected in the CPA Amendments), were established to enable Jazz to achieve a Controllable Target Margin of 14.32%, corresponding to a Controllable Target Mark-Up of 16.72% on Jazz's Controllable Costs. However, Air Canada and Jazz also 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 will be effective, enabling Jazz to achieve a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Jazz's Controllable Costs. If Controllable Costs exceed Jazz's estimates, Jazz may realize decreased profits and even losses under the CPA, and may be unable to generate sufficient cash flow to pay its debts on time and Jazz may be required to reduce its expansion plans. If any of these events occurs, Jazz's business, results from operations and financial condition could be materially adversely affected.

The Controllable Mark-Up may also be adjusted 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 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.

The Controllable Mark-Up may also be reduced as a result of the 2009 Benchmark and the 2015 Benchmark (see description of the 2009 Benchmark and 2015 Benchmark in "The Jazz Business - Capacity Purchase Agreement with Air Canada - Rates and Specified Mark-up"). Any such reduction in the Controllable Mark-up could have a material adverse effect on Jazz's business, results from operation and financial conditions.

*Air Canada Pilots Association ("ACPA") Scope Clauses and Small Jets Settlement Agreement*

Air Canada's collective bargaining agreement with ACPA and the Small Jets Settlement Agreement entered into by Air Canada, Jazz, ACPA and ALPA limit the number of regional jet aircraft which can be operated by Jazz under the CPA. The Small Jets Settlement Agreement also prevents Jazz from operating the CRJ705 aircraft under the CPA if configured in excess of 75 seats, inclusive of all classes, and sets out a minimum ratio of ASMs flown by Air Canada compared to the CPA ASMs flown by Jazz under the CPA. These restrictions may cause Air Canada to reduce the level of capacity it purchases from Jazz under the CPA, prevent Jazz from expanding its market share, or impede Jazz's fleet development which could significantly reduce Jazz's expected growth, revenue and earnings from the CPA. Jazz cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Jazz.

*Constraints on Jazz's ability to establish new operations*

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

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

*Exclusivity arrangements*

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

*Potential conflicts with Air Canada*

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

- Jazz's and Air Canada's respective rights and obligations under the CPA or other agreements between Jazz and Air Canada;

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

Jazz may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Jazz and Jazz's business, results from operations and financial condition could be materially adversely affected.

*Limited ability to participate in improved market conditions*

While the capacity purchase business model and target margin reflected in the CPA reduce Jazz's financial risk and exposure to fluctuations for many of its potentially volatile costs, such features also limit Jazz's potential to experience higher earnings growth from improved market conditions.

*Star Alliance*

The strategic and commercial arrangements with Star Alliance™ members provide Air Canada with important benefits, including code-sharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. The departure of a key member from the Star Alliance™, or any such member's ability to meet its obligations thereunder, could result in a negative impact on the network of Air Canada and a material adverse effect on Jazz's business, results from operations and financial condition.

**Risks Relating to Jazz**

*Bill C-310*

On November 24, 2009, Bill C-310, An Act to Provide Certain Rights to Air Passengers, was reported back from the Standing Committee on Transport, Infrastructure and Communities. The Committee recommended that Bill C-310 not proceed any further. The Bill provides obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. If enacted in its current form, Bill C-310 could lead to significant costs for air carriers, including Jazz, which could have a material adverse effect on Jazz's business, results from operations and financial condition. Despite the Committee's recommendations, management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-310 or otherwise.

*Employees*

Jazz's business is labour-intensive and requires a large number of pilots, flight attendants, mechanics and other personnel. Jazz's business plan will require Jazz to locate, hire, train and retain new employees. There can be no assurance that Jazz will be able to locate, hire, train and retain a sufficient number of qualified employees that it needs to carry out its plans or replace departing employees. If Jazz is unable to hire and retain a sufficient number of qualified employees at a reasonable cost, this could have a material adverse effect on its business, results from operations and financial condition.

*Labour costs and labour relations*

Labour costs constitute the largest percentage of Jazz's total operating costs that are borne by Jazz. There can be no assurance that the estimates of Jazz's future labour costs will be accurate. If such costs exceed Jazz's estimates, Jazz may realize decreased profits or even losses under the CPA.

Most of Jazz's employees are unionized and its collective bargaining agreements all expired at the end of June 2009. Jazz has pursued negotiations with each union

On August 30, 2009, Jazz reached a tentative three year agreement with its maintenance and engineering employees who are represented by the CAW. That tentative agreement was subsequently ratified on September 12, 2009 by a union vote. On December 3, 2009, Jazz reached a tentative three year agreement with its Customer Services and Aircraft Services divisions, also represented by the CAW. That tentative agreement was subsequently ratified on December 16, 2009 by a union vote. On March 7, 2010 Jazz announced a tentative agreement with its dispatchers represented by CALDA. That tentative agreement was subsequently ratified on March 25, 2010 by a union vote. Jazz is currently in negotiations with all other unionized groups of employees.

There can be no assurance that the collective agreements will be renewed without labour conflict or action, or that there will not otherwise be a labour conflict or action that could lead to an interruption or stoppage in Jazz's service or otherwise adversely affect Jazz's ability to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition. There can be no assurance that these agreements with employees' unions will be on terms that are consistent with Jazz's expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Jazz.

A labour disruption or work stoppage by any of the unionized work groups of Air Canada, could also have a material adverse effect on Jazz's business, results from operations and financial condition.

#### *Condition to labour productivity enhancements*

During the restructuring of Jazz's predecessor under the CCAA, one of the improvements made in the collective agreement with ALPA, representing Jazz's pilot group, was the implementation of productivity enhancements which require a minimum threshold of aircraft to be maintained in the fleet in order for the productivity enhancements to be available to Jazz. The productivity enhancements primarily relate to the work and scheduling provisions of the collective agreement which enables Jazz to schedule pilots for more hours in a given month at their normal hourly rate of pay. Failure by Jazz to maintain a minimum fleet of 125 aircraft after December 31, 2006 would result in a loss of the productivity enhancements, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

#### *Leverage; ability to obtain debt financing in the future*

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

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to new financing (if required by Jazz) has been negatively impacted by these events, which may impact the ability of Jazz to obtain financing in the future on acceptable terms.

*Reliance on key personnel*

The success of Jazz depends on the abilities, experience, industry knowledge and personal efforts of senior management and other key employees, and Jazz's ability to retain and attract skilled employees. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Jazz. Jazz's growth plans may put additional strain and demand on management and on Jazz's employees and produce risks in both productivity and retention levels. In addition, Jazz may not be able to attract and retain additional qualified management as needed in the future.

*Risks relating to financial instruments*

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Jazz's financial instruments, see the discussion in the 2009 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 9, 2010, which is available at [www.sedar.com](http://www.sedar.com), Section 9, regarding Financial Instruments and Risk Management.

**Risks Relating to the Industry***Economic and geopolitical conditions*

Airline operating results are sensitive to economic and geopolitical conditions, which have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares it may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America, as well as geopolitical instability in various areas of the world, could have the effect of reducing demand for air travel. In addition, the recent increases, and any further increases, in the value of the Canadian dollar relative to the United States dollar could affect the desirability of transborder travel to Canada. Any such event could have a material adverse effect on Jazz's business, results from operations and financial condition.

In addition, fuel costs represent a major expense to air carriers. Since 2005, fuel prices have increased and have fluctuated at near historically high levels. Should fuel prices remain at such levels or further increase, demand for air travel may decrease as a result of fuel surcharges added to airline fares and Air Canada may be unable to pass on any further increases to its customers through fuel surcharges. Though, under the terms of the CPA Jazz's fuel costs are reimbursed by Air Canada and any resulting reduction in passenger revenues is principally at Air Canada's risk, this could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

*Impact of competition on Air Canada's need to utilize Jazz's services*

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Jazz flies under the CPA. Competitors could rapidly enter markets Jazz serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Jazz's regional operations to Air Canada.

In addition to traditional competition among airlines, the industry faces competition from ground transportation alternatives. Video teleconferencing and other methods of electronic communication have also added a new dimension of competition to the industry as businesses travelers seek substitutes to air travel.

*Impact of increased competition in the regional airline industry on Jazz's growth opportunities*

Aside from the limitations under the CPA and the regulatory prohibition on cabotage, Jazz's ability to provide regional air service to a major United States airline is limited by existing relationships that all United States network airlines have with other regional operators. In addition, many of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity.

In addition, new competitors may enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Jazz. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry.

*Airline industry characterized by low gross profit margins and high fixed costs*

The airline industry generally and scheduled service in particular are characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. A minor shortfall from Air Canada's expected revenue levels could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

*Terrorist attacks*

The occurrence of a terrorist attack (whether domestic or international and whether involving Air Canada, Jazz, another carrier or no carrier at all) and increasingly restrictive security measures, such as the current restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Jazz's flights. Any such event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

*Epidemic diseases*

The spread of H1N1 or similar diseases could have a material adverse effect on passenger demand for air travel and the number of passengers travelling on Air Canada and Jazz flights, especially in the event travel related restrictions are imposed. Any such event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity or was unable to meet its obligations under the CPA.

*Interruptions or disruptions in service*

Jazz's business is significantly dependent upon its ability to operate without interruption at a number of key airports, including Toronto Pearson. An interruption or stoppage in service at a key airport could have a material adverse effect on Jazz's business, results from operations and financial condition.

*Dependence on technology*

Jazz relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs, and operate its business. Proper implementation and operation of technology initiatives is fundamental to Jazz's ability to operate a profitable business. Jazz invests in new technology initiatives to remain competitive, and will in the future be required to invest sufficient amounts

to enhance technology in order to operate successfully. Any inability to invest in technological initiatives would have a material adverse effect on Jazz's business, results from operations and financial condition.

Jazz's technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While Jazz maintains and continues to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any failure in technology employed by Jazz or technology employed by Air Canada to provide services to Jazz, including by reason of power, telecommunication or Internet interruptions, could materially and adversely affect Jazz's operations and could have a material adverse effect on Jazz's business, results from operations and financial condition.

#### *Seasonal nature of the business, other factors and prior performance*

Under the CPA, Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated controllable costs in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights revenue in the applicable period. However, Jazz's quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

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

Demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

#### *Regulatory matters*

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, noise levels, the environment and, in some measure, pricing. Additional laws and regulations may be enacted, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Canadian Transportation Agency, the Treasury Board or other domestic or foreign governmental entities may have a material adverse effect on Jazz's business, results from operations and financial condition. Jazz cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Jazz's business, results from operations and financial condition.

Jazz is also subject to domestic and United States laws regarding privacy of passenger and employee data. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Jazz's business, results from operations and financial condition.

#### *Environment*

As a participant in the airline industry, Jazz is exposed to any future regulations concerning greenhouse gas emissions by its aircraft. Jazz would be faced with additional costs necessary to comply with any

such regulations, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

*Third party war risk insurance*

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it is currently providing Jazz and certain other carriers in Canada. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Jazz and other industry participants would have to seek such coverage from commercial insurance providers. Alternative solutions, such as those proposed by ICAO and IATA have not developed as planned due to actions taken by other countries and the recent availability of supplemental insurance. ICAO and IATA are continuing their efforts in this area. However, the achievement of a global solution is not likely in the immediate or near future. The United States federal government has set up its own facility to provide war risk coverage to United States carriers, thus removing itself as a key component of any global plan.

Furthermore, the London aviation insurance market has announced its intention to introduce a new standard war and terrorism exclusion clause applicable to aircraft hull and spares, and similar exclusions to airline passenger and third party liability policies. Such clauses would exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or biochemical materials.

The Government of Canada indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion. Unless and until the Government of Canada does so, the loss of coverage exposes Jazz to this new uninsured risk and may result in Jazz being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on Jazz's business, results from operations and financial condition.

*Casualty losses*

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

**Risks Relating to the Structure of the Fund**

*Dependence on Jazz*

The Fund is an unincorporated open-ended trust which is entirely dependent on the operations and assets of the Partnership through the indirect ownership of 100% of the LP Units of Jazz LP. Cash distributions to Unitholders are dependent on, among other things, the ability of the Trust to pay interest on the Trust Notes and to make cash distributions in respect of the Trust Units, which, in turn, is dependent on Jazz LP making cash distributions in respect of the LP Units. The ability of Jazz LP or the Trust to make cash distributions or other payments or advances are subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

*Cash distributions are not guaranteed and may fluctuate*

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses and amounts paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to

be generated by the Partnership's business or ultimately distributed to the Partnership. The actual amount distributed in respect of the Units is not guaranteed and depends upon numerous factors, including the Partnership's profitability and its ability to sustain operating cash flows and the fluctuations in the Partnership's working capital and capital expenditures and refinancing of debt obligations, all of which are susceptible to a number of risks. (Refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this Annual Information Form.)

If the Fund elects to convert from its current structure to a corporate structure, there can be no assurance that the Fund will maintain its current distribution policy and that dividends will be paid to its shareholders in amounts equivalent to the current monthly distributions paid to Unitholders. See Risk Factors in this section entitled "Conversion to Corporate Structure". See also "Corporate Structure - Conversion of the Fund to a Corporation".

#### *Nature of Units*

The Units do not represent a direct investment in the business of the Partnership and should not be viewed by investors as direct securities of the Partnership. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets are Trust Units and Trust Notes. The price per Unit is a function of anticipated distributable income.

#### *Market price of Units*

The Units of the Fund are publicly traded at a price which does not necessarily reflect the underlying value of the Fund. The trading price of the Units may be affected by changes in general market conditions which may adversely affect the value of the Units and which are beyond the control of the Partnership and the Fund.

#### *Unitholder liability*

The Fund Declaration of Trust provides that no Unitholder of the Fund shall be subject to any liability whatsoever to any person in connection with a holding of Units. However, in jurisdictions outside the Provinces of British Columbia, Ontario, Québec and Alberta, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. The affairs of the Fund are conducted to seek to minimize such risk wherever possible.

#### *Dilution of existing Unitholders and Limited Partnership Unitholders*

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Jazz LP is permitted to issue additional LP Units for any consideration and on any terms and conditions.

#### *Income tax matters*

On October 31, 2006, the Minister of Finance (Canada) announced a "Tax Fairness Plan" which, in part, proposed changes to the manner in which certain flow-through entities and the distributions from such entities are taxed. Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, contained the SIFT Rules, which are designed to implement these proposals. Under the SIFT Rules, the Fund, as a publicly traded income trust, is considered a SIFT and will be subject to trust level taxation as of January 1, 2011, at a rate comparable to the combined federal and provincial corporate tax

rate on certain types of income. In addition, the taxable distributions received by Unitholders will be treated as dividends from a taxable Canadian corporation.

On May 15, 2009, a separate Quebec tax regime relating to SIFT entities (the "Quebec SIFT Regime") was enacted. Under the Quebec SIFT Regime, a SIFT with an establishment in Quebec at any time in a taxation year will be subject to a Quebec tax at a rate generally equal to the Quebec tax rate relating to corporations. The Quebec SIFT Regime cross-references the corporate allocation formula, which is based on gross income and salary and wages, in order to determine the tax payable by a SIFT that has an establishment both in Quebec and outside Quebec in a taxation year. The SIFT Rules have been amended to provide for harmonization between those rules and the Quebec SIFT Regime.

The SIFT Rules could become effective on a date earlier than January 1, 2011, if the Fund is deemed to have undergone "undue expansion" during the period from November 1, 2006 to December 31, 2010, as described in the Normal Growth Guidelines issued by the Department of Finance (Canada) on December 15, 2006.

The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (which includes Units, debt that is convertible into Units, and potentially other substitutes for such equity) before 2011 by an amount that exceeds the greater of \$50.0 million and an objective "safe harbour" amount based on a percentage of the Fund's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of the Fund's issued and outstanding publicly traded Units, not including debt, options or interests that were convertible into Units, the "October 31, 2006 Market Capitalization"). The Normal Growth Guidelines provide for a "safe harbour" amount as follows:

Time period safe harbour amount

<b>Time Period</b>	<b>Safe Harbour Amount</b>
November 1, 2006 to December 31, 2007	40% of October 31, 2006 Market Capitalization
2008	20% of October 31, 2006 Market Capitalization
2009	20% of October 31, 2006 Market Capitalization
2010	20% of October 31, 2006 Market Capitalization

These "safe harbour" amounts are cumulative during the transition period. Management has determined that the Fund's October 31, 2006 Market Capitalization was approximately \$232.0 million.

On December 4, 2008, the Department of Finance (Canada) announced an acceleration of the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the maximum amount that could be issued by a SIFT under the safe harbour rules is 100% of its October 31, 2006 market capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subject to the Normal Growth Guidelines).

As a result of the issuance of the \$86.3 million in convertible unsecured subordinated debentures in the fourth quarter of 2009, the Fund's normal growth capital allowed in 2010 is \$145.7 million (2009 - \$232.0 million).

On June 26, 2007, the Ministère des Finances (Québec) published Information Bulletin 2007-5 confirming that Quebec's tax legislation will be harmonized with the SIFT Rules but that a separate Quebec tax regime relating to SIFT entities will be implemented. More specifically, the Ministère des Finances (Québec) announced that a SIFT with an establishment in Quebec at any time in a taxation year will be subject to a Quebec tax at a rate generally equal to the Quebec tax rate relating to corporations and that a business allocation formula based on the gross income of a SIFT and the wages and salaries it pays, similar to the one used for the purpose of determining the tax payable by a corporation that has activities

in Quebec and outside Quebec, will apply to determine the tax payable to Quebec by a SIFT that has, in a taxation year, an establishment both in Quebec and outside Quebec. On February 26, 2008, the Department of Finance (Canada) announced changes to the SIFT Rules that will, among other things, result in harmonization between the SIFT rules and the separate Quebec tax regime relating to SIFT entities.

There can be no assurance that the Fund, the Trust or Jazz LP will be able to retain the benefit of the deferred application of the SIFT Rules until 2011. Loss of the benefit of the deferred application of the SIFT Rules until 2011 could have a material and adverse affect on the value of the Units.

The SIFT Rules may have an adverse impact on the Fund, the Trust, Jazz LP and the Unitholders, on the value of the Units and on the ability of the Fund, the Trust and Jazz LP to undertake financings and acquisitions, and, at such time as the SIFT Rules apply, the distributable cash of the Fund may be materially reduced. The effect of the recently enacted SIFT Rules on the market for the Units is uncertain.

No assurance can be given that Canadian federal and/or provincial income tax law respecting income trusts and other flow-through entities will not be further changed in a manner which adversely affects the Fund and its Unitholders.

#### *Nature of distributions*

The after-tax return for any Units owned by Unitholders which are subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the Fund (portions of which may be fully or partially taxable or may be tax deferred). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders. The SIFT Rules will apply a tax on certain income earned by a SIFT trust or partnership, and treat the taxable distributions of such income received by investors in such entities as taxable dividends. The SIFT Rules do not change the tax treatment of distributions that are in excess of the taxable income of a SIFT trust. The SIFT Rules generally do not apply to income trusts, the units of which were publicly traded as of October 31, 2006, such as the Fund, until January 1, 2011, subject to compliance with the Normal Growth Guidelines released by the Department of Finance on December 15, 2006, as may be amended from time to time.

#### *Investment eligibility*

There can be no assurance that the Units will continue to be qualified investments for Plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments by Plans.

#### *Restrictions on potential growth*

The payout by the Fund of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Fund and its cash flow.

#### *Conversion to corporate structure*

The Department of Finance has amended the Tax Act to facilitate tax deferred conversions of SIFTs to corporations. The Fund is in the process of considering its options with respect to converting to a corporate structure. Should the Fund decide to convert from its current structure to a corporate structure prior to January 1, 2011, there may be an adverse impact on the market price of the Units resulting from the change in status. See "Corporate Structure - Conversion of the Fund to a Corporation".

#### *Restrictions on certain Unitholders and liquidity of Units*

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49.9% of the Units. In addition, the voting rights of non-

resident Unitholders are limited to 25% of the aggregate number of outstanding votes attaching to all outstanding Units and 25% of the aggregate number of votes that may be cast at any meeting of the Unitholders. These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including non-residents of Canada and United States persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain investors and thereby adversely affect the liquidity and market value of the Units held by the public.

The CTA requires that a specified percentage of the voting interest of Units be owned and controlled by Canadians, as that term is defined in the CTA. In order to ensure compliance with these Canadian ownership requirements, the Fund's Declaration of Trust includes certain constraints on the voting rights of non-Canadian unitholders. Each Unit entitles the unitholder thereof to one vote, however each Unit that is not owned and controlled by a Canadian entitles the unitholder thereof to one vote, except in the following circumstances: (i) if more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding Units (determined on a fully diluted basis) are not owned and controlled by Canadians, the vote attaching to each Unit that is not owned and controlled by a Canadian will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes attaching to all outstanding Units that are not owned and controlled by Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding votes attaching to all outstanding Units; and (ii) if the aggregate number of votes that could be cast at any meeting in respect of Units that are not owned and controlled by Canadians would exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of votes that could be cast at such meeting, the vote attaching to each Unit that is not owned and controlled by a Canadian will decrease automatically by such amount as is necessary to ensure that the aggregate number of votes that may be cast at such meeting in respect of all outstanding Units that are not owned and controlled by Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of votes that can be cast at such meeting by all unitholders.

On February 6, 2009, the Government of Canada introduced Bill C-10, the *Budget Implementation Act, 2009*, which proposed amendments to the CTA relating to the foreign ownership restrictions on domestic air carriers. Bill C-10 received Royal Assent on March 12, 2009. The Governor in Council now has the authority on the recommendation of the Minister of Transport to fix by order, a day on which the Governor in Council may by regulation, set new foreign ownership limits up to a maximum of 49% foreign ownership. The regulations may specify that the new limits apply in the case of all non-Canadian investors or, alternatively, a specific class of non-Canadians identified in the regulations. On October 8, 2009, the Canadian Transportation Agency announced its plans to consult with relevant stakeholders and published details of proposed regulations. The comment period expired on December 22, 2009.

No assurance can be given that Bill C-10 will be ratified into law.

### **Risk Relating to Current Legal Proceedings**

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 \$850.0 million 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 counterclaim 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.

## **Risks Relating to the Debentures**

### *Matters Affecting Trading Prices for the Debentures*

The TSX approved the listing of the Debentures and the Units issuable upon conversion, redemption or repayment thereof. There is currently no market through which the securities may be sold and purchasers may not be able to resell securities purchased under the short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of securities, and the extent of issuer regulation.

No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including the liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Units, general economic conditions and Jazz's financial condition, historic financial performance and future prospects. Further, the holders of Units may suffer dilution if Jazz decides to redeem outstanding Debentures for Units or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Units.

### *Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection*

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of Jazz and its creditworthiness. In addition, the Debentures are unsecured obligations of Jazz and are subordinate in right of payment to all Jazz's existing and future senior indebtedness. Therefore, if Jazz becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, Jazz's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively and structurally subordinate to claims of creditors (including trade creditors) of Jazz's subsidiaries except to the extent Jazz is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors.

### *Conversion Following Certain Transactions*

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if Jazz were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on Jazz's future prospects and other factors.

## **DISTRIBUTIONS**

### **Distribution Policy of the Fund**

The Fund intends to make distributions of its available cash to its Unitholders, net of estimated cash amounts required for expenses and other obligations of the Fund, including any tax liability, sufficient

liquidity, and cash redemptions or repurchases of Units. Any such distributions are made to Unitholders of record on the last business day of each month, within 15 days, after the end of the month. (Refer to caution regarding forward-looking statements included in “Explanatory Notes” on page 1 of this Annual Information Form.)

### **Distribution Policy of the Trust**

The Trust intends to make distributions of its available cash to the Fund net of estimated cash amounts required for expenses and other obligations of the Fund, including any tax liability, sufficient liquidity, and cash redemptions or repurchases of Units. Such distributions shall be paid within ten days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders. (Refer to caution regarding forward-looking statements included in “Explanatory Notes” on page 1 of this Annual Information Form.)

### **Distribution Policy of Jazz LP**

Any distributions to holders of record of LP Units are paid on the last business day of each month. See “Description of Jazz LP - Distributions”. Distributions will be paid within seven days of the end of each month and are intended to be received by the Trust prior to its related cash distribution to holders of its Trust Units and payment of interest to holders of Trust Notes. Distributable cash for a given period consists, in general, of Jazz LP’s EBITDA for the particular period less any estimated cash amounts required for debt service obligations of Jazz LP, if any, other expense obligations, capital expenditures, taxes, reserves (including reserves intended to stabilize distributions to Unitholders) and such other amounts as may be considered appropriate by Jazz GP. (Refer to caution regarding forward-looking statements included in “Explanatory Notes” on page 1 of this Annual Information Form.)

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

Cash distributions by the Fund are not guaranteed and will be based indirectly upon the business operated by Jazz LP, which is susceptible to a number of risks. See “Risk Factors”.

### **Distributions**

As the Fund is an income trust, it does not pay dividends. Subsequent to the initial public offering, from February 2, 2006 to February 28, 2006, the Fund paid a distribution of \$0.0703 per Unit and from March 1, 2006 until December 31, 2006, the Fund paid monthly distributions to its Unitholders in the amount of \$0.0729 per Unit.

On November 9, 2006, the board of directors of Jazz GP approved an increase in monthly distributions to be declared by Jazz to holders of LP Units and the board of trustees of the Fund approved an increase in monthly distributions to Unitholders of the Fund from \$0.0729 to \$0.0838 per unit, commencing with the distribution declared for the month of January 2007.

On July 28, 2009, the Trustees adjusted cash distributions in light of the amendments to the CPA and to otherwise improve liquidity during an uncertain period. Effective with the distribution payment paid in September 2009 to Unitholders of record on August 31, 2009, the Trustees resolved to reduce cash distributions by approximately 40% to \$0.60 per Unit annually. The actual amount distributed in respect of the Units is not guaranteed and depends upon numerous factors, including Jazz’s profitability and its ability to sustain operating cash flows and the fluctuations in Jazz’s working capital and capital expenditures and refinancing of debt obligations, all of which are susceptible to a number of risks. See “Risk Factors”.

## MARKET FOR SECURITIES

The Fund's Units and Debentures are listed for trading on the TSX under the symbol "JAZ.UN" and "JAZ.DB", respectively.

### TRADING PRICE AND VOLUME

The following table shows the monthly range of high and low prices per Unit, the total monthly volumes and the average daily volumes of Units traded on the TSX for the months of January to, and including December 31, 2009.

2009 Month	Price Per Unit Monthly High	Price Per Unit Monthly Low	Units Total Monthly Volume	Units Average Daily Volume
January	\$4.74	\$3.23	11,691,639	556,745
February	\$4.68	\$3.91	5,881,963	309,577
March	\$4.26	\$3.13	4,241,092	192,777
April	\$2.99	\$1.91	9,536,108	454,100
May	\$3.34	\$2.41	4,866,593	243,330
June	\$3.69	\$2.56	11,461,971	520,999
July	\$3.91	\$3.06	12,382,692	562,850
August	\$3.66	\$3.29	6,512,443	325,622
September	\$3.68	\$3.35	4,648,240	221,345
October	\$4.50	\$3.55	10,931,941	520,569
November	\$4.35	\$3.76	7,251,674	345,318
<u>December</u>	\$4.45	\$4.20	4,775,783	227,418

The following table shows the monthly range of high and low prices per Debentures, the total monthly volumes and the average daily volumes of Debentures traded on the TSX for the months November and December 31, 2009.

2009 Month	Price Per Debenture Monthly High	Price Per Debenture Monthly Low	Debenture Total Monthly Volume	Debenture Average Daily Volume
November	\$102.70	\$101.01	90,230	7,519
<u>December</u>	\$103.49	\$100.00	252,430	12,020

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units and the Debentures is CIBC Mellon Trust Company at its principal offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

## MANAGEMENT, TRUSTEES AND DIRECTORS

### Trustees of the Fund

The following seven individuals were, as at December 31, 2009, the Trustees of the Fund.

Name and Municipality of Residence	Position with the Fund	Principal Occupation
Gary M. Collins <sup>(1)</sup> Vancouver, British Columbia	Trustee since May 8, 2008	Senior Vice President, Belkorp Industries Inc., an investment holding company
Sydney John Isaacs <sup>(2)</sup> Westmount, Québec	Trustee since May 8, 2008	Consultant, Senior Vice President, Corporate Development and Chief Legal Officer, ACE Aviation Holdings Inc., an investment holding company
Katherine M. Lee <sup>(3)</sup> Toronto, Ontario	Trustee since January 24, 2006	Managing Director, GE Real Estate Canada, a real estate finance and investment firm
G. Ross MacCormack <sup>(4)</sup> Newport, Vermont United States	Trustee since January 24, 2006	Aviation Consultant
Richard H. McCoy <sup>(5)</sup> Toronto, Ontario	Chairman since January 1, 2008 and Trustee since January 24, 2006	Corporate Director
John T. McLennan <sup>(6)</sup> Mahone Bay, Nova Scotia	Trustee since May 8, 2008	Corporate Director
Joseph D. Randell Wellington, Nova Scotia	Trustee since May 8, 2008	President and Chief Executive Officer, Jazz

(1) Member of the Audit, Finance and Risk Committee and the Nominating Committee.

(2) Member of the Governance and Corporate Matters Committee.

(3) Chair of the Audit, Finance and Risk Committee and a member of the Human Resources and Compensation Committee.

(4) Chair of the Human Resources and Compensation Committee and a member of the Nominating Committee and the Governance and Corporate Matters Committee.

(5) Chairman of the Board of Trustees and the Board of Directors.

(6) Member of the Audit, Finance and Risk Committee and the Human Resources and Compensation Committee.

The term of office for each Trustee will continue until he or she resigns or is replaced at a meeting of the Unitholders. Trustees will be elected annually by the Unitholders. Please refer to the proxy circular of Jazz Air Income Fund to be filed on [www.sedar.com](http://www.sedar.com) with respect to such meeting. See "Description of the Fund - Trustees".

Katherine M. Lee has elected not to stand for election as trustee of the Fund at the annual meeting of the Unitholders to be held on May 13, 2010. David L. Emerson, P.C. was appointed as trustee of the Fund effective March 25, 2010 and will stand for election as trustee of the Fund along with the other individuals listed above (other than Katherine M. Lee) at such annual meeting.

Each of the foregoing trustees has held the same principal occupation for the previous five years, except for Mr. Collins who, prior to April 2007, was President and Chief Executive Officer of Harmony Airways, from December 2004 to December 2006 and from June 2001 to December 2004 was Minister of Finance for the Province of British Columbia.

## Directors of Jazz GP

The board of directors of Jazz GP, as at December 31, 2009, is comprised of eight members, as follows.

<u>Name and Municipality of Residence</u>	<u>Position with Jazz GP</u>	<u>Principal Occupation</u>
Gary M. Collins <sup>(1)</sup> Vancouver, British Columbia	Director since May 8, 2008	Senior Vice President Belcorp Industries Inc. an investment holding company
Sydney John Isaacs <sup>(2)</sup> Westmount, Québec	Director since January 1, 2008	Consultant, Senior Vice President, Corporate Development and Chief Legal Officer, ACE Aviation Holdings Inc., an investment holding company
Katherine M. Lee <sup>(3)</sup> Toronto, Ontario	Director since January 24, 2006	Managing Director, GE Real Estate Canada, a real estate finance and investment firm
G. Ross MacCormack <sup>(4)</sup> Newport, Vermont United States	Director since January 24, 2006	Aviation Consultant
Richard H. McCoy <sup>(5)</sup> Toronto, Ontario	Chairman and Director since January 1, 2008	Corporate Director
John T. McLennan <sup>(6)</sup> Mahone Bay, Nova Scotia	Director since January 24, 2006	Corporate Director
Joseph D. Randell Wellington, Nova Scotia	Director since January 24, 2006	President and Chief Executive Officer, Jazz
Bryan L. Rishforth <sup>(7)</sup> Bryn Mawr, Pennsylvania, United States	Director since January 24, 2006	Managing Partner, R&R Global Partners, Ltd., an international private equity advisory firm

(1) Member of the Audit, Finance and Risk Committee and the Nominating Committee

(2) Member of the Governance and Corporate Matters Committee.

(3) Chair of the Audit, Finance and Risk Committee and a member of the Human Resources and Compensation Committee.

(4) Chair of the Human Resources and Compensation Committee and a member of the Nominating Committee and the Governance and Corporate Matters Committee.

(5) Chairman of the Board of Trustees and the Board of Directors.

(6) Member of the Human Resources and Compensation Committee and Audit Risk and Finance Committee.

(7) Chair of the Governance and Corporate Matters Committee, Chair of the Nominating Committee and member of the Audit, Risk and Finance Committee.

Katherine M. Lee and Bryan L. Rishforth have elected not to stand for election as members of the board of directors of Jazz GP. David L. Emerson, P.C. and Benjamin C. Duster, IV were appointed as members of the board of directors of Jazz GP effective March 25, 2010 and will stand for election as members of the board of directors of Jazz GP along with the other individuals listed above (other than Katherine M. Lee and Bryan L. Rishforth).

Each of the foregoing directors has held the same principal occupation for the previous five years, except for Mr. Collins who, prior to April 2007, was President and Chief Executive Officer of Harmony Airways from December 2004 to December 2006 and from June 2001 to December 2004 was Minister of Finance for the Province of British Columbia and Mr. Rishforth who, prior to May 2007 was the Senior Executive Advisor for Cerberus Capital Consultants, LLC from January 2007 to September 2007, from July 2005 to January 2007 was a consultant to Cerberus Capital and prior to that was in senior leadership and executive management positions with GE and GE Capital.

## Officers of Jazz

The following table sets out, for each of the current executive officers of Jazz, the person's name, municipality of residence, positions with Jazz, principal occupation and date of first appointment as an executive officer.

<u>Name and Municipality of Residence</u>	<u>Position with Jazz</u>	<u>Principal Occupation</u>	<u>Executive Since</u>
Richard H. McCoy Toronto, Ontario	Chairman	Corporate Director	January 1, 2008
Joseph D. Randell Wellington, Nova Scotia	President and Chief Executive Officer	President and Chief Executive Officer, Jazz	January 1, 2001
Colin Copp Delta, British Columbia	Chief Administrative Officer	Chief Administrative Officer, Jazz	August 1, 2004
Jolene Mahody Halifax, Nova Scotia	Chief Operating Officer	Chief Operating Officer, Jazz	August 1, 2004
Allan Rowe Bedford, Nova Scotia	Chief Financial Officer	Chief Financial Officer, Jazz	August 1, 2004
Richard Flynn Dartmouth, Nova Scotia	Vice President, Finance	Vice President, Finance, Jazz	May 30, 2005
Steven Linthwaite Guelph, Ontario	Vice President, Operations	Vice President, Operations, Jazz	September 3, 2007
Barbara Snowdon Bedford, Nova Scotia	General Counsel and Corporate Secretary	General Counsel and Corporate Secretary, Jazz	June 20, 2007
Richard Steer Georgetown, Ontario	Vice President, Maintenance and Engineering	Vice President, Maintenance and Engineering, Jazz	March 16, 2005
Scott Tapson Bedford, Nova Scotia	Vice President, Business Development	Vice President, Business Development, Jazz	August 1, 2004

As at December 31, 2009, the Trustees, the Directors and Officers of Jazz as a group held 346,947 Units representing approximately 0.28% of the outstanding Units.

## Biographies

The following are biographies of (i) the Trustees of the Fund, (ii) the Directors of Jazz GP, and (iii) the current executive officers of Jazz.

**Gary M. Collins** is Senior Vice President of Belcorp Industries Inc., a position he has held since April 2007. Mr. Collins was the President and Chief Executive Officer of Harmony Airways from December 2004 until December 2006. From October 1991 to December 2004 he was a member of the British Columbia Legislative Assembly and held the portfolio of Minister of Finance from June 2001 to December 2004. Mr. Collins is a director of Catalyst Paper Corporation, Rogers Sugar Income Fund and Liquor Stores Income Fund.

**Sydney John Isaacs** is a consultant to ACE Aviation Holdings Inc. and holds the position of Senior Vice President, Corporate Development and Chief Legal Officer, for ACE Aviation Holdings Inc., a position he has held since November 2004. From September 2000 to October 2004, Mr. Isaacs held a number of business development, mergers and acquisitions and restructuring positions at Air Canada. Prior to that, Mr. Isaacs was a partner at Stikeman Elliott LLP, where he advised clients on a variety of corporate and commercial matters.

**Katherine M. Lee** is a chartered accountant who has been the Managing Director at GE Real Estate Canada since January 2002. Ms. Lee joined GE Capital Realty Group in January 1995 following a career at Ernst & Young LLP, where she held a variety of positions, starting as staff accountant to insolvency and corporate recovery manager. From 1995 to 1997, Ms. Lee was the Portfolio and Business Development Manager for GE Capital Realty Group in Canada, from 1997 to 1999, Director, Mergers and Acquisitions for GE Capital's Pension Fund Advisory Services based in San Francisco, and from 1999 to 2001, Ms. Lee was the Managing Director of GE Capital Real Estate – Korea based in Seoul and Tokyo. Ms. Lee has elected not to stand for election as trustee of the Fund and as member of the board of directors of Jazz GP at the annual meeting of Unitholders to be held on May 13, 2010.

**G. Ross MacCormack** is a consultant providing marketing and strategic services to the aviation industry. Mr. MacCormack previously held various positions at Air Canada including Senior Vice President, International and Alliances, Vice President, Market Development and Vice President, Corporate Strategy. Mr. MacCormack is a past member of the Board of Directors of Air Canada Regional Airlines, Air Nova, Air Ontario, AirBC, and Continental Micronesia, and served as a member of the Industry Affairs Committee of the International Air Transport Association. Mr. MacCormack also served as Chairman of the Star Alliance Management Board.

**Richard H. McCoy** is a corporate director. Mr. McCoy is a director of Aberdeen Asia-Pacific Income Fund Ltd., Uranium Participation Corporation, Pizza Pizza Royalty Income Fund, and Gerdau Ameristeel Inc. Mr. McCoy has over 35 years experience in the investment industry. From May 1997 to October 31, 2003, Mr. McCoy was Vice-Chairman, Investment Banking at TD Securities. Prior to joining TD Securities in 1997, Mr. McCoy was deputy Chairman of CIBC Wood Gundy Securities.

**John T. McLennan** is a corporate director. Mr. McLennan is a director of Amdocs Ltd. and Nova Scotia Power Inc., a wholly owned subsidiary of Emera Inc. Mr. McLennan is Chairman of Emera Inc. Mr. McLennan was Vice-Chairman and Chief Executive Officer of Allstream from May 2000 until June 2004. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc.

**Joseph (Joe) D. Randell** has been President and Chief Executive Officer of Jazz since January 1, 2001. Mr. Randell began his career in the airline industry with Eastern Provincial Airways in 1976. Mr. Randell helped found Air Nova in 1985 and served as its President. In 1999, Mr. Randell led the consolidation of Air Nova and Air Alliance, the eastern based Air Canada regional carriers. Under Mr. Randell's direction, further consolidation of Air Ontario, Air BC and Canadian Regional led to the creation of Jazz. Mr. Randell is a director of Discovery Air Inc., he is a member of the board of the National Airlines Council of Canada and also serves as the only Canadian director on the Board of the Regional Airline Association. Mr. Randell is the former Chairman of the Board of Directors of the Air Transportation Association of Canada. Mr. Randell holds a Bachelor of Industrial Engineering with distinction from the Technical University of Nova Scotia and a Masters Degree in Business Administration from the Memorial University, Newfoundland.

**Bryan L. Rishforth** is a corporate director. He is Founder and Managing Partner of R&R Global Partners, Ltd, an international private equity advisory firm specializing in assisting company boards and management teams of public and private entities. In 2005, Mr. Rishforth founded Cerberus Capital Consultants, LLC to provide private equity advisory and operations management services to Cerberus

Capital Management, LP, as Senior Executive Advisor. Previously, at GE and GE Capital he served in senior leadership and executive management positions across its manufacturing, services and financing businesses, including roles as general manager and division executive. As Chief Risk Manager of GE Aviation, he led the oversight, management and profitable growth of GE's \$20 billion engine service agreement portfolio. Mr. Rishforth is a former board member of Sylvania Lighting International and Peguform Automotive, and is Vice-Chairman Emeritus of Global Motorsport Group. He is an active member of the Mid-Atlantic Capital Alliance, the Eastern Technology Council, and Philadelphia's Business Leaders Network. Mr. Rishforth is an Electrical Engineering Eta Kappa Nu honours graduate from Drexel University and an alumnus of GE's Executive Development, Corporate Audit Staff and Advanced Six Sigma programs. Mr. Rishforth has elected not to stand for election as member of the board of directors of Jazz GP at the annual meeting of Unitholders to be held on May 13, 2010.

**Colin L. Copp** was appointed Chief Administrative Officer on September 17, 2009, after serving as Senior Vice President, Employee Relations since August 6, 2008, and as Vice President, Employee Relations since August 1, 2004. He has over 19 years of experience in the aviation industry. Mr. Copp began his career at AirBC where he held several key roles such as Manager, Flight Dispatch and Regulatory Affairs; Director, Operations; and Vice President, Flight Operations. At Jazz, Mr. Copp held the position of Director, Flight Operations; and was later promoted to Vice President, Labour Relations and Corporate Safety. Over the years Mr. Copp has been extensively involved in labour relations, leading several collective bargaining teams during the integration of the regional airlines, and was the executive lead negotiator responsible for all labour negotiations and restructuring during the CCAA process. Mr. Copp attended Trinity Western University's Aviation Program and holds a Commercial Pilots License. Mr. Copp is also a graduate of the Justice Institute of British Columbia where he completed his Conflict Resolution certification as both a Negotiator and Mediator and holds the entitled designation of "Cert. Con Res."

**Jolene Mahody** was appointed Chief Operating Officer on September 17, 2009, after serving as Senior Vice President, Operations Support since August 6, 2008, and as Vice President, Corporate Strategy since August 1, 2004. Ms. Mahody's career in the aviation industry began over 16 years ago serving in various finance roles at Air Nova, including Finance Controller. At Jazz, Ms. Mahody held various director level positions including Director, Finance, Director Six Sigma and Director, Commercial and Resource Planning. Ms. Mahody holds a Bachelor of Business Administration (Major in Accounting) from St. Francis Xavier University, Nova Scotia, and has received her Chartered Accounting designation from the Institute of Chartered Accountants of Nova Scotia.

**Allan Rowe** was appointed Chief Financial Officer of Jazz on August 1, 2004. Mr. Rowe has significant experience as a senior financial executive with publicly traded companies. Mr. Rowe has held the position of Chief Financial Officer with Fishery Products International Limited. Prior to this period, Mr. Rowe served in various senior financial executive roles with the Empire Company Limited (Sobeys Inc.). Mr. Rowe has significant experience with mergers and acquisitions, corporate finance, planning and business development, business turnaround and management of organizational and cultural change. Mr. Rowe holds a Bachelor of Commerce Degree from Dalhousie University, Nova Scotia and a Masters Degree in Business Administration from the University of Western Ontario.

**Richard Flynn** was appointed Vice President, Finance on May 30, 2005. Mr. Flynn's experience in the airline industry began when he started as controller with Air Nova in 1986. His career has encompassed assignments and responsibility in most functional areas within the regional airline industry including finance, airports, in-flight, commercial and sales and marketing. Mr. Flynn was appointed Vice President, Business Development under the merged Air Canada Regional Airlines in 2000, and in 2003, Mr. Flynn was seconded to Air Canada for a two-year period where he led the restructuring of all domestic carrier commercial agreements under the CCAA. Prior to joining the airline industry, Mr. Flynn was involved in public accounting with Peat Marwick for four years where he received his Chartered Accountant designation. Mr. Flynn holds a Bachelor of Commerce Degree (Honours) from the Memorial University, Newfoundland and a Master Degree in Business Administration from Saint Mary's University, Halifax, Nova Scotia.

**Steven Linthwaite** was appointed Vice President, Operations on September 17, 2009, after serving as Vice President Flight Operations of Jazz since September 3, 2007. Captain Linthwaite began his career with Jazz in 1986 when he joined Austin Airways as a Pilot. He has extensive experience on both the Dash-8 and CRJ aircraft as a Captain. During his time as a Pilot with Jazz, Captain Linthwaite also held various representational positions within the Air Line Pilots Association. He was appointed Director of Flight Operations of Jazz in January of 2006. Captain Linthwaite is a graduate of Seneca College with a diploma in Aviation and Flight Technology.

**Barbara Snowden** was appointed General Counsel and Corporate Secretary on June 20, 2007. Ms. Snowden's airline career started in 1991 at Canadian Airlines, initially as Corporate Counsel and then as Associate General Counsel. In 2000, Ms. Snowden joined Air Canada as Senior Counsel, Commercial and Airline Affiliates. Prior to joining Canadian Airlines, Ms. Snowden was a partner in a law firm. Ms. Snowden holds a Bachelor of Arts and Science from the University of Lethbridge and a Bachelor of Laws degree from the University of Calgary.

**Richard Steer** was appointed Vice President, Maintenance and Engineering on March 16, 2005. Mr. Steer has over 20 years of experience in the aviation industry and recently held the position of Director, Line Maintenance at Delta Air Lines in Atlanta, Georgia. At Delta Air Lines, Mr. Steer led a group of 2,600 professionals responsible for the maintenance of 550 aircraft and managed a budget in excess of US\$385 million. Mr. Steer holds an Airframe and Power Plant License, a Federal Communication Commission license and a degree in specialized technology from the Pittsburgh Institute of Aeronautics.

**Scott Tapson** was appointed Vice President, Business Development on September 3, 2007 and prior to this served as Vice President, Customer Experience. With a career in aviation spanning over 25 years, Mr. Tapson has held a number of senior leadership roles at Air Ontario, AirBC and Jazz. During this time his assignments have included a wide range of responsibilities in the commercial area including network planning, marketing and sales, as well as strategic planning, customer service and operations. Mr. Tapson holds a Bachelor of Arts (Economics) from the University of Western Ontario and a Masters Degree in Business Administration from the University of Western Ontario's Ivey School of Business.

### **Certain Governance Matters**

Pursuant to the Fund Declaration of Trust, the Board of Trustees of the Fund shall be comprised of a minimum of three and a maximum of ten trustees and all trustees of the Fund shall be Canadians for the purposes of the CTA. Trustees of the Fund are elected annually. Each trustee of the Fund elected will hold office until the next annual meeting or until his successor is elected or appointed, unless his office is vacated earlier. See "Description of the Fund - Trustees".

According to the Fund Declaration of Trust, Unitholders are entitled to direct and instruct the trustees of the Fund as to the manner in which the units of the Trust held by the Fund shall be voted in respect of the appointment of the trustees of the Trust. The Trust Declaration of Trust provides for a minimum of three and a maximum of ten trustees with the number of trustees of the Trust to be the same as the number of trustees of the Fund. All trustees of the Trust shall be Canadians for the purposes of the CTA. Trustees of the Trust are appointed annually. The Fund intends to appoint as trustees of the Trust the same persons as will have been elected as trustees of the Fund. In accordance with the Fund Declaration of Trust, a vote by Unitholders of the Fund in favour of the nominees presented for election as trustees of the Fund shall constitute such Unitholders' directions and instructions to the trustees of the Fund to vote the units of the Trust held by the Fund in favour of the appointment of such nominees as trustees of the Trust. Each trustee of the Trust elected will hold office until the next annual meeting or until his successor is elected or appointed, unless his office is vacated earlier.

Pursuant to articles of incorporation of Jazz GP, the board of directors of Jazz GP shall be comprised of a minimum of one and a maximum of fifteen directors. Pursuant to the by-laws of Jazz GP, a majority of directors of Jazz GP must be Canadian residents. A vote by Unitholders of the Fund in favour of the nominees presented for election as trustees of the Fund shall constitute such Unitholders' directions and instructions to the trustees of the Fund and to the trustees of the Trust to vote the common shares of Jazz

GP held by the Trust in favour of the appointment of such nominees as directors of Jazz GP. Each director of Jazz GP will hold office until his successor is elected or appointed or until such director is replaced at a meeting of shareholders of Jazz GP, unless his office is vacated earlier.

### **Committees of the Board of Directors of Jazz GP and the Trustees of the Fund**

The board of directors of Jazz GP, together with the Trustees of the Fund, have a joint Audit, Finance and Risk Committee, a joint Governance and Corporate Matters Committee, a joint Human Resources and Compensation Committee and a joint Nominating Committee.

#### **Audit, Finance and Risk Committee**

The primary purpose of the Audit, Finance and Risk Committee is to assist the board of directors of Jazz GP and the Trustees of the Fund in fulfilling their responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, and the quality and integrity of financial statements.

#### *Charter of the Audit, Finance and Risk Committee*

The charter of the Audit, Finance and Risk Committee, as approved on August 8, 2007, is set out in Schedule A to this Annual Information Form.

#### *Composition of the Audit, Finance and Risk Committee*

The Audit, Finance and Risk Committee is composed of four members, as follows: Katherine M. Lee (Chair), Gary M. Collins, John T. McLennan and Bryan L. Rishforth. Each member of the Audit, Finance and Risk Committee is independent of each of the Fund and Jazz LP and financially literate as required under Multilateral Instrument 52-110 - Audit Committees.

#### *Relevant Education and Experience of the Audit Committee Members*

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

- (i) ***Katherine M. Lee*** is a chartered accountant who has been the Managing Director at GE Real Estate Canada since January 2002. Ms. Lee joined GE Capital Realty Group in January 1995 following a career at Ernst & Young LLP, where she held a variety of positions, starting as staff accountant to insolvency and corporate recovery manager. From 1995 to 1997, Ms. Lee was the Portfolio and Business Development Manager for GE Capital Realty Group in Canada, from 1997 to 1999, Director, Mergers and Acquisitions for GE Capital's Pension Fund Advisory Services based in San Francisco, and from 1999 to 2001, Ms. Lee was the Managing Director of GE Capital Real Estate – Korea based in Seoul and Tokyo. Ms. Lee has elected not to stand for election as trustee of the Fund and as member of the board of directors of Jazz GP at the annual meeting of Unitholders to be held on May 13, 2010.
- (ii) ***Gary M. Collins*** is Senior Vice President of Belcorp Industries Inc., a position he has held since April 2007. Mr. Collins was the President and Chief Executive Officer of Harmony Airways from December 2004 until December 2006. From October 1991 to December 2004 he was a member of the British Columbia Legislative Assembly and held the portfolio of Minister of Finance from June 2001 to December 2004. Mr. Collins is a director of Catalyst Paper Corporation, Rogers Sugar Income Fund and Liquor Stores Income Fund.
- (iii) ***John T. McLennan*** is a corporate director. Mr. McLennan is a director of Amdocs Ltd. and Emera Inc. Mr. McLennan is Chairman of Emera Inc. Mr. McLennan was Vice-Chairman and Chief Executive Officer of Allstream from May 2000 until June 2004. Prior to that position, he served as

AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc.

- (iv) ***Bryan L. Rishforth*** is a corporate director. He is Founder and Managing Partner of R&R Global Partners, Ltd, an international private equity advisory firm specializing in assisting company boards and management teams of public and private entities. In 2005, Mr. Rishforth founded Cerberus Capital Consultants, LLC to provide private equity advisory and operations management services to Cerberus Capital Management, LP, as Senior Executive Advisor. Previously, at GE and GE Capital he served in senior leadership and executive management positions across its manufacturing, services and financing businesses, including roles as general manager and division executive. As Chief Risk Manager of GE Aviation, he led the oversight, management and profitable growth of GE's \$20 billion engine service agreement portfolio. Mr. Rishforth is a former board member of Sylvania Lighting International and Peguform Automotive, and is Vice-Chairman Emeritus of Global Motorsport Group. He is an active member of the Mid-Atlantic Capital Alliance, the Eastern Technology Council, and Philadelphia's Business Leaders Network. Mr. Rishforth is an Electrical Engineering Eta Kappa Nu honours graduate from Drexel University and an alumnus of GE's Executive Development, Corporate Audit Staff and Advanced Six Sigma programs. Mr. Rishforth has elected not to stand for election as member of the board of directors of Jazz GP at the annual meeting of Unitholders to be held on May 13, 2010.

*Pre-Approval Policies and Procedures*

The Audit, Finance and Risk Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided the Fund's and Jazz LP's external auditor prior to the commencement of such work. In this regard, the Audit, Finance and Risk Committee will prepare a report for presentation to the Unitholders and holders of LP Units quarterly or annually, as required, regarding the Audit, Finance and Risk Committee's approval of such non-audit services in the period.

The Audit, Finance and Risk Committee will also require and review a report from the external auditor, if deemed appropriate by the Audit, Finance and Risk Committee, of all relationships between the external auditor and its related entities and the Fund and Jazz LP and their related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of the Fund and Jazz LP and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit, Finance and Risk Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

*Audit Fees*

Fees payable for the years ended December 31, 2009 and December 31, 2008 to PricewaterhouseCoopers LLP and its affiliates were \$747,280 and \$513,095, respectively, as detailed below:

	Year ended December 31, 2009	Year ended December 31, 2008
Audit fees	\$355,705	\$282,719
Audit-related fees	74,475	86,661
Tax Fees	<u>317,100</u>	<u>143,715</u>
	<u>\$747,280</u>	<u>\$513,095</u>

The nature of each category of fees is described below.

Audit fees. Audit fees were paid for professional services rendered for the audit of the Fund's and Jazz LP's annual financial statements, for the reviews of quarterly reporting by the Fund and Jazz LP and for services normally provided in connection with statutory and regulatory filings or engagements, including costs incurred in 2009 in connection with the convertible debenture offering of the Fund.

Audit-related fees. Audit-related fees were paid for professional services related to pension plan audits and the translation of financial statements and related documents of the Fund and Jazz Air LP.

Tax fees. Tax fees were paid for professional services rendered with respect to payroll tax consultation, tax advice and tax planning. The total amount of tax fees increased over the last financial year given the work done by PricewaterhouseCoopers LLP to assist the Fund in considering the options with respect to converting to a corporate structure.

#### **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

The information provided in this section is current as of the date of this Annual Information Form.

##### **Corporate Cease Trade Orders or Bankruptcies**

Other than as set forth below, to the knowledge of the Fund and Jazz: no trustee, director or executive officer of Jazz is, or has been in the last ten years: (i) a director, chief executive officer or chief financial officer of any company that (A) while that person was acting in that capacity, was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under the securities legislation, for a period of more than 30 consecutive days, or (B) was the subject of an order of the type referred to in (A) above that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer of that company and which resulted from an event that occurred while that person was acting in a capacity as director, chief executive officer or chief financial officer of that company; or (ii) a director or executive officer of any company, that while that person was acting as director or executive officer of that company, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets:

- (i) G. Ross MacCormack was an officer of Air Canada when Air Canada filed for protection under the CCAA on April 1, 2003;
- (ii) John T. McLennan was the Chief Executive Officer of AT&T Canada when AT&T Canada filed for protection under the CCAA on October 15, 2002;

- (iii) Joseph D. Randell was the President and Chief Executive Officer of the Predecessor Company when it filed for protection under the CCAA on April 1, 2003;
- (iv) Scott Tapson was an officer of the Predecessor Company when it filed for protection under the CCAA on April 1, 2003;
- (v) Jolene Mahody was an officer of the Predecessor Company when it filed for protection under the CCAA on April 1, 2003;
- (vi) Colin Copp was an officer of the Predecessor Company when it filed for protection under the CCAA in April, 2003; and
- (vii) Richard Flynn was an officer of the Predecessor Company within a year before it filed for protection under the CCAA in April, 2003.

### **Penalties or Sanctions**

To the knowledge of the Fund and Jazz, no Trustee, no Trust's Trustee nor any director or executive officer of Jazz, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Personal Bankruptcies**

To the knowledge of the Fund and Jazz, in the last ten years, no Trustee, no Trust's Trustee nor any director or executive officer of Jazz has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

## **CONFLICTS OF INTEREST**

Except as disclosed below and elsewhere herein, no trustee of the Fund or the Trust, or director or senior officer of the Company has any existing or potential material conflicts of interest with the Fund, the Trust or the Company.

## **PROMOTER**

Jazz LP may be considered to be a promoter of the Fund by reason of its initiative in organizing the business and affairs of the Fund.

## **INTEREST OF EXPERTS**

PricewaterhouseCoopers LLP are the auditors of the Fund and have advised that they are independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia. The information provided in this section is current as of the date of this Annual Information Form.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as set out below, none of the directors, trustees or senior officers, as applicable, of (i) the Fund, the Trust or Jazz, or (ii) any associate or affiliate of the persons referred to in (i), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed

transaction that has materially affected or will materially affect the Fund, the Trust, Jazz or any of their subsidiaries. ACE Aviation is a significant shareholder of Air Canada and, within the three most recently completed financial years, beneficially owned more than 10% of the Units of the Fund. Air Canada has, within the three most recently completed financial years, entered into transactions with Jazz under agreements listed below and the other agreements described in the Annual Information Form:

- An amended and restated capacity purchase agreement dated January 1, 2006 between Air Canada and Jazz, as amended pursuant to a letter agreement dated July 6, 2009 and an amending agreement dated September 22, 2009 (the “CPA”);
- A master services agreement dated September 24, 2004 between Jazz and Air Canada (the “MSA”);
- A trademark license agreement dated September 30, 2004 between Air Canada and Jazz (the “Trademark License Agreement”); and
- A special trademark license agreement dated September 30, 2004 between Jazz and Air Canada (the “Special Trademark License Agreement”).

For a description of such agreements, see “The Jazz Business – Capacity Purchase Agreement with Air Canada”, “The Jazz Business – Other Agreements with Air Canada”.

The information provided in this section is current as of the date of this Annual Information Form.

### **MATERIAL CONTRACTS**

Except for the CPA (as amended by the CPA Amendments), the Underwriting Agreement and the Trust Indenture, the particulars of each of which are described above, all material contracts entered into by Jazz and the Fund in 2009 were entered into in the ordinary course of business. No such other material contracts were required to be filed by the Fund and Jazz under applicable securities legislation.

### **ADDITIONAL INFORMATION**

Additional information relating to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information regarding Jazz can be found at [www.flyjazz.ca](http://www.flyjazz.ca).

Additional information, including trustees’, directors’ and officers’ remuneration and indebtedness, principal holders of the Fund’s securities and securities authorized for issuance under equity compensation plans contained in the Fund’s information circular for its annual meeting of Unitholders of the Fund to be held on May 13, 2010. Additional financial information is provided in the Jazz Air Income Fund Consolidated Financial Statements for the year ended December 31, 2009 and Jazz Air Income Fund 2009 Management’s Discussion and Analysis of Results of Operations and Financial Condition.

The Fund will, upon request to the Secretary of the Fund, 310 Goudey Drive, Enfield, Nova Scotia, B2T 1E4, provide to any person or company, the documents specified below:

- (a) when the Fund is in the course of a distribution of its securities under a short form prospectus, or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:
  - (i) one copy of the Fund’s latest annual information form, together with one copy of any document or the pertinent pages of any document, incorporated therein by reference;
  - (ii) one copy of the consolidated audited financial statements of the Fund for the most recently completed financial year for which financial statements have been filed, together with the

Auditors' Report thereon, and one copy of any unaudited interim financial statements of the Fund for any period after its most recently completed financial year;

- (iii) one copy of the information circular of the Fund in respect of its most recent annual meeting of Unitholders that involved the election of trustees of the Fund or one copy of any annual filing prepared instead of that information circular, as appropriate; and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under subparagraphs (i) to (iii); or
- (b) at any other time, the Fund shall provide to any person or company one copy of any of the documents referred to in subparagraphs (a)(i), (ii) and (iii) above, provided that the Fund may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of the Fund's securities.

## GLOSSARY OF TERMS

**"2009-2011 Rate Period"** means the rate period commencing January 1, 2009 and ending on December 31, 2011;

**"5% Shareholder"** means persons who own at least 5% of the vote and value of the outstanding Units;

**"ACE Aviation"** means ACE Aviation Holdings Inc., a corporation incorporated under the CBCA;

**"ACGHS"** means Air Canada's ground handling division, formerly, ACGHS Limited Partnership, a limited partnership established under the laws of the Province of Québec;

**"ACGHS Agreement"** means the ground handling services agreement dated September 26, 2005 between Jazz and Air Canada, successor to ACGHS Limited Partnership;

**"ACMI"** means aircraft, crews, maintenance support and insurance;

**"ACPA"** means the Air Canada Pilots Association;

**"Active Aircraft"** means Covered Aircraft other than aircraft being modified, undergoing scheduled maintenance or being painted;

**"Agent"** means the administrative agent for the Credit Facilities;

**"Aircraft Ownership Payment"** shall have the meaning ascribed thereto under "The Jazz Business – Capacity Purchase Agreement with Air Canada";

**"Aircraft Ownership Variable Rate"** shall have the meaning ascribed thereto under "The Jazz Business – Capacity Purchase Agreement with Air Canada";

**"ALPA"** means the Air Line Pilots Association;

**"ASMs"** mean a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

**"ATAC"** means the Air Transport Association of Canada;

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

**"Book-Entry System"** means the book-based system administered by CDS;

**"Cargo Services"** mean all freight, Canada Post mail and small package service carried on Scheduled Flights;

**"CALDA"** means the Canadian Air Line Dispatchers Association;

**"CAW"** means the Canadian Auto Workers;

**"CBCA"** means the Canada Business Corporations Act, as amended;

**"CCA"** means the Companies' Creditors Arrangement Act, as amended;

**"CDS"** means CDS Clearing and Depository Services Inc.;

**"CDS Participant"** means a participant in the CDS depository service;

**"Company"** means Jazz LP, together with its general partner, Jazz GP, and their respective subsidiaries and predecessors;

“**Controllable Costs**” has the meaning given in the CPA;

“**Controllable Mark-Up**” has the meaning given in the CPA;

“**Controllable Target Margin**” has the meaning given in the CPA;

“**Controllable Target Mark-up**” has the meaning given in the CPA;

“**Conversion Price**” means \$5.25 per Unit;

“**Covered Aircraft**” means Jazz’s aircraft subject to the CPA;

“**CPA**” means the amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz, as subsequently amended from time to time;

“**CPA Amendments**” mean the separate amendments to the CPA entered into between Air Canada and Jazz Air LP on July 28, 2009 and September 22, 2009.

“**Credit Facilities**” shall have the meaning ascribed thereto under “Debt Financing”;

“**CTA**” means the Canada Transportation Act and the regulations thereunder, as amended;

“**Debenture Trustee**” means CIBC Mellon Trust Company;

“**Debentures**” mean the \$86.25 million principal amount of 9.50% convertible unsecured subordinated debentures of the Fund due December 31, 2014;

“**DOT**” means the United States Department of Transportation;

“**EBITDA**” shall have the meaning ascribed thereto under “Definition of EBITDA”;

“**Exchange Notes**” mean, collectively, the Series 2 Exchange Notes and Series 3 Exchange Notes of ExchangeCo”;

“**ExchangeCo**” shall have the meaning ascribed thereto under “Description of the Fund – Activities of the Fund”;

“**FAA**” means the United States Federal Administration Authority;

“**Fixed Cost Payment**” shall have the meaning ascribed thereto under “The Jazz Business - Capacity Purchase Agreement with Air Canada”;

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

“**Flight Hour Rate**” has the meaning given in the CPA;

“**Flight Hours**” has the meaning given in the CPA;

“**Fund Declaration of Trust**” means the declaration of trust dated November 25, 2005, as amended by an amended and restated declaration of trust dated January 24, 2006, pursuant to which the Fund is established, as amended by Amendment No. 1, effective March 23, 2009, as may be amended from time to time;

“**FTE**” means full-time equivalents in respect of employee staffing levels;

“**GAAP**” means generally accepted accounting principles in Canada;

“**GHG**” means green house gas;

**“Guaranteed Block Hours”** shall have the meaning ascribed thereto under “The Jazz Business – Capacity Purchase Agreement with Air Canada”;

**“IATA”** means the International Air Transport Association;

**“ICAO”** means the International Civil Aviation Organization;

**“Independent”** means independent as defined in National Policy 58-201 – Corporate Governance Guidelines;

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

**“Initial Public Offering”** means the offering of 23,500,000 units of the Fund on February 2, 2006 pursuant to a prospectus dated January 25, 2006.

**“Investor Liquidity Agreement”** means the investor liquidity agreement entered into on the closing of the Initial Public Offering by the Fund, the Trust, ACE Aviation, Jazz LP and Jazz GP;

**“Jazz”** means Jazz Air LP, together with its general partner, Jazz GP, and their respective subsidiaries and predecessors; and, in particular, reference to Jazz in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by Jazz Air Inc., which was liquidated on September 30, 2004, the Predecessor Company and references to Jazz in respect of the time period from October 1, 2004 until Closing are references to the business of Jazz as carried on by the Successor Partnership, unless the context requires otherwise;

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

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

**“Jazz LP Partnership Agreement”** means the limited partnership agreement dated September 12, 2005 pursuant to which Jazz LP was formed, as amended by an amended and restated limited partnership agreement dated January 24, 2006;

**“Lenders”** shall have the meaning ascribed thereto under “Debt Financing”;

**“LP Units”** mean the limited partnership units of Jazz LP;

**“MADUG”** means daily minimum levels of operating capacity;

**“Management”** means management of Jazz;

**“Maturity Date”** means December 31, 2014;

**“MSA”** means the master services agreement dated September 24, 2004 between Jazz and Air Canada;

**“Non-Resident Beneficiaries”** shall have the meaning ascribed thereto under “Description of the Fund – Limitation on Non-Resident Ownership”;

**“Non-Residents”** shall have the meaning ascribed thereto under “Description of the Fund – Limitation on Non-Resident Ownership”;

**“October 31, 2006 Market Capitalization”** means the Fund’s market capitalization as of the end of trading on October 31, 2006 measured in terms of the value of the Fund’s issued and outstanding publicly traded Units, not including debt, options or interests that were convertible into Units;

"OLA" means the Official Languages Act (Canada), as amended;

"Ordinary Resolution" means a resolution passed by a majority of the votes cast at a meeting of the Unitholders;

"Pass-Through Cost" has the meaning given in the CPA;

"PIPEDA" means the *Personal Information Protection and Electronic Documents Act* (Canada);

"Plans" mean trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act;

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

"Qualified Canadian" means a "Canadian" for the purposes of the CTA, defined as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians;

"Quebec SIFT Regime" means a separate Quebec tax regime relating to SIFT entities;

"Redemption Date" shall have the meaning ascribed thereto under "Description of the Fund – Redemption at the Option of Unitholders";

"Redemption Price" shall have the meaning ascribed thereto under "Description of the Fund – Redemption at the Option of Unitholders";

"Revolving Facility" shall have the meaning ascribed thereto under "Debt Financing";

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

"SIFT Trust" means a specified investment flow through trust;

"Small Jets Settlement Agreement" shall have the meaning ascribed thereto under the "The Jazz Business –Scope Clause";

"Spare Engine" means any spare engine used to support a Covered Aircraft;

"Special Resolution" means a resolution passed by the affirmative vote of the holders of more than 66 2/3% of the units who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of more than 66 2/3% of the units entitled to vote on such resolution;

"Special Trademark Agreement" means the special trademark agreement dated September 30, 2004 between Air Canada and Jazz regarding the ownership of the Jazz trademark upon the occurrence of certain events;

"Subordination End Date" means December 31, 2006;

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

"Swing Aircraft" means up to eight CRJ 100 aircraft;

"Tax Act" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

"TCAA" means the Toronto City Centre (Island) Airport;

"Toronto Pearson" means Toronto Lester B. Pearson International Airport;

“**TPA**” means the Toronto Port Authority;

“**Trademark License Agreement**” means the trademark license agreement dated September 30, 2004 between Air Canada and Jazz;

“**Trust**” means Jazz Air Trust, an unincorporated, open ended trust established under the laws of the Province of Ontario;

“**Trust Declaration of Trust**” means the declaration of trust pursuant to which the Trust was established on January 24, 2006, as may be amended from time to time;

“**Trust Indenture**” means the trust indenture dated November 12, 2009 between the Fund and CIBC Mellon Trust Company;

“**Trust Note Indenture**” means a trust indenture entered into as of the closing of the Initial Public Offering between the Trust and a trustee;

“**Trust Notes**” mean, collectively, the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes of the Trust;

“**Trust Units**” mean units of the Trust;

“**Trustee**” or “**Trustees**” means the trustees of the Fund or any one of them;

“**Trust’s Trustees**” mean the trustees of the Trust;

“**TSX**” means the Toronto Stock Exchange;

“**Underwriters**” mean TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Beacon Securities Limited, Genuity Capital Markets G.P., Salman Partners Inc. and Versant Partners Inc.;

“**Underwriting Agreement**” means the underwriting agreement dated October 28, 2009 among the Fund, the Trust, Jazz GP, Jazz LP and the Underwriters;

“**Unitholders**” mean the holders of Units;

“**Units**” mean units of the Fund; and

“**Voluntary Agreement**” means an agreement between the Government of Canada and the members of the ATAC regarding GHG emissions; and

“**Widely-Held Test**” has the meaning ascribed thereto under “Description of the Fund – Additional Limitations”.

**SCHEDULE "A"**  
**CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE**

**(the "Committee")**

**OF THE BOARD OF DIRECTORS OF JAZZ AIR HOLDING GP INC.**

**(the "Corporation")**

**AND OF THE BOARD OF TRUSTEES OF JAZZ AIR INCOME FUND**

**(the "Fund")**

**1. Structure, Qualifications**

The Corporation is the general partner of Jazz Air LP (the "Partnership") and as such manages its business. The Fund holds an indirect majority interest in the Partnership. The Audit, Finance and Risk Committee (the "Committee") shall be composed of not less than three directors and/or trustees, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors and the Board of Trustees (collectively, the "Board"). The members of the Committee shall have no relationships with management, the Corporation, the Fund and their related entities that in the opinion of the Board may interfere with their independence. In addition, a Committee member shall not receive, other than for service on the Board or the Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation, the Fund or any of their related parties or subsidiaries. The members of the Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Committee and in particular each member of the Committee shall be "financially literate".

**2. Procedure**

- (a) A quorum of the Committee shall be a majority of the members, and a majority of the members present shall be required to pass a resolution of the Committee. The Committee shall be responsible to the Board. The Chairman and the members of the Committee shall be appointed annually by the Board.
- (b) The Committee shall meet at least quarterly at the call of the Chairman of the Committee.
- (c) An "in-camera" session of the members of the Committee shall be held as part of each meeting of the Committee.
- (d) Meetings may be held in person or by telephone or by any other mean which enables all participants to communicate with each other simultaneously.
- (e) The Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.
- (f) Notice of meetings shall be given by letter, facsimile, email or telephone not less than 24 hours before the time fixed for the meeting unless in extraordinary circumstances. Notice of meetings shall state the date, the place and the hour at which such meetings will be held. Members may waive notice of any meeting.

- (g) The minutes of the Committee meetings shall accurately record the significant discussions of, and decisions made by, the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to Committee members as well as to all the directors of the Corporation and the trustees of the Fund, with copies to the Chief Executive Officer of the Corporation.

### **3. Objectives**

- (a) The objectives of the Committee are as follows:
  - (i) To assist the Board in the discharge of its responsibility to monitor the component parts of the Partnership's and the Fund's financial reporting and audit process.
  - (ii) To maintain and enhance the quality, credibility and objectivity of the Partnership's and the Fund's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
  - (iii) To assist the Board in its oversight of the independence, qualifications and appointment of the external auditor.
  - (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
  - (v) To provide independent communication between the Board and the internal auditor and the external auditor.
  - (vi) To facilitate in-depth and candid discussions between the Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

### **4. Duties**

To achieve its objectives, the Committee shall:

- (a) Monitor and review the quality and integrity of the Partnership's and the Fund's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analysis ("MD&A") to be filed with regulatory authorities and provided to unitholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Committee shall also review the annual information form and other similar documents. These reviews will include:
  - (i) discussions with management and the external auditor and a consideration of the report by the external auditor to the Committee of matters related to the conduct of an audit;
  - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally

accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Partnership and the Fund, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;

- (iii) a review of significant adjustments arising from an audit;
  - (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements;
  - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Partnership and the Fund including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
  - (vi) a review of the external auditor's suggestions for improvements to the Partnership's operations and internal controls;
  - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;
  - (viii) a review to ascertain that various covenants are complied with; and
  - (ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.
  - (c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Partnership's and the Fund's quarterly financial statements and related MD&A.
  - (d) Review with management, the external auditor and legal counsel, the Partnership's and the Fund's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Partnership and the Fund and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.
  - (e) Meet with the external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.
  - (f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated

amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Committee. The Corporation shall ensure that funding is available to the Committee for payment of compensation to the external auditor.

- (g) Review:
- (i) and approve, or delegate to a member of the Committee the responsibility to review and approve and subsequently report to the Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the external auditor prior to the commencement of such work. In this regard the Committee will prepare a report for presentation to the unitholders of the Fund, as required by applicable law, regarding the Committee's policies and procedures for the approval of such non-audit services in the period;
  - (ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.
- (h) Review a report from the external auditor, if deemed appropriate by the Committee, of all relationships between the external auditor and its related entities and the Partnership, the Fund and their related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that in the external auditor's professional judgment it is independent and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once a year the Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.
- (i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.
- (j) At least once each year:
- (i) meet privately with management to assess the performance of the external auditor.
  - (ii) meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the

performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

- (k) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.
- (l) Regarding the services provided by the internal audit department, the Committee will:
  - (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;
  - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;
  - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;
  - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
  - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
  - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
- (m) Obtain from both the internal audit department and the external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.
- (n) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Partnership's and the Fund's financial statements.
- (o) Review policies and procedures for the receipt, retention and treatment of complaints received by the Partnership and the Fund from employees, unitholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters. The Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Committee.

- (p) Review policies for approval of senior management expenses.
- (q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.
- (r) Review with management the Partnership's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- (s) Review and approve all related party transactions as such term is defined from time to time in Policy Statement Q-27 of the Quebec Securities Commission and Rule 61-501 issued by the Ontario Securities Commission, as may be amended from time to time.
- (t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- (u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Committee as the Committee may consider appropriate. The Corporation shall ensure that funding is available to the Committee in respect of the aforementioned activities.
- (v) Report regularly to the Board in writing on the activities, findings and conclusions of the Committee.
- (w) Review this Charter on an annual basis and recommend to the Board any changes to it that the Committee considers advisable.
- (x) Complete a self-assessment annually to determine how effectively the Committee is meeting its responsibilities.
- (y) Perform such other functions as may be delegated from time to time by the Board.
- (z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.
- (aa) Set policies for the hiring of employees or former employees of the external auditors.

## **OTHER**

### **(a) Pension Plans**

In relation to the Partnership's pension plans, the Committee shall:

- (i) On the recommendation of the Chief Financial Officer, approve the investment structure for the plans, any applicable Statement of Investment Policies and Procedures ("SIPP") and other investment policies for the plans;

- (ii) With the assistance of the Chief Financial Officer, periodically review for appropriateness the funding policy, SIPP, other investment policies and investment structure, and monitor overall pension funds operation, in particular plans funded status, compliance of funding practices with funding policy, and compliance of investments with the SIPP;
- (iii) With the assistance of the Chief Financial Officer, periodically review and monitor the total and asset class returns for the defined benefit pension plan and the investment matters relating to the defined contribution plans:
- (iv) Recommend to the Board for its approval the funding policy, the level of annual contributions, the appointment of the external auditor and the trustees/custodians of the assets of the pension plans;
- (v) Approve the actuary and consultant recommended by the pension committee;
- (vi) On the recommendation of the pension committee, accept the actuarial assumptions and actuarial valuation reports for the pension plans; and
- (vii) Approve the annual audited financial statements for the pension plans.

**(b) Public Disclosure**

- (i) Review and approve the Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices;
- (ii) Where practicable, management will review with the Committee or the Chairman of the Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting which are expected by management to be material in relation to the market price of any of the Fund's securities.

**(c) Risk Identification and Management**

The Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Partnership and its subsidiaries and make recommendations in that regard to the Board. The Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Committee shall be entitled, from time to time, to retain experts and consultants to assist the Committee with the discharge of such mandate. The Committee shall have the discretion in the discharge of these duties to address risks to the Partnership's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

**(d) Contingent Liabilities**

The Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Partnership and its subsidiaries. In the discharge of these duties, the Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Committee shall make recommendations, from time to time, to the Board on these matters.

**(e) Corporate Authorizations Policies**

- (i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;
- (ii) Periodically review any administrative resolutions adopted from time to time pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;
- (iii) Review, monitor and approve the Donations Policy, if applicable, and any changes thereto and the annual Donations Budget; and
- (iv) Review, monitor and approve any other financial expenditure policies that would affect the Partnership's and the Fund's and their subsidiaries' financial condition or reputation.

**(f) Performance to Budget, Actuarial Valuation**

- (i) Review actual financial performance compared to budget;
- (ii) Review and approve the actuarial valuation and related assumptions and recommend to the Board the funding contribution to the Partnership's pension funds as required;
- (iii) Review and approve the appointment of the actuary; and
- (iv) Monitor that all contributions, deductions, withholdings, remittances or other payments of any kind under applicable law have been made.

**(g) Responsibilities**

Nothing contained in the above mandate is intended to assign to the Committee the Board's responsibility to ensure the Partnership's and the Fund's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Committee. Even though the Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Committee to plan or conduct audits, or to determine that the Partnership's and the Fund's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

Members of the Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided by the external auditor.