Jazz Air Income Fund

Unaudited Consolidated Financial Statements
June 30, 2010

August 3, 2010

Management's Report

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

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

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

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

Jazz Air Income Fund

Unaudited Consolidated Balance Sheets

As at June 30, 2010 and December 31, 2009

(expressed in thousands of Canadian dollars)

	June 30, 2010 $	December 31, 2009 $
Assets		
Current assets		
Cash and cash equivalents	76,547	223,559
Accounts receivable – trade and other (note 7)	59,244	59,044
Spare parts, materials and supplies	37,014	40,755
Prepaid expenses	22,334	19,909
Total current assets	195,139	343,267
Property and equipment (note 3)	212,865	202,994
Intangible assets	666,383	682,479
Long-term investment (note 4)	16,351	-
Other assets	43,534	37,731
	1,134,272	1,266,471
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	176,679	179,216
Distributions payable	6,143	6,143
Current portion of obligations under capital leases	2,838	2,681
Current portion of long-term debt (note 5)	-	114,706
Total current liabilities	185,660	302,746
Obligations under capital leases	13,841	15,097
Convertible debentures	78,765	78,180
Future income tax	12,650	13,294
Other long-term liabilities	51,616	52,699
	342,532	462,016
Unitholders' Equity	791,740	804,455
	1,134,272	1,266,471

Economic dependence (note 7)
Contingencies (note 9)

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Unitholders' Equity

For six-month period ended June 30, 2010 and year ended December 31, 2009

(expressed in thousands of Canadian dollars)

	Unitholders' capital $	Retained earnings (deficit) Accumulated earnings $	Retained earnings (deficit) Distributions $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Equity component of convertible debentures $	Total $
Balance - December 31, 2008	1,034,451	20,102	(250,738)	7,400	(3,186)	-	808,029
Change in fair value during the period	-	-	-	-	800	-	800
Distributions	-	-	(61,776)	-	-	-	(61,776)
Units held by unit based compensation plan	835	-	-	(2,879)	-	-	(2,044)
Accretion related to the ongoing long-term incentive plan	-	-	-	958	-	-	958
Net income for the period	-	46,501	-	-	-	-	46,501
Balance - June 30, 2009	1,035,286	66,603	(312,514)	5,479	(2,386)	-	792,468
Change in fair value during the period	-	-	-	-	1,584	-	1,584
Distributions	-	-	(41,011)	-	-	-	(41,011)
Issue of convertible debentures	-	-	-	-	-	4,324	4,324
Units held by unit based compensation plan	(6)	-	-	-	-	-	(6)
Accretion related to the ongoing long-term incentive plan	-	-	-	959	-	-	959
Net income for the period	-	46,137	-	-	-	-	46,137
Balance - December 31, 2009	1,035,280	112,740	(353,525)	6,438	(802)	4,324	804,455
Change in fair value during the period	-	-	-	-	802	-	802
Distributions	-	-	(36,858)	-	-	-	(36,858)
Units held by unit based compensation plan	1,573	-	-	(1,446)	-	-	127
Accretion related to the ongoing long-term incentive plan	-	-	-	1,100	-	-	1,100
Net income for the period	-	22,114	-	-	-	-	22,114
Balance - June 30, 2010	1,036,853	134,854	(390,383)	6,092	-	4,324	791,740

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Income

For the three and six-month periods ended June 30, 2010 and 2009

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

	Three months ended June 30,		Six months ended June 30,	
	2010 $	2009 $	2010 $	2009 $
Operating revenue (note 7)				
Passenger	356,723	371,219	709,738	738,562
Other	2,287	2,350	4,644	4,441
	359,010	373,569	714,382	743,003
Operating expenses (note 7)				
Salaries and wages	71,660	72,526	146,247	144,031
Benefits	13,691	13,104	29,595	27,949
Aircraft fuel	71,373	62,046	137,195	119,468
Depreciation and amortization of property and equipment	7,100	7,564	15,077	15,024
Amortization of Capacity Purchase Agreement ("CPA") intangible asset	8,048	10,525	16,096	21,050
Food, beverage and supplies	3,190	3,519	6,216	6,774
Aircraft maintenance materials, supplies and services	38,279	41,799	78,107	81,892
Airport and navigation fees	47,588	48,939	92,572	95,026
Aircraft rent	29,129	34,263	58,459	71,204
Terminal handling services	22,472	22,560	52,619	55,499
Other	27,655	30,535	54,595	57,811
	340,185	347,380	686,778	695,728
Operating income	18,825	26,189	27,604	47,275
Non-operating income (expenses)				
Interest revenue	67	165	194	460
Interest expense	(2,139)	(1,820)	(5,151)	(3,719)
Gain on disposal of property and equipment	149	577	484	1,185
Foreign exchange gain (loss)	(1,311)	267	(1,661)	(698)
	(3,234)	(811)	(6,134)	(2,772)
Income before future income taxes	15,591	25,378	21,470	44,503
Recovery of future income taxes	-	-	644	1,998
Net income for the periods	15,591	25,378	22,114	46,501
Earnings per Unit, basic and diluted	0.13	0.21	0.18	0.38

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Comprehensive Income

For the three and six-month periods ended June 30, 2010 and 2009

(expressed in thousands of Canadian dollars)

	Three months ended June 30, 2010 $	Three months ended June 30, 2009 $	Six months ended June 30, 2010 $	Six months ended June 30, 2009 $
Net income for the periods	15,591	25,378	22,114	46,501
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	-	(90)	802	(278)
Reclassification of net realized gains on derivatives designated as cash flow hedges to income	-	606	-	1,078
Comprehensive income	15,591	25,894	22,916	47,301

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Cash Flows

For the three and six-month periods ended June 30, 2010 and 2009

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010 $	2009 $	2010 $	2009 $
Cash provided by (used in)				
Operating activities				
Net income for the periods	15,591	25,378	22,114	46,501
Charges (credits) to operations not involving cash				
Depreciation and amortization of property and equipment	7,100	7,564	15,077	15,024
Amortization of CPA intangible asset	8,048	10,525	16,096	21,050
Amortization of prepaid aircraft rent and related fees	465	483	934	965
Gain on disposal of property and equipment	(149)	(577)	(484)	(1,185)
Unit based compensation	550	479	1,100	958
Foreign exchange (gain) loss	734	(1,684)	201	(936)
Accretion of debt component of convertible debentures	150	-	319	-
Future income taxes	-	-	(644)	(1,998)
Other	890	483	1,432	(202)
Funding of unit based compensation plan, net of forfeitures	-	201	127	(2,044)
	33,379	42,852	56,272	78,133
Net changes in non-cash working capital balances related to operations (note 6)	(5,360)	(18,934)	(9,174)	(23,851)
	28,019	23,918	47,098	54,282
Financing activities				
Repayment of obligations under capital leases	(650)	(675)	(1,297)	(1,379)
Repayment of long-term debt	-	-	(115,000)	-
Convertible debentures, net of deferred financing costs	-	-	(140)	-
Distributions	(18,429)	(30,888)	(36,858)	(61,776)
	(19,079)	(31,563)	(153,295)	(63,155)
Investing activities				
Additions to property and equipment	(1,916)	(2,848)	(5,304)	(5,969)
Purchase deposits on aircraft, including other costs	(19,644)	-	(19,644)	-
Decrease in long-term receivables	-	-	-	419
Long-term investment	(16,351)	-	(16,351)	-
Proceeds on disposal of property and equipment	149	577	484	1,185
	(37,762)	(2,271)	(40,815)	(4,365)
Net change in cash and cash equivalents during the periods	(28,822)	(9,916)	(147,012)	(13,238)
Cash and cash equivalents – Beginning of periods	105,369	128,554	223,559	131,876
Cash and cash equivalents – End of periods	76,547	118,638	76,547	118,638
Cash payments of interest	5,530	2,079	6,815	4,620
Cash receipts of interest	104	112	244	513
Cash and cash equivalents comprise:				
Cash	37,916	60,638	37,916	60,638
Term deposits and fixed income securities	38,631	58,000	38,631	58,000

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

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

1 Nature of operations and economic dependence

Jazz Air Income Fund (the "Fund") is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated November 25, 2005 and amended by an amended and restated declaration of trust dated January 24, 2006, and an amending agreement dated as of March 23, 2009 (the "Jazz Declaration of Trust"). The Fund qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The principal and head office of the Fund is located at 1000 de la Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5. The Fund has been established to acquire and hold, directly or indirectly, investments in Jazz Air LP (the "Partnership") and its general partner Jazz Air Holding GP Inc. ("Jazz GP"), a regional airline, and such other investments as the Board of Trustees of the Fund (the "Trustees") may determine. During the second quarter of 2010, the Fund incorporated a wholly-owned subsidiary, 7503695 Canada Inc. ("7503695") to acquire and hold a direct investment in Latin American Regional Aviation Holding Corp. ("LARAH"). LARAH holds an indirect 75% equity interest in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna") and an indirect 58.5% equity interest in Aerovip, a licensed Argentinean airline. Reference to Jazz in the following notes to the consolidated financial statements refers to, as the context may require, the Fund and its subsidiaries (Jazz Air Trust (the "Trust"), the Partnership, Jazz GP and 7503695) collectively, the Fund and one or more of its subsidiaries, one or more of the Fund's subsidiaries or the Fund itself.

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

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

2 Significant accounting policies

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

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

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

2 Summary of significant accounting policies (continued)

Principles of consolidation

These unaudited interim consolidated financial statements include the accounts of the Fund, the accounts of the Trust, the consolidated accounts of the Partnership, the variable interest entity for which the Fund is the primary beneficiary, and the accounts of 7503695. All inter-company and inter-entity balances and transactions are eliminated.

Operating revenue

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse Jazz for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, *Determining Whether an Arrangement Contains a Lease*, Jazz has concluded that a component of its revenue under the CPA is rental income since the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is $36,249 for the three months ended June 30, 2010 ($45,541 for the three months ended June 30, 2009) and $73,803 for the six months ended June 30, 2010 ($93,579 for the six months ended June 30, 2009). This amount was recorded in passenger revenue of Jazz's consolidated statements of income.

Available for sale financial instruments

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income, except for investments in equity instruments that do not have a quoted market price in an active market which should be measured at cost. Transaction costs incurred to acquire available-for-sale financial instruments are included in the underlying balance. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses realized on disposal of available-for-sale securities are recognized in net income. Jazz's investment in LARAH (note 4) has been classified as available for sale and measured at cost as there is no quoted price in an active market.

Use of estimates

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

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

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

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

2 Summary of significant accounting policies (continued)

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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

3 Property and equipment

On April 30, 2010, Jazz signed a purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft regarding a firm order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft. Based on the list price for the Q400 NextGen aircraft, the firm order is valued at approximately US$454,000, and could increase to US$937,000, if the option to purchase an additional 15 aircraft is exercised. Subject to satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. As required by the purchase agreement, Jazz made a lump sum predelivery payment during the quarter. The purchase agreement with Bombardier requires on-going monthly predelivery payments in the aggregate amount of $34,658, until July 2011. As at June 30, 2010, Jazz has recorded $19,644 in property and equipment for these predelivery payments, which includes other costs of $422.

Jazz has received financing commitments from a third party lender for all firm orders covering up to 85% of the net purchase price.

4 Long-term investment

On April 30, 2010, Jazz completed a $15,188 investment in LARAH in return for a 33.3% non-voting equity interest. LARAH holds an indirect 75% equity interest in Pluna and an indirect 58.5% equity interest in Aerovip, a licensed Argentinean airline. The remaining 25% equity interest in Pluna is held, indirectly, by the Government of Uruguay. Jazz has the right to appoint one of the seven directors on the Pluna board of directors.

Jazz has classified the investment as available for sale, rather than an equity investment. Jazz does not have the ability to exercise significant influence over LARAH, and as a result, the investment is accounted for at cost.

Jazz's ability to realize a return on the investment is dependent on the occurrence of a liquidity event, such as an IPO or the sale of the business. LARAH and its subsidiaries are private companies with no quoted market price in an active market, therefore the investment was recorded at cost and no fair value has been disclosed. In addition, transaction costs of $1,163 directly attributable to the LARAH investment have been included in the cost of the investment. As at June 30, 2010, Jazz has recorded $16,351 in long-term investments.

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

4 Long-term investment (continued)

The investment is exposed to the following risks:

- Liquidity risk – Jazz has a minority, non-voting interest in LARAH which is a private company. Jazz has no control over the timing of a liquidity event (such as an IPO or permitted sale). There is a risk that Jazz will not be able to realize on its investment in LARAH within a reasonable time frame. Jazz has no commitment to make any further investment in LARAH.
- Currency risk – the investment was made in US currency, therefore a decline in the value of the US exchange rate would create a foreign exchange loss on disposal of the asset. A 1¢ change in the US exchange rate would result in a foreign exchange gain or loss of $150 upon disposal of the investment.

5 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 $3,477 in cash encumbered in support of issued letters of credit, Jazz has all of its assets unencumbered and available to support future debt financing. Jazz has sufficient liquidity to operate its business after such repayment, which was funded out of cash and cash equivalents with a payment of $115,000.

6 Statement of cash flows – supplementary information

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

	Three months ended June 30,		Six months ended June 30,	
	2010 $	2009 $	2010 $	2009 $
Increase in accounts receivable – trade and other	(965)	(12,667)	(200)	(7,195)
Decrease in spare parts, materials and supplies	1,392	5,667	3,741	5,906
Increase in prepaid expenses	(1,234)	(4,420)	(2,425)	(4,938)
Increase in other assets	(5,348)	-	(7,472)	-
Increase (decrease) in accounts payable and accrued liabilities	1,482	(1,267)	(1,735)	(8,751)
Decrease in other long-term liabilities	(687)	(6,247)	(1,083)	(8,873)
	(5,360)	(18,934)	(9,174)	(23,851)

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

7 Economic dependence

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

	Three months ended June 30,		Six months ended June 30,	
	2010 $	2009 $	2010 $	2009 $
Operating revenue				
Air Canada	356,455	370,958	709,187	737,995
Operating expenses				
Air Canada(1)	20,969	22,917	47,879	55,017
Air Canada Capital Ltd.	22,055	25,255	43,054	52,182

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

	As at June 30, 2010 $	As at December 31, 2009 $
Accounts receivable		
Air Canada(1)	55,416	53,335
Accounts payable and accrued liabilities		
Air Canada(1)	59,573	59,048
Air Canada Capital Ltd.	10,690	8,422

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

Capacity Purchase Agreement

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

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

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

7 Economic dependence (continued)

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

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

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

Amendments to the CPA

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

The CPA Amending Agreement extends the initial term of the CPA from December 31, 2015 to December 31, 2020 and provides greater certainty regarding the number of annual Block Hours to be scheduled for flying by Jazz. Block Hours are calculated by adding the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60 ("Block Hours"). Under the CPA Amending Agreement, Air Canada agreed to use reasonable commercial efforts to provide a minimum of 375,000 total annual Block Hours to Jazz, as measured by the sum of the twelve monthly schedules delivered by Air Canada to Jazz for a calendar year (the "Annual Delivered Block Hours"). In addition, Air Canada and Jazz agreed that the minimum average daily utilization per aircraft, as stated in Block Hours, will not result in less than 339,000 annual Block Hours (the minimum average daily utilization guarantee or "MADUG"), notwithstanding the temporary reduction in the number of Covered Aircraft to 123 aircraft and the subsequent permanent reduction in the number of Covered Aircraft to 125, subject to Air Canada's one-time right to revise the MADUG in the circumstances described below.

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

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

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

7 Economic dependence (continued)

The CPA Amending Agreement provides for amendments to the long range fleet plan, reflecting the agreement of Air Canada and Jazz to renew the fleet of Covered Aircraft. Air Canada and Jazz agreed that the fleet of Covered Aircraft shall be reduced from 133 aircraft to a guaranteed minimum number of 125 aircraft (the "Guaranteed Minimum Number of Covered Aircraft"). The reduction in Covered Aircraft to the Guaranteed Minimum Number of Covered Aircraft has commenced. The subleases for eight CRJ-200 and two CRJ-100 aircraft expired April 30, 2010 and these aircraft have been removed from the Jazz fleet. As at June 30, 2010, four of these CRJ aircraft have been returned to the lessor, five continue to be prepared for return to the lessor and one remains in the Jazz fleet pursuant to a new lease arrangement and is being used to operate charter flights. Following the return of all ten of these aircraft the fleet of Covered Aircraft shall be temporarily reduced to 123 aircraft.

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz also agreed, effective as of August 1, 2009, to treat the rent charged to Jazz for three 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 December 31, 2010. If an agreement is reached, Air Canada may commence the use of such Swing Aircraft to operate Scheduled Flights in 2011, following the delivery of the third new turboprop aircraft. The rent to be charged for the Swing Aircraft shall also be treated as a pass-through cost. All or some of these Swing Aircraft may be removed from Jazz's fleet by Air Canada. The Swing Aircraft in Jazz's fleet from time to time, if any, are in addition to the Guaranteed Minimum Number of Covered Aircraft.

Margin adjustment

As a result of the CPA Amending Agreement, the controllable target margin has been reduced from 14.32% to 11.11% effective August 1, 2009. With respect to each calendar year after 2009, during the remaining term of the CPA, if the annual margin for flights provided under the CPA is greater than 11.11%, Jazz will pay Air Canada an amount equal to 50% of the dollar value of the margin exceeding 11.11%. Margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights, including employee profit sharing expenses; however, it excludes incentive and pass-through revenue. This margin adjustment is $nil for the three months ended June 30, 2010 and for the three months ended June 30, 2009.

Master Services Agreement

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

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

Other

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

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

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

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

8 Post-employment expenses

Jazz has recorded pension and other post-employment future benefit expenses for the three and six months ended June 30, 2010 of $3,265 and $7,323, respectively ($3,948 and $7,925 for the three and six months ended June 30, 2009, respectively).

9 Contingencies

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

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 counterclaimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850,000 in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the TPA before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking damages similar to those in the Ontario Superior Court counterclaim. On October 16, 2009, Jazz discontinued its action in the Ontario Superior Court against the Porter Defendants and the TPA. On the same date, the counterclaim filed by Porter in the Ontario Superior Court against Jazz and Air Canada was stayed pending the outcome of the proceeding in Federal Court. On March 29, 2010, Jazz discontinued its action in the Federal Court of Canada against the TPA, in which the Porter Defendants intervened and were made parties. On May 14, 2010 Porter discontinued its counterclaim in the Federal Court. The counterclaim against Jazz and Air Canada brought by Porter in the Ontario Superior Court continues to be stayed. Jazz maintains that Porter's counterclaim is without merit. If Porter successfully re-activates its counterclaim, it will be vigorously contested by Jazz and Air Canada in court. If Jazz is not successful in defending the counterclaim, it could be subject to a material damages award.

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

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

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

9 Contingencies (continued)

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

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

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

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