Jazz Air Income Fund

Restated Consolidated Financial Statements
For the year ended December 31, 2007 and
the period from February 2, 2006
to December 31, 2006

PricewaterhouseCoopers LLP
Chartered Accountants
1809 Barrington Street, Suite 600
Halifax, Nova Scotia
Canada B3J 3K8
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166

February 6, 2008, except as to Note 23 which is as at February 19, 2008

Auditors' Report

To the Unitholders of Jazz Air Income Fund

We have audited the restated consolidated balance sheets of **Jazz Air Income Fund** as at December 31, 2007 and 2006 and the restated consolidated statements of unitholders' equity, income, comprehensive income and cash flows for the year ended December 31, 2007 and for the period from February 2, 2006 to December 31, 2006. These restated consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these restated consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and for the period from February 2, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Our previous report in respect of these consolidated financial statements, dated February 6, 2008, has been withdrawn and the consolidated financial statements have been restated as described in Note 23 to these consolidated financial statements.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants
Halifax, Nova Scotia

February 6, 2008, except as to note 23, which is at February 19, 2008

Management's Report

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

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the financial statements. The Board of Trustees reviews and approves the Fund's restated consolidated financial statements.

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

(signed) "Allan D. Rowe"
Senior Vice President and
Chief Financial Officer

Jazz Air Income Fund

Restated Consolidated Balance Sheets

As at December 31, 2007 and 2006

(expressed in thousands of Canadian dollars)

	2007 $ Restated (note 23)	2006 $
Assets		
Current assets		
Cash and cash equivalents	122,874	13
Distributions receivable	–	1,903
Investment in the Partnership (note 3)	–	241,570
Accounts receivable – trade and other (note 15)	82,435	–
Spare parts, materials and supplies	37,587	–
Prepaid expenses	8,560	–
Total current assets	251,456	243,486
Property and equipment (note 4)	225,387	–
Intangible assets (note 5)	912,269	–
Other assets (note 6)	33,756	–
	1,422,868	243,486
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 15)	201,750	–
Accounts payable to the Partnership	–	80
Current portion of obligations under capital leases (note 9)	2,119	–
Distributions payable (note 12)	10,296	1,823
Total current liabilities	214,165	1,903
Long-term debt (note 8)	113,475	–
Obligations under capital leases (note 9)	19,069	–
Future income taxes (note 10)	74,545	–
Other long-term liabilities (note 11)	58,838	–
	480,092	1,903
Unitholders' Equity (note 13)	942,776	241,583
	1,422,868	243,486

Economic dependence (note 1)
Commitments (note 19)
Contingencies (note 20)
Subsequent events (note 22)

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Approved by the Trustees

By: (signed) *"Katherine M. Lee"*
Trustee

By: (signed) *"Richard H. McCoy"*
Trustee

Jazz Air Income Fund

Restated Consolidated Statements of Unitholders' Equity

For the year ended December 31, 2007 and the period from February 2, 2006 to December 31, 2006

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

	Unitholders' capital $	Accumulated earnings $	Contributed surplus $	Accumulated other comprehensive income $	Distributions $	Total $
		Restated (note 23)				Restated (note 23)
Balance – December 31, 2005	–	–	–	–	–	–
Issuance of 25,000,000 Fund Units (note 3)	246,174	–	–	–	–	246,174
Distributions	–	–	–	–	(19,983)	(19,983)
Net income for the year	–	15,392	–	–	–	15,392
Balance – December 31, 2006	246,174	15,392	–	–	(19,983)	241,583
Adjusted opening balance, due to new accounting policies adopted regarding financial instruments (note 2)	–	–	–	(409)	–	(409)
Balance – December 31, 2006, restated	246,174	15,392	–	(409)	(19,983)	241,174
Change in fair value during the year (note 2)	–	–	–	251	–	251
Issuance of 638,223 Fund Units (note 3)	5,457	–	–	–	–	5,457
Issuance of 50,000,000 Fund Units (note 3)	401,500	–	–	–	–	401,500
Issuance of 47,226,920 Fund Units (note 3)	387,733	–	–	–	–	387,733
Distributions	–	–	–	–	(107,203)	(107,203)
Fund Units contributed by ACE Aviation Holdings Inc. and held by the initial long-term incentive plan (note 18)	(4,505)	–	4,505	–	–	–
Fund Units held by ongoing long-term incentive plan (note 18)	(1,695)	–	–	–	–	(1,695)
Accretion related to the initial long-term incentive plan (note 2)	–	–	1,112	–	–	1,112
Accretion related to the ongoing long-term incentive plan (note 2)	–	–	335	–	–	335
Redemption of 1,077 Fund Units tendered by Unitholders	(8)	–	–	–	–	(8)
Net income for the year	–	14,120	–	–	–	14,120
Balance – December 31, 2007	1,034,656	29,512	5,952	(158)	(127,186)	942,776

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Restated Consolidated Statements of Income

For the year ended December 31, 2007 and the period from February 2, 2006 to December 31, 2006

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

	Year ended December 31, 2007 $	Period from February 2, 2006 to December 31, 2006 $
	Restated (note 23)	
Operating revenue (note 15)		
Passenger	877,058	–
Other	4,756	–
	881,814	–
Operating expenses (note 15)		
Salaries and wages	167,905	–
Benefits	27,924	–
Aircraft fuel	196,024	–
Depreciation and amortization	39,873	–
Food, beverage and supplies	9,850	–
Aircraft maintenance materials, supplies and services	71,346	–
Airport and navigation fees	118,157	–
Aircraft rent	70,041	–
Terminal handling services	53,946	–
Other	61,651	–
	816,717	–
Operating income	65,097	–
Non-operating income (expenses) (note 15)		
Fund's proportionate share of the Partnership's net earnings (note 3)	25,464	15,459
Interest revenue	4,301	13
Interest expense	(4,905)	–
Gain on disposal of property and equipment	11	–
Foreign exchange loss	(436)	–
Unrealized loss on asset backed commercial paper (note 7)	(867)	–
Other	–	(80)
	23,568	15,392
Income before future income taxes	88,665	15,392
Provision for future income tax expense (note 10)	74,545	–
Net income for the years	14,120	15,392
Weighted average number of Fund Units	100,970,364	25,000,000
Earnings per Fund Unit, basic and fully diluted	0.14	0.62

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Restated Consolidated Statements of Comprehensive Income

For the year ended December 31, 2007 and the period from February 2, 2006 to December 31, 2006

(expressed in thousands of Canadian dollars)

	Year ended December 31, 2007 $	Period from February 2, 2006 to December 31, 2006 $
	Restated (note 23)	
Net income for the years	14,120	15,392
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	251	–
Comprehensive income	14,371	15,392

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

Jazz Air Income Fund

Restated Consolidated Statements of Cash Flows

For the year ended December 31, 2007 and the period from February 2, 2006 to December 31, 2006

(expressed in thousands of Canadian dollars)

	Year ended December 31, 2007 $	Period from February 2, 2006 to December 31, 2006 $
	Restated (note 23)	
Cash provided by (used in)		
Operating activities		
Net income for the years	14,120	15,392
Charges (credits) to operations not involving cash		
Equity in net earnings of the Partnership	(25,464)	(15,459)
Depreciation and amortization	39,873	–
Amortization of prepaid aircraft rent and related fees	1,072	–
Gain on disposal of property and equipment	(11)	–
Unit based compensation	1,447	–
Deferred charges, prepaid aircraft rent and related fees	(1,730)	–
Foreign exchange	(947)	–
Future income tax	74,545	–
Unrealized loss on asset backed commercial paper (note 7)	867	–
Net change in prepaid interest expense	626	–
Funding of Fund Unit based compensation	(1,695)	–
	102,703	(67)
Net changes in non-cash working capital balances related to operations (note 14)	(34,640)	(1,823)
	68,063	(1,890)
Financing activities		
Repayment of obligations under capital leases	(706)	–
Redemption of Fund Units	(8)	–
Issue of Fund Units	–	246,174
Distributions	(98,730)	(18,160)
	(99,444)	228,014
Investing activities		
Increase in cash on consolidation of subsidiary	138,096	–
Additions to property and equipment	(13,180)	–
Proceeds on disposal of property and equipment	11	–
Cash equivalents reclassified to other assets (note 7)	(5,816)	–
Cash distributions from the Partnership earned	35,131	20,063
Investment in the Partnership	–	(246,174)
	154,242	(226,111)
Net change in cash and cash equivalents during the years	122,861	13
Cash and cash equivalents – Beginning of years	13	–
Cash and cash equivalents – End of years	122,874	13
Cash payments of interest	5,556	–
Cash receipts of interest	4,131	13
Cash and cash equivalents comprise:		
Cash	122,874	13
Temporary investments	–	–

These financial statements consolidate the results of the Partnership from May 24, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3).

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

(expressed in thousands of Canadian dollars, except units and per unit amounts)

1 Nature of activities and dependence on Air Canada

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 (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 5100 Maisonneuve Boulevard West, Montreal Québec, H4A 3T2. 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. Reference to the Fund 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") and the Partnership collectively, the Fund and one or more of its subsidiaries, one or more of the Fund's subsidiaries or the Fund itself.

The Partnership operates a regional airline in Canada and the United States under the brand name Air Canada Jazz. Effective January 1, 2006, the Partnership entered into a Capacity Purchase Agreement ("CPA") with Air Canada whereby Air Canada purchases the aircraft capacity flown under the tradename "Air Canada Jazz" and on the routes specified by Air Canada. Air Canada receives all passenger and cargo revenue related to passenger seats and cargo services sold on scheduled flights operated by the Partnership pursuant to the CPA and Air Canada pays the Partnership for the capacity. The Partnership is economically and commercially dependent upon Air Canada and certain of its affiliates, as, in addition to being the primary source of revenue, these entities currently provide significant services to the Partnership. In addition, ACE Aviation Holdings Inc. ("ACE") and its affiliates provide a substantial portion of the aircraft financing for the Partnership and provide passenger handling and ground operations to the Partnership.

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

2 Significant accounting policies

a) Basis of presentation

These consolidated financial statements of the Fund are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting policies ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions regarding significant items such as amounts related to depreciation and amortization and lease return conditions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b) Principles of consolidation

These consolidated financial statements include the accounts of the Fund, and from May 24, 2007, the consolidated accounts of the Partnership, the variable interest entity for which the Fund is the primary beneficiary. Prior to May 24, 2007, the Fund accounted for its investment in the Partnership under the equity method. All inter-company and inter-entity balances and transactions are eliminated.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies (continued)

c) Variable Interest Entities

At its inception, the Fund adopted Accounting Guideline 15 ("AcG 15") – *Consolidation of Variable Interest Entities ("VIE")*. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support from other parties, or where the equity investors lack the characteristic of a controlling financial interest, or that do not absorb the expected losses or receive the expected returns of the entity. VIEs are subject to consolidation by an entity if that entity is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both.

Management has reviewed its ownership, contractual and financial interests in other entities and determined that other than the consolidation of the consolidated accounts of the Partnership and the Fund unit based compensation plans referred to in note 2(g), this guideline does not impact the financial statements of the Fund.

d) Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less.

e) Operating revenue

Under the CPA, the Partnership is paid to provide services to Air Canada as explained in notes 1 and 15. The fee is recognized in revenue as the capacity is provided. Incentive payments and margin adjustments as described in note 15 are recognized as increases in and reductions of passenger revenue respectively, based on management estimates during the year.

Other revenues include charter flights, maintenance, repair and overhaul (MRO) operations and other sources of revenue such as ground handling services and flight simulator revenue, which are all recognized when the service is provided.

The CPA provides for a monthly payment for an amount per aircraft designed to reimburse the Partnership for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, Determining Whether an Arrangement Contains a Lease, the Partnership has concluded that a component of the revenue under the CPA is rental income inasmuch as 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 $91,097 for the period from May 24, 2007 to December 31, 2007. This amount was recorded in passenger revenue of the Fund's consolidated statements of income.

f) Employee future benefits

The significant policies of the Fund related to employee future benefits are as follows:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- Fair values are used to value plan assets for the purpose of calculating the expected return on plan assets.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies (continued)

- Past service costs arising from amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. This period does not exceed the average remaining service period of such employees up to the full eligibility date.
- Cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market value of plan assets at the beginning of the year are amortized over the remaining service period of active employees.
- The measurement date is November 30^{th} .

g) Fund Unit based compensation

Initial Long-term Incentive Plan

The Partnership has made certain commitments in connection with the granting of Fund Units to key executives as a one-time special award to recognize their efforts in the completion of the Offering and to provide them with incentive compensation under an Initial Long-Term Incentive Plan ("Initial LTIP"). On February 9, 2007, ACE transferred 638,223 Fund Units to a trust for the purpose of funding the Initial LTIP. Under the terms of the Initial LTIP, 50% of the Fund Units granted are subject to vesting conditions based on performance and the remaining 50% vest on December 31, 2008. Vesting is conditional on board of directors' approval. Performance based Fund Units vest at the end of a three-year period ending December 31, 2008 if distributable cash targets established by the board of directors, on behalf of Jazz GP, for each of the periods ending December 31, 2006 through 2008 or on a cumulative basis are met.

Compensation costs related to the Fund Units contributed by ACE are charged to compensation expense over the vesting period, as vesting conditions are met and based on the estimated annual performance, with the corresponding equity contribution being accreted to contributed surplus. Distributions declared by the Fund on the Fund Units granted ultimately accrue to the employees. Forfeited Fund Units, to the extent they were contributed by ACE, and accumulated distributions thereon accrue to ACE. The trust is a VIE with respect to the Fund, and as such it is consolidated with the Fund's financial statements. Fund Units contributed by ACE are credited to contributed surplus at their aggregate value on February 9, 2007, the contribution date, with an equivalent reduction of Fund Unit holders' (the "Unitholders") capital. Compensation expense under this plan is charged to earnings over the vesting period, with a corresponding increase to equity.

Ongoing Long-term Incentive Plan

Under the terms of the Fund Ongoing Long-term Incentive Plan ("Ongoing LTIP"), eligible employees are entitled to yearly Fund Unit grants determined on the basis of a percentage of their annual base salary. The Fund Units, which are held in a trust for the benefit of the eligible employees, vest at the end of a three year period (the "Performance Cycle"), commencing January 1 of the year in respect of which they are granted, subject to achieving distributable cash targets, established by the board of directors, on behalf of Jazz GP, for the Performance Cycle. The Fund will purchase the Fund Units on the secondary market. Distributions declared by the Fund on any Fund Units granted under this plan, may be invested in additional Fund Units, which will vest concurrently and proportionately with the Fund Units granted. Forfeited Fund Units and accumulated distributions thereon accrue to the Fund. The trust is a VIE with respect to the Fund, and as such, it is consolidated with the Fund's financial statements. The fair value of the Fund Units, which approximates their cost under this plan, is charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. The Fund's cost of the Fund Units held is presented as a reduction of Unitholders' capital. Estimated compensation costs relative to this plan are accrued on the basis of actual performance relative to targets.

2 Significant accounting policies (continued)

h) Property and equipment

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 5 - 20% estimated residual values.

Buildings are depreciated over their useful lives not exceeding 40 years on a straight-line basis. An exception to this is where the useful life of the building is greater than the term of the land lease. In these circumstances, the building is depreciated over the life of the lease.

Depreciation on other property and equipment is provided on a straight-line basis from the date assets are placed in service, to their estimated residual values, over the following estimated useful lives.

Leaseholds	Over the term of the related lease
Ground and other equipment	5 years

Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments.

Property and equipment under capital leases are depreciated to estimated residual value over the life of the lease.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be used is measured by comparing the net book value of the asset to the undiscounted future cash flows expected to be generated by the asset. An impairment is recognized to the extent that the carrying amount exceeds the fair value of the asset.

i) Intangible assets

Intangible assets with finite lives are carried at their cost, net of amortization; while assets with indefinite lives are not amortized and are checked annually for impairment.

j) Impairment of long-lived assets

Indefinite life assets are subject to annual impairment tests under GAAP. Any impairment would be recognized as an expense in the period of impairment.

k) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction. Foreign exchange losses of $436 for the period from May 24, 2007 to December 31, 2007 were included in other non-operating expense/income.

l) Aircraft lease payments

Total aircraft rentals under operating leases and the related lease inducements received and fees paid over the lease term are amortized to operating expense on a straight-line basis. Prepaid aircraft rentals and related fees are the difference between the straight-line aircraft rent and the payments stipulated under the lease agreements and legal and related transaction fees associated with the leases. Current and non-current unamortized lease inducements are included in accounts payable and accrued liabilities and other long-term liabilities, respectively.

2 Significant accounting policies (continued)

m) Maintenance and repairs

Maintenance and repair costs are charged to operating expenses as incurred. Significant modification costs considered to be betterments are capitalized and amortized over the remaining service lives of the applicable assets.

The Fund uses the direct expense method of accounting for its airframe overhauls where the expense is recorded when the overhaul event occurs. The Fund has most of its aircraft engines under long-term engine service agreements that cover the scheduled and unscheduled repairs for the covered engines. Under the terms of the agreements, The Fund pays a set dollar amount per engine hour flown on a monthly basis and the third party vendor will assume the responsibility to repair the engines at no additional cost to the Fund, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when a contractual obligation exists. For those engines not covered under a long-term engine services agreement, the overhaul events are expensed in the period when the event occurs. The costs of maintenance for airframe and avionics components, landing gear and normal recurring maintenance are expensed as incurred.

n) Future income tax

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment

o) Earnings per unit

Earnings per unit is calculated on a weighted average number of units outstanding basis. For 2007, Fund Units held under the unit based compensation plans reduce the weighted average number of outstanding Fund Units from the date they are contributed to the plan.

p) Distribution to Unitholders

Distributions payable by the Fund to its Unitholders, which are determined at the discretion of the Trustees, are recorded when declared.

2 Significant accounting policies (continued)

Changes in accounting policies

Financial instruments

Commencing with the first quarter of 2007, the Fund adopted four new accounting standards issued by the Accounting Standards Board and included in the Canadian Institute of Chartered Accountants handbook as follows: (i) Section 1530 *Comprehensive Income*; (ii) Section 3855 *Financial Instruments – Recognition and Measurements*; (iii) Section 3861 *Financial Instruments – Disclosure and Presentation*; and (iv) Section 3865 *Hedges*.

The new standards lay out how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

The Fund has implemented the following classifications:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as "Loans and Receivables". After their critical fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Fund, the measured amount generally corresponds to historical amounts.
- Accounts payable, credit facilities, and bank loans are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost, net of transaction costs, using the effective interest rate method. For the Fund, the measured amount generally corresponds to cost.

Section 3865, *Hedges*, establishes how hedge accounting may be applied. the Fund has decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.

These new standards have been applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities have been recognized as an adjustment to the opening balance of partners' capital or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. The Fund has recognized a $409 adjustment to the opening balance of accumulated other comprehensive income with respect to the interest rate swaps designated as cash flow hedges.

Due to the adoption of the new accounting policies, deferred financing charges and prepaid swap interest are reclassified to offset the respective debt for which they were incurred.

Spare parts, materials and supplies

Commencing with the second quarter of 2007, the Fund changed its policy for determining the cost of spare parts (consumable aircraft parts), materials and supplies. Spare parts, materials and supplies which were formerly valued at the lower of average cost and net realizable value are now being valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Management believes the first-in first-out method of reporting is more reflective of actual inventory movement. This change has been applied retroactively; however, the difference in inventory valued between the two methods for the prior periods is not material to those financial statements and therefore no adjustments have been made.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

2 Significant accounting policies (continued)

Change in accounting estimate

Property and equipment

During 2007, the Fund changed its estimate of both the useful life and the expected residual value of certain flight equipment. The revised estimates better reflect the expected useful life of these assets to the Fund and updates the residual value to reflect both the changed useful life and current and expected market conditions for such aircraft. The changes have been applied prospectively. The change in the basis of depreciation had the effect of decreasing depreciation expense by $524 in 2007.

Future accounting changes

The Canadian Institute of Chartered Accountants issued new accounting standards: Section 1535, *Capital Disclosures;* Section 3031, *Inventories*; Section 3862, *Financial Instruments – Disclosures;* and Section 3863, *Financial Instruments – Presentation*. These new standards will be effective on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure will be required for the Fund once the new standard becomes effective.

Section 3031 will replace section 3030, *Inventories*, revising and enhancing disclosure and presentation requirements. This new section will limit the choices in which to calculate carrying values and will provide new disclosure requirements. There will be no impact in how the Fund accounts for inventory; however, there will be additional disclosure requirements.

Section 3862 and 3863 will replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by the Fund and the disclosure already in place, it is not expected that the revised section will have any impact on the financial statements.

3 Investment in the Partnership and Jazz GP

On February 2, 2006, the Fund owned 25,000,000 limited partnership units of the Partnership ("Partnership Units") or 20.3% of the Partnership at a net cost of $246,174. ACE held 97,865,143 Partnership Units or 79.7% of the Partnership.

On February 9, 2007, ACE exchanged 638,223 of its Partnership Units for 638,223 Fund Units. The 638,223 Fund Units were contributed to a trust in order to fund grants to employees under the Fund's Initial LTIP.

On March 14, 2007, pursuant to a statutory plan of arrangement approved in October 2006, ACE exchanged 25,000,000 Partnership Units for an equivalent number of Fund Units. These Fund Units were distributed to ACE's shareholders as part of a special distribution. On the same date, ACE also exchanged an additional 25,000,000 Partnership Units for 25,000,000 Fund Units in accordance with terms of the Investor Liquidity Agreement. On March 30, 2007, ACE exchanged its remaining 47,226,920 Partnership Units for an equivalent amount of Fund Units. On May 24, 2007, ACE distributed 12,000,000 Fund Units to its shareholders through a special distribution. Immediately following this distribution, ACE's ownership of the Fund went from 58.8% to 49.0%. On October 22, 2007, ACE disposed of a further 35,500,000 Fund Units, bringing ACE's ownership to 20.1%, the minimum level required under the Securityholders' Agreement to appoint a majority of the board of directors of Jazz GP.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

3 Investment in the Partnership and Jazz GP (continued)

From February 2, 2006, up to and including May 23, 2007, the Fund accounted for its investment in the Partnership under the equity method and recorded its proportionate share of the Partnership's net earnings, calculated on the same basis as if they had been consolidated, taking into account the increase in ownership as step acquisitions under the purchase method of accounting for investments on the date on which they occurred. Under the equity method, distributions declared and paid by the Partnership reduced the carrying value of the investment.

As a result of the May 24, 2007 transaction, the Partnership is consolidated, as a variable interest entity in the accounts of the Fund and accordingly, as of May 24, 2007, the Fund has changed its basis of accounting for its investment in the Partnership from the equity method to consolidation.

The difference between the purchase price and the net book value of the Partnership's assets is allocated to the fair value of identifiable assets, including intangible assets with finite and indefinite lives in excess of the book value.

	Feb. 2, 2006 $	**Feb. 9, 2007 $**	**Mar. 14, 2007 $**	**Mar. 30, 2007 $**	**Total $**
Step purchase interest	*20.3%*	*0.5%*	*40.8%*	*38.4%*	*100%*
Purchase price	246,174	5,457	401,500	387,733	1,040,864
Proportionate net book value of the Partnership	10,704	456	37,627	38,095	86,882
Excess of purchase price over net book value of assets acquired	235,470	5,001	363,873	349,638	953,982
Allocated as follows:					
Intangible assets					
Finite life					
CPA	165,401	4,179	328,139	308,843	806,562
Infinite life					
Jazz tradename	19	1	60	56	136
Goodwill	70,050	821	35,674	40,739	147,284
	235,470	5,001	363,873	349,638	953,982

This purchase price allocation has been updated and finalized from management's preliminary purchase price allocation based on an independent valuation of the identifiable assets of the Partnership at the acquisition dates. The purchase price adjustments, which include a reduction in the value of the CPA contract of $147,420, an increase in the value of the Jazz tradename of $136 and recognition of goodwill of $147,284, have been applied prospectively.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

3 Investment in the Partnership and Jazz GP (continued)

Prior to consolidation, the following table details the carrying value of the investment:

	May 23, (1) 2007 $	December 31, 2006 $
23,500,000 Fund Units acquired on February 2, 2006, 1,500,000 Fund Units acquired on February 27, 2006, net of issue costs of $3,826	246,174	246,174
638,223 Partnership Units exchanged by ACE for 638,223 Fund Units and contributed to the Fund's Initial LTIP on February 9, 2007	5,457	–
25,000,000 Partnership Units exchanged by ACE for 25,000,000 Fund Units and distributed to ACE shareholders on March 14, 2007	200,750	–
25,000,000 Partnership Units exchanged by ACE for 25,000,000 Fund Units on March 14, 2007	200,750	–
47,226,920 Partnership Units exchanged by ACE for 47,226,920 Fund Units on March 30, 2007	387,733	–
Proportionate share of the Partnership's net earnings from February 2, 2006 to December 31, 2006	15,459	15,459
Proportionate share of the Partnership's net earnings from January 1, 2007 to May 23, 2007	25,464	–
Proportionate share of the Partnership's other comprehensive income from January 1, 2007 to May 23, 2007	861	–
Distributions declared by the Partnership from February 2, 2006 to May 23, 2007	(44,818)	(19,983)
Priority distributions	(80)	(80)
	1,037,750	241,570

(1) Immediately prior to consolidation

For the period from January 1, 2007 to May 23, 2007, the Fund has recognized, in its equity earnings, amortization of $12,424 ($10,954 – for the year ended December 31, 2006) of the value attributed to the CPA.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

4 Property and equipment

	As at December 31, 2007		
	Cost $	Accumulated amortization $	Net $
Flight equipment	153,120	6,511	146,609
Facilities	13,969	346	13,623
Equipment	17,964	2,254	15,710
Leaseholds	30,155	2,907	27,248
Assets under capital leases	23,201	1,004	22,197
	238,409	13,022	225,387

The net book value of the property and equipment pledged as collateral related to the credit facility at December 31, 2007 was $203,190. Amortization expense of $13,022 was recorded for the period from May 24, 2007 to December 31, 2007.

Property and equipment were acquired at an aggregate cost of $23,201 for the period from May 24, 2007 to December 31, 2007 by means of capital leases.

5 Intangible assets

	As at December 31, 2007		
	Cost $	Accumulated amortization $	Net $
Indefinite life assets			
Jazz tradename	1,836	–	1,836
Operating license	4,600	–	4,600
Goodwill	147,284	–	147,284
Finite life assets			
Employee contracts	1,708	925	783
CPA	783,184	25,418	757,766
	938,612	26,343	912,269

During the period from May 24, 2007 to December 31, 2007, the Fund recorded amortization of $26,343.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

6 Other assets

	As at December 31, 2007 $
Promissory note receivable, non-interest bearing, repayable in equal annual installments over 10 years	628
Prepaid aircraft rent and related fees, net of accumulated amortization	28,539
Asset backed commercial paper (note 7)	4,589
	33,756

7 Asset backed commercial paper

As at December 31, 2007, included in other assets is US dollar denominated, third-party sponsored, asset backed commercial paper ("ABCP") with an original cost of $5,816 CDN. The ABCP was been classified as Held for Trading on initial recognition and is measured at fair value at each reporting date. The asset, which was set to mature on August 16, 2007, has not been paid out due to liquidity problems experienced in the ABCP market. At this time, conduits are subject to a proposal which calls for the notes to be converted into floating rate notes which better matches the maturity with the duration of the underlying assets to address the liquidity problem.

Given the disruption in the third party sponsored ABCP market, quoted market values of the investments are not available. Management has reviewed available investment reports and found there have been no defaults of the underlying assets since inception of the trust and more than 97% of the portfolio's notional amount is rated A (Low) or better. Accordingly, management has used current market information and other factors to determine the fair value of the investment by discounting the expected future cash flows according to the probability of recovery of principal and interest based on a maturity date in line with the expected conversion of the ABCP into a floating rate note. Based on management's assessment of the value of its investment in ABCP, a provision for decline in value of $867 was recorded. This amount has been recorded in other non-operating expenses. This estimate is subject to measurement uncertainty and is dependent on the likelihood, nature and timing of the restructuring. There is no assurance that the value of these investments will not decline further, or that the restructuring will be successful. Therefore, the estimated value of the investment in ABCP may change in subsequent periods. There has been no impact on operations, financial covenants or ability to meet obligations as they come due. The Fund is not accruing interest in this investment.

The net foreign exchange loss recorded on the investment for the year ended December 31, 2007 was $360.

8 Long-term debt

	As at December 30, 2007 $
Senior, secured credit facilities bearing interest at floating rates with a maximum amount of $150,000, due on February 2, 2010. Substantially all the present and future assets of the Partnership have been pledged as security for the facilities	113,475

(expressed in thousands of Canadian dollars, except units and per unit amounts)

8 Long-term debt (continued)

In connection with the initial public offering, the Partnership arranged for senior secured syndicated credit facilities in the amount of $150,000. On closing of the offering, $115,000 was drawn under the credit facilities. The facilities bear interest at floating rates and have a four-year term. During the first quarter of 2007, the original term of the credit facility was approved by the syndicate for extension from February 2, 2009 to February 1, 2010. The outstanding credit facilities are secured by substantially all the present and future assets of the Partnership. The Partnership's debt facilities contain various covenants. The Partnership is in compliance with all debt covenants at December 31, 2007.

The Partnership is charged an annual commitment fee of 0.5% on the unutilized balance of the credit facilities.

The Partnership entered into an interest rate swap agreement with third parties for $115,000 which has effectively resulted in a fixed interest rate of 7.09% until February 2, 2009.

As described in note 2, the balance of deferred charges and prepaid swap interest as at January 1, 2007, have been reclassified against the actual debt for which they were incurred. The balance as at December 31, 2007 was $758 and $767 for deferred charges and prepaid swap interest, respectively.

9 Obligations under capital leases

For the period from May 24, 2007 to December 31, 2007, the Partnership entered into capital leases related to aircraft and ground equipment. The obligations are as follows:

	$
Year ended December 31, 2008	3,910
2009	3,910
2010	3,910
2011	3,884
2012	3,554
Thereafter	10,039
Total minimum lease payments	29,207
Less: Amount representing interest (at rates ranging from 8.755% to 9.450%)	8,019
Present value of net minimum capital lease payments	21,188
Less: Current portion	2,119
Obligations under capital leases	19,069

A significant portion of the lease payments is payable in US dollars. Interest of $791 (2006 - $nil) relating to capital lease obligations has been included in aircraft rent.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

10 Future income tax (restated – note 23)

Under the provisions of Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, the Fund, as a publicly traded income trust, is considered a specified investment flow-through and will become subject to income taxes commencing January 1, 2011. Prior to 2011, the Fund continues to qualify for special income tax treatment that permits a tax deduction by the Fund for distributions paid to its Unitholders. For accounting purposes, the Fund has computed future income tax based on temporary differences expected to reverse after 2011 at the substantively enacted tax rate expected to apply for such periods. For periods prior to January 1, 2011, the Fund has not recognized any current income taxes or future income tax assets or liabilities on temporary differences expected to reverse prior to 2011 as the Trust is committed to distribute to its Unitholders all or virtually all of its taxable income that would otherwise be taxable in the Fund and the Fund intends to continue to meet the requirements of the Tax Act applicable to the Fund. Initially, the legislation imposed an income tax rate of 31.5% on Canadian public income trusts. The income tax rate was subsequently lowered in December 2007 to 29.5% for 2011 and 28% for 2012 and subsequent years.

The future income tax provision reflects the impact of the new legislation and the tax rate changes and accounts for the entire difference between the amount of the future income tax provision and the statutory income tax dollar amount of $nil.

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities at December 31, 2007, that are expected to reverse after 2010, are presented below:

	December 31, 2007 $
	Restated (note 23)
Future income tax assets	
Deferred lease inducements	11,030
Other	1,592
	12,622
Future income tax liabilities	
Intangibles	73,211
Property, plant and equipment – differences in net book value and undepreciated capital cost	13,956
	87,167
Net future income tax liability	74,545
Income tax expense is comprised of:	
Future income taxes related to the substantive enactment of Bill C-52	83,810
Future income taxes related to the change in the taxation rate	(9,265)
	74,545

(expressed in thousands of Canadian dollars, except units and per unit amounts)

11 Other long-term liabilities

	As at December 31, 2007 $
Accrued pension benefit liability (note 17)	4,810
Accrued termination benefits, non-current portion	59
Deferred operating lease inducements, non-current portion	53,969
	58,838

12 Distributions

The Fund declared a distribution payable for the period ended December 31, 2007 of $0.0838 per Fund Unit (December 31, 2006 - $0.0729 per Fund Unit) The distribution of $10,296 (2006 - $1,823) is payable January 15, 2008 to Unitholders of record on December 31, 2007.

Distributions declared to the Unitholders of record on the last business day of the months during the years ended December 31, 2007 and 2006 amounted to $107,203 and $19,982, respectively, as follows:

	December 31, 2007		December 31, 2006	
	Amount $	Amount per Fund Unit $	Amount $	Amount per Fund Unit $
January	2,095.0	0.0838	–	–
February	2,148.0	0.0838	1,757.5	0.0703
March	10,296.0	0.0838	1,822.5	0.0729
April	10,296.0	0.0838	1,822.5	0.0729
May	10,296.0	0.0838	1,822.5	0.0729
June	10,296.0	0.0838	1,822.5	0.0729
July	10,296.0	0.0838	1,822.5	0.0729
August	10,296.0	0.0838	1,822.5	0.0729
September	10,296.0	0.0838	1,822.5	0.0729
October	10,296.0	0.0838	1,822.5	0.0729
November	10,296.0	0.0838	1,822.5	0.0729
December	10,296.0	0.0838	1,822.5	0.0729
	107,203.0	1.0056	19,982.5	0.7993

(expressed in thousands of Canadian dollars, except units and per unit amounts)

13 Fund Units

The Fund may issue an unlimited number of Fund Units for the consideration of, and on the terms and conditions determined by, the Trustees. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund. All Fund Units are of the same class and have equal rights and privileges with respect to distributions.

Fund Units are redeemable at any time on demand by the Unitholder. The redemption price per Fund Unit is equal to the lesser of 90.0% of the market price on the date of surrender of the Fund Unit for redemption and 100.0% of the closing market price on the redemption date. The total amount payable in respect of Fund Units tendered for redemption in the same calendar month shall not exceed $50. During the year ended December 31, 2007, the Fund redeemed 1,077 Fund Units for total cash consideration of $8.

The issued and outstanding Fund Units are summarized as follows:

Number of Fund Units	Description	December 31, 2007 $	December 31, 2006 $
25,000,000	Issued for $10 each, net of issue costs of $3,826	246,174	246,174
638,223	Issued on February 9, 2007 for $8.55 each	5,457	–
50,000,000	Issued on March 14, 2007 for $8.03 each	401,500	–
47,226,920	Issued on March 30, 2007 for $8.21 each	387,733	–
122,865,143	Subtotal	1,040,864	246,174
(1,077)	Redemption of Fund Units tendered	(8)	–
122,864,066	Issued and outstanding, before the following	1,040,856	246,174
(728,290)	Fund Units held to fund unit based compensation plans (note 18)	(6,200)	–
122,135,776	Total issued and outstanding	1,034,656	246,174

In connection with the initial public offering and the over-allotment option, the Fund issued 23,500,000 Fund Units on February 2, 2006 and 1,500,000 Fund Units on February 27, 2006. As a result, at February 27, 2006 the total number of Fund Units issued was 25,000,000 for a total consideration of $246,174, net of $3,826 representing the Fund's proportionate share of the $18,805 of offering costs paid by the Partnership.

Under the terms of an Investor Liquidity Agreement, the Partnership Units held by ACE, to the extent not subordinated, were exchangeable for Fund Units on a one-to-one basis. The subordinated Partnership Units held by ACE became exchangeable after December 31, 2006. The Investor Liquidity Agreement also provides for registration and other liquidity rights that enable ACE to require the Fund to file a prospectus and otherwise assist ACE with a public offering of the Fund Units held by ACE, subject to certain restrictions.

In 2007, ACE exercised its exchange right in connection with the transactions described in note 3, and the Fund issued 638,223 Fund Units at $8.55 each, 50,000,000 Fund Units at $8.03 each, and 47,226,920 Fund Units at $8.21 each for a total number of Fund Units issued and outstanding at December 31, 2007 of 122,864,066 (net of the redemption of 1,077 Fund Units) for a total consideration of $1,040,856.

Effective with the March 30, 2007 transaction, all of the Partnership Units held by ACE were exchanged.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

14 Statement of cash flows – supplementary information

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

	Year ended December 31, 2007 $	Period from February 2, to December 31, 2006 $
Decrease (increase) in accounts receivable – trade and other	(7,411)	(1,903)
Decrease (increase) in spare parts, materials and supplies	(6,860)	–
Decrease (increase) in prepaid expenses	1,139	–
Increase (decrease) in accounts payable and accrued liabilities	(13,148)	80
Increase (decrease) in other long-term liabilities	(8,360)	–
	(34,640)	(1,823)

15 Related party transactions

The transactions between Air Canada or other ACE affiliates and the Fund or the Partnership are summarized in the table below.

	Period from May 24 to December 31, 2007 $
Operating revenue	
Air Canada	875,826
Operating expenses	
Air Canada	26,983
Air Canada Capital Ltd.	50,891
ACGHS Limited Partnership	32,853
Aero Technical Support & Services Holdings (formerly ACTS LP)	22,058

(expressed in thousands of Canadian dollars, except units and per unit amounts)

15 Related party transactions (continued)

The following balances with related parties are included in the financial statements:

	As at December 31, 2007 $
Accounts receivable – trade and other	
Air Canada	71,173
ACGHS Limited Partnership	55
Aero Technical Support & Services Holdings (formerly ACTS LP)	251
Accounts payable and accrued liabilities	
Air Canada	63,604
Air Canada Capital Ltd.	7,584
ACGHS Limited Partnership	13,461
Aero Technical Support & Services Holdings (formerly ACTS LP)	8,120
ACE Aviation Holdings Inc.	557

Capacity Purchase Agreement

The Partnership is party to the CPA (and prior to the Amended and Restated CPA effective on January 1, 2006, was party to the "Initial CPA") with Air Canada, whereby Air Canada purchases the capacity of certain specified aircraft crewed and operated by the Partnership under the trade name of "Air Canada Jazz" on routes specified by Air Canada. The CPA has a term of ten years and is renewable for two additional periods of five years. Under this agreement, the Partnership is required to provide Air Canada the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance and airport operations for such flights and 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 the Partnership for the capacity provided.

New rates came into effect under the CPA on January 1, 2006 and amended rates have been established to be effective for the fiscal years 2006, 2007 and 2008.

The Partnership is paid, on a monthly basis, fees for the capacity provided. The fee consists of a number of variable components based on certain different metrics, including block hours flown and 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. Rates may be revised if certain significant events result in a change in utilization of the aircraft by more than 10%. In addition, Air Canada is required to reimburse the Partnership 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 costs required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue. Pass-through costs amounted to $334,188 for the for the period from May 24, 2007 to December 31, 2007.

The above fees are paid on the first day of each month based on estimates for the month and adjusted at the end of each month for actual amounts to be paid no later than the 30th day of the following month.

The Partnership 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. The CPA is designed to earn the Partnership a 14.09% operating margin, excluding incentive payments and pass-through costs, on the CPA services provided to Air Canada.

15 Related party transactions (continued)

Margin adjustment

With respect to each calendar year subsequent to January 1, 2006, during the remaining term of the CPA, if the annual operating margin for flights provided under the CPA is greater than 14.09%, the Partnership will pay Air Canada an amount equal to 50% of the operating margin exceeding 14.09%. Operating margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights; however, it excludes any amounts related to pass-through costs or performance incentive payments. This margin adjustment for the period from May 24, 2007 to December 31, 2007 of $3,772, is accounted for as a reduction of revenue.

Master Services Agreement

Under the Master Services Agreement dated September 24, 2004, between the Partnership and Air Canada, Air Canada provides certain services to the Partnership 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 settlement with suppliers on certain expense transactions, primarily fuel purchases, on behalf of the Partnership and subsequently collects the balances from the Partnership. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed.

ACGHS Limited Partnership provides ground handling services and Aero Technical Support & Services Holdings (formerly ACTS LP) provides aircraft maintenance and overhaul services to the Partnership.

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 demand and have arisen from the services provided by the named related party.

16 Post-employment expenses

The Fund has recorded pension expense for the period from May 24 to December 31, 2007 of $9,956.

17 Pension

The Partnership maintains several registered defined contributions pension plans for eligible employees and a registered defined benefit plan for pilots, which effective May 24, 2007, are consolidated in these financial statements.. The Partnership is the plan sponsor for these plans under the Pension Benefits Standard Act, 1985 (Canada). In addition, the Partnership maintains a supplementary defined benefit pension plan which is partially funded for certain employees. Contributions to the supplementary pension plan started being made in December 2007. The registered and supplementary defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and the final average earnings for a specified period. The attached disclosures for these pension plans are for fiscal 2006 and 2007.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

17 Pension (continued)

The total expense for the Partnership's defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which the Partnership is obligated to make defined contributions only, for the year ended December 31, 2007 is $6,474, and for the year ended December 31, 2006 is $5,970.

Total cash payments made by the Partnership in 2007 for pension benefits were $16,738, which includes cash payments for the Registered Defined Benefit plan of $10,345 (year ended December 31, 2006 - $14,026; $8,529 for the Registered Defined Benefit plan).

The most recent actuarial valuations of the defined benefit plan for funding purposes were as of January 1, 2007 and the next funding valuation will be as of January 1, 2008.

Information about the Partnership's defined benefit plans, in aggregate, is as follows:

	2007 $	2006 $
Change in benefit obligation		
Benefit obligation, beginning of year	95,541	72,749
Current service cost	9,978	9,094
Interest cost	5,383	4,342
Plan participants' contributions	5,549	5,152
Benefits paid	(3,106)	(923)
Actuarial loss	(8,037)	5,127
Benefit obligation, end of year	105,308	95,541
Change in plan assets		
Fair market value of plan assets, beginning of year	76,526	55,540
Actual return on plan assets	953	8,469
Employer contribution	10,225	8,288
Plan participants' contributions	5,549	5,152
Benefits paid	(3,106)	(923)
Fair market value of plan assets, end of year	90,147	76,526
Funded status, end of year	(15,161)	(19,015)
Employer contributions after measurement date	4,969	734
Unamortized net actuarial loss	5,382	9,406
Accrued benefit liability	(4,810)	(8,875)

The accrued benefit liability is included in other long-term liabilities.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

17 Pension (continued)

Plan assets consist of the following:

	2007	2006
Canadian equity	35%	36%
Debt securities	38%	36%
International equity	24%	27%
Short-term and other	3%	1%
	100%	100%

The plan's assets are invested in a balanced fund and include no significant investment in the Fund, if any, at the measurement date, November 30, 2007 or November 30, 2006.

Weighted average assumptions used to determine the accrued benefit liability:

	2007	2006
Discount rate to determine accrued benefit obligations	5.75%	5.00%
Discount rate to determine the benefit cost	5.00%	5.20%
Rate of compensation increase	4.00 – 5.00%	4.00 – 5.00%
Expected return on plan assets	6.00%	5.20%

The Fund's net defined benefit pension plan expense is as follows:

	2007 $	2006 $
Components of expense		
Current service cost (including provision for plan expenses)	9,978	9,094
Interest cost	5,383	4,342
Actual return on plan assets	(953)	(8,469)
Actuarial loss	(8,037)	5,127
Costs arising in the period	6,371	10,094
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	(4,050)	5,363
Actuarial gain	8,074	(4,991)
Net periodic pension cost recognized	10,395	10,466

(expressed in thousands of Canadian dollars, except units and per unit amounts)

18 Unit based compensation plans

The details of Fund Units held under unit based compensation plans discussed in note 2 are as follows:

	December 31, 2007	
	Initial LTIP	**Ongoing LTIP**
Number of Fund Units granted	638,223	201,438
Number of Fund Units forfeited	(6,000)	–
	632,223	201,438
Number of Fund Units vested	(105,371)	–
Number of Fund Units outstanding, end of period	526,852	201,438
Weighted average remaining life (years)	1.00	2.00
Cost of units purchased during the period (1)	–	1,695
Weighted average fair value per Fund Unit on date of grant	$8.55	$8.42
Compensation expense for the period May 24, 2007 to December 31, 2007	$1,112	$335

(1) The cost of Fund Units purchased under the Ongoing LTIP is not materially different from their fair value at the date they were granted.

Pursuant to the terms of the Ongoing LTIP, Fund Units are purchased on the open market of the Toronto Stock Exchange and are held by a trustee for the benefit of the eligible employees until their vesting.

19 Commitments

a) The Partnership is committed to the following future minimum lease payments under operating leases for flight equipment and base facilities that have initial or remaining non-cancellable terms in excess of one year.

		As at December 31, 2007	
		Third parties	**Related parties**
		$	**$**
Year ending December 31,	2008	16,700	110,543
	2009	14,810	111,818
	2010	10,189	93,655
	2011	4,744	79,763
	2012	3,793	77,060
	Thereafter	32,734	677,064

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

Certain of the aircraft lease agreements have been entered into with third parties by Air Canada or Air Canada Capital Ltd., and subleased to the Partnership. These leases have been disclosed as related party leases above.

19 Commitments (continued)

In the fourth quarter of 2007, the Partnership entered into a common terms agreement for an aircraft lease which is also designed to cover potential future leases with the same company. The agreement contains various covenants. The Partnership is in compliance with all covenants at December 31, 2007.

b) Letters of credit totalling approximately $2,708 have been issued as security for ground handling and airport fee contracts, lease payments on rental space and certain employee benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

20 Contingencies

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

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

Various other lawsuits and claims are pending by and against the Partnership and provisions have been recorded where appropriate. It is the opinion of management, supported by internal counsel, that final determination of these claims will not have a material adverse effect on the financial position or the results of the Fund.

Jazz GP has agreed to indemnify its directors and officers, to the extent permitted under corporate law, against 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.

The Partnership enters into real estate leases or operating agreements, which grant a license to the Partnership to use certain premises and/or operate at certain airports, in substantially all cities that it serves. It is common in such commercial lease transactions for the Partnership as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to the Partnership's use or occupancy of the leased or licensed premises. Exceptionally, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, the Partnership 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.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

20 Contingencies (continued)

In aircraft financing or leasing agreements, the Partnership 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 for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. In addition, in aircraft financing or leasing transactions, including those structured as leveraged leases, the Partnership typically provides indemnities in respect of certain tax consequences.

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

The maximum amount payable under the foregoing indemnities cannot be reasonably estimated. The Fund expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities described above.

21 Financial instruments and risk management

Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Interest rate risk

As indicated in the note entitled “Long-term debt”, the Fund uses interest rate swaps to hedge its exposure to changes in interest rates. The Fund has no intention of early settling these contracts. If the Fund had settled these contracts at December 31, 2007, a payment of $158 would have resulted.

Concentration of credit risk

In accordance with its investment policy, the Fund invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers’ acceptance notes and term deposits. The Fund does not believe it is subject to any significant concentration of credit risk with the exception of balances with Air Canada.

Fuel price risk management

The Fund has no fuel hedging agreements outstanding as at December 31, 2007 and December 31, 2006.

Fair value of financial instruments

The carrying amounts reported in the balance sheet for accounts receivable, bank indebtedness, parent company indebtedness and accounts payable and accrued liabilities approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of the credit facilities and the long-term debt approximates its carrying value as they carry interest at floating rates. Financial assets included in the balance sheet include a long-term receivable. The estimated fair value of the asset is $560. The estimated fair values of these financial instruments were determined to be the present value of contractual future payments of principal and interest, calculated by discounting such future payments at the current market rates of interest available to the Partnership for debt instruments of a similar nature.

(expressed in thousands of Canadian dollars, except units and per unit amounts)

22 Subsequent events

a) On January 16, 2008, ACE announced that it accepted an offer to sell 13,000,000 Fund Units on an exempt trade basis. The sale was completed on January 24, 2008. This transaction reduces ACE's ownership interest in the Fund to 9.5%, which puts ACE below the 20.1% minimum ownership interest in the Fund required to nominate a majority of the members of the board of directors of Jazz GP, in accordance with the Securityholders' Agreement between ACE, the Fund, Jazz GP and the Partnership.

b) On January 22, 2008, the Fund took delivery of one Dash 8-300 aircraft, that will be used in the charter operations. The term of the operating lease is 8.5 years.

23 Restatement of financial statements

Subsequent to the issuance of the Fund's financial statements on February 6, 2008, management determined that changes to the income tax rates that were substantively enacted on December 14, 2007 were not used in the calculation of the year end balances of future income tax assets and liabilities. Management has adjusted the amounts previously reported to correctly reflect these new income tax rates. This correction does not affect prior years.

The effect of the restatement on the restated consolidated financial statements is summarized below:

	As previously reported $	Adjustment $	As restated $
Consolidated Balance Sheet – 2007			
Future income taxes	83,810	(9,265)	74,545
Unitholders' Equity	933,511	9,265	942,776
Consolidated Statement of Income – 2007			
Provision for future income taxes	83,810	(9,265)	74,545
Net income for the year	4,855	9,265	14,120
Earnings per Fund Unit, basic and fully diluted	0.05	0.09	0.14