Jazz Air Income Fund

Management's Discussion and Analysis

Three Months Ended
March 31, 2010

May 13, 2010

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The following management's discussion and analysis of financial condition and results of operations ("MD&A") of Jazz Air Income Fund ("the Fund") for the three months ended March 31, 2010 should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Fund for the three months ended March 31, 2010, the audited consolidated financial statements of the Fund for the year ended December 31, 2009, the annual MD&A dated February 9, 2010, and the Fund's Annual Information Form dated March 30, 2010. The audited consolidated financial statements of the Fund and the unaudited interim consolidated financial statements of the Fund are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. This MD&A is prepared as at May 13, 2010.

The Fund is entirely dependent upon the operations and financial condition of Jazz Air LP (the "Partnership"), which carries on the business activities described in this MD&A. The earnings and cash flows of the Fund are affected by certain risks (refer to Section 16 – Risk Factors).

The Fund has discontinued its prior practice of including in its MD&A certain detailed data that could be used to determine pricing and/or other commercially sensitive information regarding its relationship with customers.

This MD&A complies, in all material respects, with the recommendations provided in the Canadian Institute of Chartered Accountants ("CICA") publication, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.*

Except where the context otherwise requires, all monetary amounts are stated in thousands of Canadian dollars.

For further information on the Fund's public disclosure file, including the Fund's Annual Information Form, please consult SEDAR at www.sedar.com.

Caution regarding forward-looking information

Forward-looking statements are included in this MD&A. 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 Partnership'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 MD&A. The forward-looking statements contained in this discussion represent the Fund's expectations as of May 13, 2010, 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.

1. OVERVIEW

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

Jazz 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. Jazz and Air Canada are parties to the capacity purchase agreement ("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 773 departures per weekday to 57 destinations in Canada, and 26 destinations in the United States, using 125 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 performance levels 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 were retroactive to January 1, 2009 (refer to Section 9 – Economic Dependence).

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 (refer to Section 9 – Economic Dependence).

Jazz is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 16 - Risk Factors).

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

demand in the short-term. Jazz revenues under the CPA do not fluctuate significantly with Passenger Load Factors (refer to Section 9 – Economic Dependence).

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. In 2009, Jazz reached a three year agreement with its maintenance and engineering employees and its Customer Services and Aircraft Services divisions, both represented by the Canadian Auto Workers ("CAW"). On March 7, 2010 Jazz reached a tentative agreement with its dispatcher employees represented by the Canadian Air Line Dispatchers Association ("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.

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. During the quarter, activity continued on preparing these aircraft for return to the lessor. As at March 31, 2010, eight of the ten returning CRJ aircraft were off lease with one returned to owner and seven being prepared for return. The remaining two came off lease in April 2010. Jazz has had to redirect a number of internal staff resources to this aircraft return program as late rent penalties are accruing under the original leases for delays in returning the aircraft.

On April 5, 2010, Jazz announced that it had signed a flight services agreement with Thomas Cook Canada Inc. ("Thomas Cook") to operate no less than six Boeing 757-200 aircraft on their behalf to various sun destinations from Canadian gateways during the winter season (November through April). Subject to Jazz obtaining the required regulatory approvals and the execution of definitive leasing and maintenance agreements with Thomas Cook Airlines Ltd., the service will commence in November 2010.

If on or before May 30, 2010 Jazz and Thomas Cook are able to agree on pricing for the third, fourth and fifth winter seasons, then the agreement will be for a term ending April 30, 2015. Otherwise the agreement will have an initial term ending April 30, 2012. This agreement is expected to generate approximately $100.0 million in additional annual revenue. The terms and conditions of the transaction are confidential. The aircraft will be leased to Jazz from Thomas Cook Airlines Ltd. The plan is to brand the service as 'Thomas Cook' beginning in January, 2011.

On April 30, 2010, Jazz announced that it completed a $15.0 million US investment in Latin American Regional Aviation Holding Corp. ("LARAH") in return for a 33⅓% non-voting equity interest in the company. LARAH holds an indirect 75% equity interest in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna"). The remaining 25% equity interest in Pluna is held, indirectly, by the Government of Uruguay. Jazz's $15.0 million US investment, together with an additional $5.0 million US to be invested by the Government of Uruguay, will be used by Pluna to complete a restructuring of its business and to fund growth. Joseph Randell, Jazz's President and Chief Executive Officer, has been appointed as one of the seven members of the board of directors of Pluna. Jazz has established a 100% wholly-owned subsidiary, 7503695 Canada Inc., to hold this investment.

On April 30, 2010, Jazz signed a purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft ("Bombardier") regarding an order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft. Subject to satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. As required by the purchase agreement, Jazz made a $18.3 million US pre-payment.

Conversion of Jazz to a Corporation

During 2010, Jazz intends to pursue a conversion to a corporate structure. As a consequence, certain tax uncertainties described in "Risks Relating to the Structure of Jazz – Income Tax Matters" (refer to Section 16 – Risk Factors) 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 66⅔% of the Units of Jazz. If approved, it is anticipated that unitholders will exchange their Units for shares of a new corporation on a tax deferred basis. Jazz expects the conversion to be effective as of January 1, 2011 (refer to caution regarding forward-looking information on page 1 of this MD&A).

2. HIGHLIGHTS

First quarter 2010 vs first quarter 2009 highlights

- Repaid $115.0 million of long-term debt.
- Signed a purchase agreement with Bombardier regarding an order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft, subsequent to the quarter end.
- Negotiated a strategic investment in Pluna, which was executed and closed subsequent to the quarter end.
- Signed a strategic agreement with Thomas Cook subsequent to the quarter end, which should result in future revenue growth and diversification.
- Achieved over 80% of the incentives available under the CPA, compared to 75% in 2009.
- Distributable cash of $18.5 million for the three months ended March 31, 2010, compared to $34.0 million, down 45.5% or $15.5 million.
- Billable Block Hours down 6.1% and operating income, before amortization of CPA Asset, down 46.8% or $14.8 million for the three months ended March 31, 2010.
- EBITDA of $24.8 million for the three months ended March 31, 2010, down $14.3 million or 36.5%.

Key statistical information

Statistical information for the three months ended March 31, 2010 and 2009 is as follows:

(unaudited)	Three months ended March 31, 2010	Three months ended March 31, 2009	Variance (%)
Departures	63,561	65,306	(2.7)
Block Hours	87,750	91,850	(4.5)
Billable Block Hours	89,745	95,541	(6.1)
Available Seat Miles (ASMs) (000's)	1,233,156	1,269,475	(2.9)
Operating Expenses ($000's)	338,545	337,823	0.2
Cost per Available Seat Mile (CASM) (¢)	27.45	26.61	3.2
CASM Excluding Aircraft Fuel (¢)	22.12	22.09	0.1
Number of Operating Aircraft (end of period)[1]	129	137	(5.8)
Full-time Equivalents (FTEs) (end of period)	4,483	4,378	2.4

(1) Refer to Section 13 – Fleet

3. SUMMARY OF CONSOLIDATED STATEMENT OF INCOME

Certain of the following financial information of Jazz has been derived from, and should be read in conjunction with the interim consolidated financial statements for the three months ended March 31, 2010 and the related notes.

(expressed in thousands of Canadian dollars, except per unit amounts) (unaudited)	Three months ended March 31, 2010 $	2009 $	Change %
Operating revenue	355,372	369,434	(3.8)
Operating expenses	338,545	337,823	0.2
Operating income before amortization of CPA Asset[1]	16,827	31,611	(46.8)
Amortization of CPA Asset[1]	8,048	10,525	(23.5)
Operating income	8,779	21,086	(58.4)
Non-operating expenses	(2,900)	(1,961)	47.9
Income before future income taxes	5,879	19,125	(69.3)
Recovery of future income taxes[2]	644	1,998	(67.8)
Net income for the period	6,523	21,123	(69.1)
Adjusted net income[3]	13,927	29,650	(53.0)
Adjusted net income[3] per unit	0.11	0.24	(54.2)

(1) The value of the CPA is amortized on a straight line basis over the life of the agreement. In the fourth quarter of 2009, Jazz changed its estimate of the useful life of this asset to coincide with the extended term of the CPA provided under the CPA Amending Agreement.
(2) Beginning January 1, 2011 Jazz will become subject to income tax. The future tax recovery represents the change in the future liability during the period based on the changes of temporary differences during the period. (Refer to Section 11 – Critical Accounting Estimates for further detail.)
(3) Adjusted net income equals net income before amortization of CPA Asset, and recovery of future income taxes. This is a non-GAAP measurement.

4. FIRST QUARTER ANALYSIS

The following discussion compares the results of operations of Jazz for the three months ended March 31, 2010 to the three months ended March 31, 2009.

Operating Revenue

Operating revenue decreased from $369.4 million to $355.4 million in the first quarter of 2010, representing a decrease of 3.8%. This decrease in revenue was primarily attributable to a 6.1% reduction in Billable Block Hours, a 2.7% reduction in departures, a lower US dollar exchange rate, and a reduction in the mark-up charged by Jazz under the CPA, effective August 1, 2009 from 16.72% to 12.50% (refer to Section 9 – Economic Dependence for a description of such reduction); offset by rate increases made pursuant to the CPA and an increase in pass-through costs under the CPA.

Other revenue earned from charter flights and other sources, such as groundhandling, increased from $2.1 million to $2.4 million.

Operating Expenses

Jazz's costs, under the CPA, fall into two principal categories: (i) pass-through costs, such as fuel, navigation, landing and terminal fees, rent on certain aircraft (effective August 1, 2009, refer to Section 9 – Economic Dependence) and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and on certain aircraft rent, which are borne by Jazz, but in respect of which Jazz indirectly recovers amounts from Air Canada through the fees it charges Air Canada under the CPA.

Operating expenses increased from $337.8 million to $338.5 million, an increase of $0.7 million or 0.2%.

- Salaries, wages and benefits increased by $4.1 million due to an increase in the number of FTE's in operational areas, as some areas were understaffed in 2009, and wage and scale increases under collective agreements; offset by a decrease in Block Hours and a decrease in operational overtime.
- Aircraft fuel costs increased by $8.4 million due to an increase of $10.9 million in the cost of fuel; offset by a $2.5 million decrease in fuel usage due to a reduction in the number of Block Hours.
- Depreciation and amortization expense increased by $0.5 million due to increased capital expenditures on aircraft rotable parts and other equipment.
- Aircraft maintenance expense decreased by $0.3 million as a result of: the effect of the decrease in the US dollar exchange rate on certain material purchases of $2.8 million, and a decrease in Block Hours flown of $1.4 million; offset by increased rates under new maintenance contracts of $2.7 million, and other maintenance costs of $1.2 million.
- Airport and navigational fees decreased by $1.1 million arising as a result of changes in aircraft deployment and a decrease in departures; offset by a general rate increase.
- Aircraft rent decreased by $7.6 million primarily arising as a result of a lower US dollar exchange rate, and the lease expiry of eight CRJ aircraft.
- Terminal handling costs decreased by $2.8 million due to a reduction in the number of departures, changes in aircraft deployment which resulted in rate decreases, and a decrease in de-icing costs.
- Other expenses decreased by $0.3 million due to a decrease in general overhead expenses.

Non-Operating Expenses

Non-operating expenses amounted to $2.9 million, an increase of $0.9 million. The change was mainly attributable to increased net interest expense related to the convertible debentures issued by Jazz in 2009 (refer to Section 7 – Liquidity and Capital Resources); offset by a reduction in foreign exchange loss arising as a result of the change in value of the Canadian dollar relative to the US dollar.

5. PERFORMANCE INDICATORS

Jazz uses certain non-GAAP financial measures, described below, to evaluate operating performance, to measure compliance with debt covenants and in making decisions relating to distributions to unitholders. These measures are not recognized for financial statement presentation under Canadian GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is a non-GAAP financial measure commonly used throughout all industries to view operating results before interest expense, interest income, depreciation and amortization, gains and losses on property and equipment and other non-operating income and expense. Management believes EBITDA assists investors in comparing Jazz's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost. EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows.

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indication of financial performance. It should not be seen as a measurement of liquidity or a substitute for comparable measurements prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities (refer to Section 16 – Risk Factors, Risks relating to the Structure of the Fund).

Jazz currently intends to make distributions to the holders of Units ("unitholders") (refer to Caution regarding forward-looking information on page 1 of this MD&A). Any such distributions will be made to unitholders of record on the last business day of each month, within 15 days of the end of each month, net of estimated cash amounts required for expenses and other obligations of Jazz, cash redemptions or repurchases of Units, and any tax liability. Declared distributions to the unitholders amounted to $18.4 million for the three months ended March 31, 2010 ($30.9 million for the three months ended March 31, 2009). Distributions are recorded when declared. Distributions are determined by the board of directors of Jazz GP, as general partner of the Partnership and by the Trustees of Jazz, on the basis of performance and taking into account future cash requirements.

On July 28, 2009, the Trustees adjusted cash distributions in light of amendments made to the CPA in 2009 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. (Refer to Section 16 - Risk Factors.)

Standardized Distributable Cash

Standardized distributable cash is a non-GAAP measure recommended by the CICA in order to provide a consistent and comparable measurement of distributable cash across entities.

Standardized distributable cash is defined as cash flows from operating activities, as reported in accordance with GAAP, less adjustments for:

- total capital expenditures as reported in accordance with GAAP; and
- restrictions on distributions arising from compliance with financial covenants applicable at the date of the calculation of standardized distributable cash.

The following table provides a reconciliation of EBITDA and distributable cash of Jazz to operating income:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended March 31, 2010 $	 2009 $
Operating income	8,779	21,086
Depreciation and amortization[1]	16,025	17,985
EBITDA	24,804	39,071
EBITDA margin (%)[2]	*7.0*	*10.6*
EBITDA	24,804	39,071
Non-operating expenses	(2,900)	(1,961)
Maintenance Capital Expenditures[3]	(3,388)	(3,121)
Distributable cash	18,516	33,989

(1) Includes depreciation and amortization of property and equipment and other and amortization of CPA Asset.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.
(3) Refer to Section 7 – Liquidity and Capital Resources for further discussion.

Reconciliation of cash flows from operating activities to standardized distributable cash and distributable cash is as follows:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended March 31, 2010 $	 2009 $
Cash flows from operating activities	19,079	30,364
Maintenance Capital Expenditures, net of gain on disposal	(3,053)	(2,513)
Standardized distributable cash	16,026	27,851
Change in non-cash operating working capital[1]	3,814	4,917
Amortization of prepaid aircraft rent and related fees[1]	(469)	(482)
Unit based compensation[1]	(550)	(479)
Funding of unit based compensation, net of forfeitures[1]	(127)	2,245
Accretion of debt component of convertible debentures	(169)	-
Foreign exchange gain (loss)[1]	533	(748)
Other[1]	(542)	685
Distributable cash	18,516	33,989
Distributions declared	18,429	30,888
Payout ratio – distributions declared/standardized distributable cash	*115.0%*	*110.9%*
Payout ratio – distributions declared/distributable cash	*99.5%*	*90.9%*

Cumulative – since IPO[2]		
Standardized distributable cash	568,196	461,413
Distributable cash	579,691	455,898
Distributions declared	466,529	376,201
Standardized distributable cash payout ratio	*82.1%*	*81.5%*
Distributable cash payout ratio	*80.5%*	*82.5%*

(1) These items are adjustments made in reference to the definition of distributable cash in the limited partnership agreement of Jazz and relate to timing differences.
(2) The period covered is from February 2, 2006, the IPO date (amounts for 2006 and 2007 are those of the Partnership).

The following table provides disclosure regarding the relationship between cash flows from operating activities and net income, and historical distributed cash amounts.

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended March 31, 2010 $	Year ended December 31, 2009 $	Year ended December 31, 2008 $
Cash flows from operating activities	19,079	130,089	155,088
Adjusted net income[(1)]	13,927	121,994	134,936
Cash distributions declared relating to the period	18,429	102,787	123,552
Excess of cash flows from operating activities over cash distributions declared	650	27,302	31,536
Excess (shortfall) of adjusted net income[(1)] over cash distributions declared	(4,502)	19,207	11,384
Payout ratios			
Distributions declared/cash flows from operating activities	*96.6%*	*79.0%*	*79.7%*
Distributions declared/adjusted net income[(1)]	*132.3%*	*84.3%*	*91.6%*

(1) Adjusted net income equals net income before amortization of CPA Asset, recovery of future income taxes, and, in 2008 a goodwill impairment loss. This is a non-GAAP measurement.

The shortfall of net income over cash distributions has been funded through working capital management or cash on hand.

Cash generated from earnings can fluctuate from period to period, effected by, among other factors, changes in Billable Block Hours, non-cash working capital balances, and foreign exchange rates. As a result, Jazz takes a longer-term view and considers the amount of cash generated by the business in determining the amount of distributions to its unitholders. In general, quarterly fluctuations in working capital are not taken into consideration as these tend to be temporary in nature and can change quite significantly from one period to another. Net income is not used as a basis for setting distributions as this is a non-cash calculation and does not reflect the level of cash generated by Jazz.

Cash distributions are not an economic return of capital to unitholders, but a distribution of sustainable cash flow from operations. Jazz maintains adequate cash balances to manage these non-cash working capital fluctuations while delivering cash distributions.

6. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results, as well as major operating statistics, of Jazz:

(unaudited)	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Operating revenue ($000)	355,372	351,238	379,659	373,569	369,434	392,684	437,439	409,805
Operating expenses ($000)	338,545	325,932	344,893	336,855	337,823	352,957	392,069	380,988
Amortization of CPA Asset ($000)	8,048	8,048	10,525	10,525	10,525	10,525	10,525	10,525
Operating income ($000)	8,779	17,258	24,241	26,189	21,086	29,202	34,845	18,504
Total non-operating expense ($000)	2,900	2,111	1,520	811	1,961	158,017[1]	3,096	1,391
Net income (loss) ($000)	6,523	20,816	25,321	25,378	21,123	(86,493)	31,749	23,569
Adjusted net income[2] ($000)	13,927	23,195	33,246	35,903	29,650	34,940	42,274	27,426
Billable Block Hours	89,745	91,783	100,486	98,410	95,541	98,232	106,325	100,860
Available Seat Miles (000's)	1,233,156	1,265,084	1,449,292	1,408,433	1,269,475	1,319,052	1,502,652	1,423,318
Cost per Available Seat Mile (CASM) (¢)	27.45	25.76	23.80	23.92	26.61	26.76	26.09	26.77
CASM, excluding fuel expense (¢)	22.12	20.65	18.85	19.51	22.09	19.98	17.29	18.67
EBITDA ($000)	24,804	33,261	42,476	44,278	39,071	47,604	52,789	37,093
Distributable cash ($000)	18,516	26,743	37,915	40,619	33,989	37,418	44,295	30,302
Distributable cash per unit ($)	0.15	0.22	0.31	0.33	0.28	0.31	0.36	0.25
Distributions declared per unit ($)	0.15	0.15	0.19	0.25	0.25	0.25	0.25	0.25
Net income (loss) per unit, basic and diluted ($)	0.05	0.17	0.21	0.21	0.17	(0.71)	0.26	0.19
Adjusted net income[2] per unit, basic and diluted ($)	0.11	0.19	0.27	0.29	0.24	0.29	0.35	0.22

(1) Includes a goodwill impairment loss of $153.2 million.
(2) Adjusted net income equals net income before amortization of CPA Asset, recovery of future income taxes, and in Q4 2008 a goodwill impairment loss. This is a non-GAAP measurement.

7. LIQUIDITY AND CAPITAL RESOURCES

Jazz continues to generate positive operating income and cash flows from operations. At March 31, 2010, Jazz had $105.4 million in cash and cash equivalents on hand, representing a decrease of $118.2 million or 52.9% from December 31, 2009 (refer to discussion below on repayment of long-term debt). Despite the difficult credit market conditions, Jazz currently maintains the ability to generate sufficient cash flow to fund cash distributions (which are at the discretion of the Board), planned capital expenditures and service its convertible debentures. Management has evaluated aspects of Jazz's business and financial condition and, as at the date of this report, no material adverse changes with respect to its liquidity have occurred. (Refer to Section 16 – Risk Factors, and to Caution regarding forward-looking information on page 1 of this MD&A.)

Summary of Cash Flows

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended March 31, 2010 $	 2009 $
Cash provided by operating activities	19,079	30,364
Cash used in financing activities	(134,216)	(31,592)
Cash used in investing activities	(3,053)	(2,094)
Net change in cash and cash equivalents during the periods	(118,190)	(3,322)
Cash and cash equivalents – Beginning of periods	223,559	131,876
Cash and cash equivalents – End of periods	105,369	128,554

Operating activities

Jazz continued to generate positive cash flows from operations of $19.1 million for the three months ended March 31, 2010, compared to $30.4 million for the same period in 2009; related to a decrease in accounts payable and accrued liabilities and a lower net income; offset by a decrease in accounts receivable and spare parts, materials and supplies.

Financing activities

Cash used in financing activities for the three months ended March 31, 2010 included distributions to unitholders of Jazz of $18.4 million, a repayment of obligations under capital leases of $0.6 million, and a repayment of long-term debt of $115.0 million. Cash used in financing activities for the three months ended March 31, 2009 included distributions to unitholders of Jazz of $30.9 million and a repayment of obligations under capital leases of $0.7 million.

Investing activities

Investing activities for the three months ended March 31, 2010 included capital expenditures of $3.4 million, compared to $3.1 million for the same period in 2009. Capital expenditures consisted of investments made to replenish aircraft rotable parts and other purchases necessary to support the ongoing operations.

Contractual obligations and other commitments

Please refer to the Fund's annual MD&A dated February 9, 2010 for information regarding Jazz's contractual obligations and other commitments.

There have been no material changes to debt and lease obligations during the three months ended March 31, 2010, with the exception of the long-term debt repayment of $115.0 million, as detailed below.

In 2007, Jazz entered into a common terms agreement ("CTA") which governs two of Jazz's aircraft leases and which will also apply to any future aircraft leases with the same company. Jazz was in compliance with the tangible asset disposal covenant contained within the CTA as at March 31, 2010.

Long-term debt

The Credit Facilities matured on February 1, 2010 and all amounts owing thereunder were repaid and the related security was released. As a result, excluding $3.3 million in cash encumbered in support of issued letters of credit, Jazz has all of its assets unencumbered and available to support future debt financing. Jazz has sufficient liquidity to operate its business after such repayment, which was funded out of cash and cash equivalents with a payment of $115.0 million.

Convertible debentures

Pursuant to the Underwriting Agreement, Jazz 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. Jazz granted the underwriters an option, 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 Jazz 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 Jazz.

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 Jazz 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 Jazz'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 Jazz's option at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, Jazz 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.

Units

As at March 31, 2010 and as at the date of this report, May 13, 2010, Jazz had 122,864,012 Units issued and outstanding. The issuance of the convertible debentures discussed above creates 16,428,571 potentially dilutive Units; as a result, if fully exercised, Jazz would have 139,292,483 Units outstanding.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Jazz's financial instruments consist of cash and cash equivalents, accounts receivable, ABCP, accounts payable and accrued liabilities, obligations under capital leases, long-term debt and convertible debentures.

Jazz has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Interest rate risk

Investments included in Jazz's cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Jazz's objective is to maintain these balances in highly liquid investments. As at March 31, 2010, Jazz's investments consisted of bankers acceptances and bankers deposit notes issued by two Schedule 1 banks.

Credit risk

In accordance with its investment policy, Jazz invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 banks and Schedule 2 banks rated R-1 high, and commercial paper rated R-1 high. Jazz manages the credit risk in respect of these investments by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. Given the disruption in the third party sponsored asset backed commercial paper ("ABCP") market, Jazz amended its investment policy to prohibit investment in all third party and bank sponsored ABCP.

The amount of accounts receivable disclosed on the balance sheet of $58.3 million is net of allowances for bad debts, estimated by management based on prior experience and its assessment of the current economic environment and the

specific debtor. Approximately $52.9 million of such receivables are with one company, Air Canada. Accordingly, Jazz is directly affected by the financial and operational strength of Air Canada (refer to Section 16 - Risk Factors). Jazz does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Jazz's objective is to maintain sufficient liquidity to meet liabilities when due. Jazz monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. The Credit Facilities matured on February 1, 2010 and all amounts owing thereunder were repaid. Jazz has sufficient liquidity to operate its business after such repayment, which was funded out of cash and cash equivalents with a payment of $115.0 million. The letters of credit remain outstanding and have been cash collaterized. Letters of credit were issued as security for groundhandling and airport fee contracts, lease payments on rental space and aircraft, and certain employee benefits.

Currency risk

Jazz receives revenue and incurs expenses in US and Canadian currency, and as such, is subject to foreign currency exchange rate risk. Jazz manages its exposure to currency risk by billing for services rendered under the CPA in the underlying currency of the related expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under capital leases, which are long-term and therefore subject to larger unrealized gains or losses. Jazz seeks to minimize its currency risk by maintaining a balance of US dollars used to pay US denominated liabilities and by replenishing the balance with inflows arising from US dollar denominated revenues. As at March 31, 2010, the amount of US dollar denominated assets owned by Jazz was $65.6 million and US denominated liabilities owed by Jazz was $61.2 million.

9. ECONOMIC DEPENDENCE

The CPA

The CPA consists of a number of variable components based on certain different metrics, including Block Hours flown, flight hours, cycles (number of take-offs and landings), number of passengers and number of Covered Aircraft. The rates for these metrics are fixed for annual periods and vary by aircraft type. In addition, Air Canada is required to reimburse Jazz for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. Since these costs are required to operate the Covered Aircraft, the reimbursement of these costs is included in Jazz's revenue. Jazz is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria.

Jazz and Air Canada agreed to re-set detailed 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 the establishment of new rates for Controllable Costs that are payable by Air Canada under the CPA in the following three-year period (2009 to 2011, inclusive). The new rates which were retroactive to January 1, 2009, apply a 16.72% mark-up on Jazz's Controllable Costs for each of the years 2009 to 2011 (for the years 2006 to 2008 the percentage mark-up was 16.40%).

Amendments to the CPA

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

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

Aircraft to 123 aircraft and the subsequent permanent reduction in the number of Covered Aircraft to 125, subject to Air Canada's one-time right to revise the MADUG in the circumstances described below.

In addition to establishing the annual minimum number of Block Hours on which the MADUG is based, the CPA Amending Agreement provides Air Canada with the right to revise the MADUG effective in January 2016 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 of such a decrease, the CPA Amending Agreement requires that Air Canada and Jazz agree upon a revised MADUG by November 17, 2015, failing which Air Canada shall have the right to unilaterally set a revised MADUG by sending Jazz notice by November 20, 2015. The CPA Amending Agreement provides Jazz with the right to send Air Canada 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.

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

Following the expiration of the 2009-2011 Rate Period, the CPA Amending Agreement established the following three remaining rate periods during the initial term of the CPA: (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 shall determine the rates to be charged by Jazz during each period. Rates for each rate period are determined pursuant to a rate reset process set out in the CPA. The CPA provides that Air Canada and Jazz 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. If Jazz and Air Canada can not agree on new rates, the matter is subject to the arbitration provisions in the CPA.

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

The Controllable Mark-Up may also be reduced as a result of benchmarking Jazz's Controllable Costs to those of a group of comparable operators (the "Comparator Group") in 2010 and 2016. Jazz and Air Canada had agreed to compare and benchmark Jazz's Controllable Costs to those of the Comparator Group in 2010 for the 2009 calendar year (the "2009 Benchmark"). Pursuant to the terms of the CPA Amending Agreement, Jazz and Air Canada have agreed to a second benchmarking in 2016 for the 2015 calendar year (the "2015 Benchmark"). If the 2009 Benchmark indicates that the percentage difference 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, the Controllable Mark-Up will be reduced with effect as of January 1, 2010 until December 31, 2020, unless as a result of the 2015 Benchmark it is further reduced, to the lower of 12.50% or the percentage that is equal to 16.72% minus the amount of the increase described above. If the 2015 Benchmark indicates that the percentage difference between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference determined during the 2009 benchmarking, the Controllable Mark-Up then in effect shall be reduced by the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020.

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

Jazz currently intends to acquire new, large turboprop aircraft with delivery of one aircraft per month commencing in May 2011. Jazz and Air Canada have agreed to use commercially reasonable efforts to agree to the rates to be charged for the new turboprop aircraft prior to their delivery, failing which the matter shall be determined in accordance with the dispute resolution provisions in the CPA. Following the delivery of the second new 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 turboprop aircraft, one CRJ 100 or CRJ 200 will be removed from the fleet of Covered Aircraft and replaced with one arriving 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 shall use commercially reasonable efforts to agree to new rates for this aircraft type. Pursuant to the terms of the CPA Amending Agreement, Air Canada has agreed to pay the costs associated with the removal of the CRJ 100 and CRJ 200 aircraft from the fleet of Covered Aircraft.

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz also agreed, effective as of August 1, 2009, to treat the rent charged to Jazz for five of the CRJ 100 aircraft as a pass-through cost. Jazz and Air Canada have also agreed to use commercially reasonable efforts to agree by March 31, 2010 to terms and conditions relating to deploying up to eight CRJ 100 aircraft ("Swing Aircraft"). Jazz and Air Canada are currently discussing the applicable terms and conditions and have agreed to extend the deadline for their agreement to June 30, 2010. If an agreement is reached, Air Canada may commence the use of such Swing Aircraft to operate Scheduled Flights commencing in 2011, following the delivery of a third new turboprop aircraft to Jazz. If Jazz and Air Canada cannot agree on terms and conditions relating to the deployment of Swing Aircraft, the matter is subject to the arbitration provisions in the CPA. The rent to be charged for the Swing Aircraft shall also be treated as a pass-through cost. All or some of these Swing Aircraft may be removed from Jazz's fleet by Air Canada. The Swing Aircraft in Jazz's fleet from time to time, if any, are in addition to the Guaranteed Minimum Number of Covered Aircraft.

Master Services Agreement

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

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

Other

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

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

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

Jazz has a significant amount of transactions with Air Canada and its subsidiaries. Air Canada and its subsidiaries represented 99.3% of Jazz's operating revenues for the three months ended March 31, 2010 (99.4% for the three months ended March 31, 2009). Approximately 14.2% and 17.5% of Jazz's operating expenses for the three months ended March 31, 2010 and 2009, respectively, were incurred with Air Canada and its subsidiaries.

10. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Jazz's pension funding obligations from 2010 to 2014:

(expressed in thousands of Canadian dollars)	2010 $	2011 $	2012 $	2013 $	2014 $
Defined benefit pension plans, current service	8,900	9,200	9,400	9,600	9,600
Defined benefit pension plans, past service	6,600	4,000	3,600	2,600	2,600
Defined contribution pension plans	8,200	9,300	9,500	9,700	9,900
Projected pension funding obligations	23,700	22,500	22,500	21,900	22,100

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Jazz. Defined benefit pension plans include the Jazz pilots' registered defined benefit pension plan as well as an unregistered defined benefit supplemental executive retirement plan that Jazz sponsors for eligible employees. Defined contribution pension plans include a number of defined contribution pension arrangements that Jazz contributes to for its eligible employees.

The funding requirements for the Jazz pilots' registered pension plan are estimated based on the January 1, 2009 actuarial valuation for that plan and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the supplemental executive retirement plan are based on a funding policy adopted by Jazz and the January 1, 2009 actuarial valuation for that plan.

The January 1, 2009 actuarial valuation for the Jazz pilot's registered plan reflects a change in the solvency asset valuation being used. Previous valuations used market value of assets, whereas the current valuation uses a smoothed value of the plan asset which amortizes investment gains and losses over a five year period with a cap on the smoothed value of assets at 110% of market value of assets.

On June 12, 2009 the Solvency Funding Relief Regulations were enacted by the Government of Canada. Jazz has elected to implement funding relief measures available under such regulations such that the amortization period applicable to the January 1, 2009 solvency deficiency in Jazz's pilots' registered plan is increased from five years to ten years. This had the effect of reducing the 2009 minimum contributions by approximately $1.8 million. The continuation of such extended amortization period beyond 2009 is conditional on obtaining a letter of credit or member consent. To the extent that the letter of credit or member consent is not obtained, Jazz must amortize the remaining deficiency over a five year period commencing January 1, 2010 and ending December 31, 2014. The current projection set out in the above table assumes that no member consent or a letter of credit is obtained and therefore the deficiency will be amortized over five years starting 2010.

Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. These projections are updated annually (refer to Caution regarding forward-looking information on page 1 of this MD&A.)

11. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Caution regarding forward-looking information on page 1 of this MD&A). The significant accounting policies of Jazz are described in note 2 of the March 31, 2010 unaudited consolidated financial statements of Jazz Air Income Fund. There were no material changes in the nature of critical accounting estimates during the three months ended March 31, 2010 from those disclosed in the Fund's annual MD&A for the year ended December 31, 2009.

12. ACCOUNTING POLICY CHANGES AND DEVELOPMENTS

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Jazz will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. Jazz has created an implementation team, comprised of certain employees who deal with accounting, finance and reporting matters, and an external consultant. A changeover plan is being established to convert to the new standards within the allotted timeline and consist of the following phases:

- Raise awareness and initial assessment – this phase involved performing a high level impact assessment to identify key IFRS areas that are likely to affect Jazz. Each accounting standard was reviewed under IFRS and was ranked as high, medium or low priority based on the differences from Canadian GAAP. Also, all relevant employees and board members were made aware of the changeover and the relevant timelines. Jazz completed this phase in the third quarter of 2008.

- Detailed assessment - each section is reviewed and analyzed for accounting or disclosure differences between Canadian GAAP and IFRS. Any identified differences are reviewed for potential impacts to existing accounting policies, information systems and business processes. An action plan is then developed for each impact area. This phase is substantially complete.

- Implementation and review – during this phase the action plan developed in the detailed assessment phase is implemented to create, as necessary, new accounts, system changes, process changes and financial statement models. Accounting policies are approved, including transition elections in IFRS 1 (First time adoption of IFRS). This phase is currently underway.

Based on the analysis performed to date, the major differences between Canadian GAAP and IFRS that are likely to impact Jazz include:

- IFRS 1 – provides entities with a number of optional and mandatory exemptions upon initial adoption of the standards. The exemption choices are being analyzed and Jazz will implement those determined to be most appropriate.

- Property, plant and equipment – International Accounting Standards ("IAS") 16 requires significant maintenance events to be broken out as a component of the initial cost and depreciated over the life of the maintenance event. The cost of the maintenance event will then be re-capitalized and this cycle will continue over the life of the asset.

- Impairment of assets – IAS 36 uses a one step approach for both testing and measurement of impairment, with assets' carrying values compared directly with the higher of fair value less costs to sell or value in use (which uses discounted cash flows). This could result in the impairment of the CPA Asset on transition to IFRS.

- Recognition of leases – unlike Canadian GAAP, IAS 17 does not provide prescriptive measurements on lease contracts. As a result, all lease contracts are being reviewed to determine if they are operating or capital leases based on whether or not management concluded that substantially all of the risks and rewards incidental to ownership have been transferred.

- Accounting for defined benefit pension plans and other future employee benefits - IAS 19 requires the past service costs of defined benefit plans be recognized on an accelerated basis with vested past service costs expensed immediately and unvested past service costs recognized on a straight line basis until the benefits become vested. Under Canadian GAAP, past service costs are generally amortized on a straight line basis over the average remaining service period. In addition, actuarial gains and losses are permitted to be recognized directly through equity under IAS 19 rather than through the income statement. For other future employee benefits, all actuarial gains and losses, as well as all past service costs, must be recognized immediately with no amortization option.

There is a paragraph under IAS 19, as interpreted by International Financial Reporting Interpretations Committee ("IFRIC") 14, which imposes a limit on a balance sheet asset in respect of a funded defined benefit plan. The intent is to ensure that the balance sheet asset is limited to the amount recoverable by Jazz in future periods through surplus refunds or contribution holidays. IFRIC 14 may also create an "additional liability" related to Jazz's past service funding contribution requirements for a funded defined benefit plan. The impact of IFRIC 14 may be significant, in particular, in respect of the pilot pension plan, and the impact may change significantly from one year to the next. Any such IFRIC 14 impact on the pilot plan as at the transition date will be recognized as an adjustment to Jazz's retained earnings.

In addition to the sections noted above, there are generally more extensive presentation and disclosure requirements under IFRS compared to Canadian GAAP. These have been noted in the detailed analysis and are being added to draft IFRS financial statements. Jazz does not believe any significant changes to its financial reporting system will be necessary to facilitate the change-over. At this time, the quantitative effects on the financial statements cannot be reasonably estimated.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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

13. FLEET

As at March 31, 2010, Jazz's operating fleet was made up of 129 operating aircraft, of which 65 were regional jets and 64 turboprop aircraft.

Jazz's operating fleet, at March 31, 2010, was as described below:

(unaudited)	Number of Operating Aircraft	Average Age of Operating Aircraft	Owned	Capital Lease	Operating Lease	Number of Operating Aircraft March 31, 2009
Canadair Regional Jet CRJ100	22	14.6	-	-	22	24
Canadair Regional Jet CRJ200	27	7.8	-	-	27	33
Canadair Regional Jet CRJ705	16	4.7	-	-	16	16
De Havilland DHC-8-300	28	19.5	19	7	2	28
De Havilland DHC-8-100	36	22.0	29	-	7	36
Total Operating Aircraft	129[(1)]	15.1	48	7	74	137

(1) Refer to Section 9 – Economic Dependence for further discussion of the temporary reduction in the number of covered aircraft.

All aircraft in Jazz's operating fleet as of March 31, 2010 are Covered Aircraft under the CPA, except for two Dash 8-100 and two Dash 8-300 aircraft allocated 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. During the quarter, activity continued on preparing these aircraft for return to the lessor. As at March 31, 2010, eight of the ten returning CRJ aircraft were off lease with one returned to owner and seven being prepared for return. The remaining two came off lease in April 2010. Jazz has had to redirect a number of internal staff resources to this aircraft return program as late rent penalties are accruing under the original leases for delays in returning the aircraft.

14. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Jazz's disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to the disclosure committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of Jazz's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Jazz's 2009 MD&A dated February 9, 2010, contains a statement that the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have concluded that the Fund's disclosure controls and procedures, and internal control over financial reporting, are effective based upon an evaluation of these controls and procedures conducted at December 31, 2009.

Jazz filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of Jazz's 2009 annual filings. In those filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Jazz's disclosure controls and procedures and the design and effectiveness of internal control over financial reporting. The CEO and CFO also certified the appropriateness of the financial disclosures in Jazz's interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO also certified the design of Jazz's disclosure controls and procedures and the design of internal control over financial reporting.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Jazz's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Jazz's internal control over financial reporting during the first quarter of fiscal 2010 that has materially affected, or is reasonably likely to materially affect, Jazz's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of trustees of Jazz and the board of directors of Jazz GP reviewed this MD&A, and the unaudited interim consolidated financial statements of Jazz for March 31, 2010, and Jazz's board of trustees and Jazz GP's board of directors approved these documents prior to their release.

15. OUTLOOK

The discussion that follows represents forward-looking information. Refer to Caution regarding forward-looking information on page 1 of this MD&A.

Based on the 2009 and 2010 winter schedule and 2010 planning assumptions received from Air Canada and the initial planned flying for Thomas Cook, Jazz anticipates billing between 378,000 and 383,000 Block Hours for the year ending December 31, 2010.

16. RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Jazz, the industry, the structure of Jazz, current legal proceedings, and convertible debentures, refer to the Section entitled "Risk Factors" in the Jazz Air Income Fund, 2009 MD&A dated February 9, 2010 and Jazz's Annual Information Form dated March 30, 2010.

17. GLOSSARY OF TERMS

Available Seat Mile (ASMs) – Available Seat Mile means a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

Billable Block Hours – Billable Block Hours mean actual Block Hours flown under the CPA plus Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights;

Block Hours – 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 next again returned to the wheels of the aircraft, divided by 60;

Controllable Costs – Controllable Costs mean for any period, all costs and expenses incurred and paid by Jazz with respect to the Scheduled Flights and the Aircraft Services, as defined in the CPA, other than pass-through costs, but including any incentive compensation expense;

Cost per Available Seat Mile (CASM) – Cost per Available Seat Mile means the operating expense per Available Seat Mile;

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

CPA – CPA means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and the Partnership, as amended by the Rate Amending Agreement and the CPA Amending Agreement, and as may be further amended;

CPA Amending Agreement – CPA Amending Agreement means the agreement to amend the CPA between the Partnership and Air Canada dated September 22, 2009;

CPA Asset – CPA Asset means the intangible asset consisting of Jazz's rights under the CPA;

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

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

Fund – Fund means Jazz Air Income Fund;

Jazz – Jazz means Jazz Air Income Fund, Jazz Air Trust, and where the context requires, Jazz Air LP, together with its general partner, Jazz GP and their respective subsidiaries and predecessors;

Jazz GP – Jazz GP means Jazz Air Holding GP Inc., a corporation incorporated under the Canada Business Corporations Act on August 23, 2005, to act as the general partner of the Partnership;

Maintenance Capital Expenditures – represent expenditures incurred to sustain operations or Jazz's productive capacity;

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

Operating expenses – Operating expenses means operating expenses before amortization of CPA Asset;

Rate Amending Agreement – Rate Amending Agreement means the agreement to amend and re-set the rates between the Partnership and Air Canada dated July 28, 2009;

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

The Partnership - The Partnership means Jazz Air LP;

Thomas Cook – Thomas Cook means Thomas Cook Canada Inc.;

Trust – Trust means Jazz Air Trust; and

Units or Fund Units – Units or Fund Units mean units of the Fund.