Jazz Air Income Fund

Unaudited Consolidated Financial Statements
June 30, 2009

August 5, 2009

Management's Report

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

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

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

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

Jazz Air Income Fund
Unaudited Consolidated Balance Sheets
As at June 30, 2009 and December 31, 2008

(expressed in thousands of Canadian dollars)

	June 30, 2009 $	December 31, 2008 $
Assets		
Current assets		
Cash and cash equivalents	118,638	131,876
Accounts receivable – trade and other (note 6)	78,813	71,618
Spare parts, materials and supplies	40,244	46,150
Prepaid expenses	17,843	12,905
Total current assets	255,538	262,549
Property and equipment	211,106	219,028
Intangible assets	701,052	722,102
Other assets	26,627	29,072
	1,194,323	1,232,751
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	187,495	197,046
Distributions payable	10,296	10,296
Current portion of obligations under capital leases	2,833	2,837
Current portion of long-term debt (note 3)	114,659	-
Total current liabilities	315,283	210,179
Obligations under capital leases	18,210	20,581
Long-term debt (note 3)	-	114,729
Future income tax	21,563	23,561
Other long-term liabilities	46,799	55,672
	401,855	424,722
Unitholders' Equity	792,468	808,029
	1,194,323	1,232,751

Economic dependence (note 6)
Commitments (note 8)
Contingencies (note 9)
Subsequent events (note 10)

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

Jazz Air Income Fund

Unaudited Consolidated Statements of Unitholders' Equity

For the six-month period ended June 30, 2009 and year ended December 31, 2008

(expressed in thousands of Canadian dollars)

	Unitholders' capital $	Retained earnings (deficit) Accumulated earnings $	Retained earnings (deficit) Distributions $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Total $
Balance - December 31, 2007	1,034,656	29,512	(127,186)	5,952	(158)	942,776
Change in fair value during the period	-	-	-	-	(627)	(627)
Distributions	-	-	(61,776)	-	-	(61,776)
Units held by unit based compensation plans	(2,096)	-	-		-	(2,096)
Accretion related to the initial long-term incentive plan	-	-	-	954	-	954
Accretion related to the ongoing long-term incentive plan	-	-	-	625	-	625
Net income for the period	-	45,334	-	-	-	45,334
Balance - June 30, 2008	1,032,560	74,846	(188,962)	7,531	(785)	925,190
Change in fair value during the period	-	-	-	-	(2,401)	(2,401)
Distributions	-	-	(61,776)	-	-	(61,776)
Units held by unit based compensation plans	1,891	-	-	(1,626)	-	265
Accretion related to the initial long-term incentive plan	-	-	-	896	-	896
Accretion related to the ongoing long-term incentive plan	-	-	-	599	-	599
Net loss for the period	-	(54,744)	-	-	-	(54,744)
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 plans	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

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, 2009 and 2008

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

	Three months ended June 30,		Six months ended June 30,	
	2009 $	2008 $	2009 $	2008 $
Operating revenue (note 6)				
Passenger	371,219	406,668	738,562	800,581
Other	2,350	3,137	4,441	5,585
	373,569	409,805	743,003	806,166
Operating expenses (note 6)				
Salaries and wages	72,526	72,973	144,031	147,496
Benefits	13,104	13,938	27,949	28,551
Aircraft fuel	62,046	115,239	119,468	208,427
Depreciation and amortization of property and equipment and other	7,564	8,064	15,024	15,113
Amortization of Capacity Purchase Agreement (“CPA”) intangible asset	10,525	10,525	21,050	21,050
Food, beverage and supplies	3,519	4,127	6,774	7,593
Aircraft maintenance materials, supplies and services	41,799	36,646	81,892	66,858
Airport and navigation fees	48,939	49,988	95,026	98,817
Aircraft rent	34,263	30,184	71,204	59,864
Terminal handling services	22,560	22,142	55,499	55,406
Other	30,535	27,475	57,811	54,867
	347,380	391,301	695,728	764,042
Operating income	26,189	18,504	47,275	42,124
Non-operating income (expenses)				
Interest revenue	165	1,011	460	2,327
Interest expense	(1,820)	(2,116)	(3,719)	(4,228)
Gain on disposal of property and equipment	577	6	1,185	8
Foreign exchange gain (loss)	267	(292)	(698)	(574)
Unrealized loss on asset backed commercial paper	-	-	-	(2,985)
	(811)	(1,391)	(2,772)	(5,452)
Income before future income taxes	25,378	17,113	44,503	36,672
Recovery of future income taxes	-	6,456	1,998	8,662
Net income for the periods	25,378	23,569	46,501	45,334
Weighted average number of Units	121,939,629	122,009,951	121,936,628	122,079,875
Earnings per Unit, basic and diluted	$0.21	$0.19	$0.38	$0.37

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, 2009 and 2008

(expressed in thousands of Canadian dollars)

	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $
Net income for the periods	25,378	23,569	46,501	45,334
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	1,122	669	1,878	(630)
Reclassification of net realized (gains) losses on derivatives designated as cash flow hedges to income	(606)	(100)	(1,078)	3
Comprehensive income	25,894	24,138	47,301	44,707

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, 2009 and 2008

(expressed in thousands of Canadian dollars)

	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $
Cash provided by (used in)				
Operating activities				
Net income for the periods	25,378	23,569	46,501	45,334
Charges (credits) to operations not involving cash				
Depreciation and amortization of property and equipment and other	7,564	8,064	15,024	15,113
Amortization of CPA intangible asset	10,525	10,525	21,050	21,050
Amortization of prepaid aircraft rent and related fees	483	482	965	963
Gain on disposal of property and equipment	(577)	(6)	(1,185)	(8)
Unit based compensation	479	811	958	1,579
Foreign exchange (gain) loss	(1,684)	370	(936)	534
Future income taxes	-	(6,456)	(1,998)	(8,662)
Unrealized loss on asset backed commercial paper	-	-	-	2,985
Other	483	342	(202)	(1,638)
Funding of unit based compensation plan, net of forfeitures	201	44	(2,044)	(2,095)
	42,852	37,745	78,133	75,155
Net changes in non-cash working capital balances related to operations (note 5)	(18,934)	745	(23,851)	(1,730)
	23,918	38,490	54,282	73,425
Financing activities				
Repayment of obligations under capital leases	(675)	(539)	(1,379)	(1,054)
Distributions	(30,888)	(30,888)	(61,776)	(61,776)
	(31,563)	(31,427)	(63,155)	(62,830)
Investing activities				
Additions to property and equipment	(2,848)	(5,400)	(5,969)	(9,864)
Decrease in long-term receivables	-	-	419	210
Proceeds on disposal of property and equipment	577	6	1,185	8
	(2,271)	(5,394)	(4,365)	(9,646)
Net change in cash and cash equivalents during the periods	(9,916)	1,669	(13,238)	949
Cash and cash equivalents – Beginning of periods	128,554	122,154	131,876	122,874
Cash and cash equivalents – End of periods	118,638	123,823	118,638	123,823
Cash payments of interest	2,079	2,579	4,620	5,205
Cash receipts of interest	112	1,200	513	2,646
Cash and cash equivalents comprise:				
Cash	60,638	76,057	60,638	76,057
Term deposits and fixed income securities	58,000	47,766	58,000	47,766

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

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

1 Nature of operations and economic dependence

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

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

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

2 Summary of significant accounting policies

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, "Interim Financial Statements". Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Jazz for the year ended December 31, 2008.

In the opinion of management, these unaudited interim consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as otherwise indicated hereunder, these unaudited interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Jazz for the year ended December 31, 2008.

Principles of consolidation

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

2 Summary of significant accounting policies (continued)

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 $45,541 for the three months ended June 30, 2009 ($40,208 for the three months ended June 30, 2008) and $93,579 for the six months ended June 30, 2009 ($80,001 for the six months ended June 30, 2008). This amount was recorded in passenger revenue of Jazz's consolidated statements of income.

Goodwill

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

Use of estimates

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

Change in accounting policy

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board issued EIC Abstract 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities*, which establishes guidance requiring an entity to consider its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. This interpretation must be applied retrospectively without restatement of prior years. The adoption of this interpretation did not have a significant impact on Jazz's consolidated financial statements.

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

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

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

3 Long-term debt

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

	Authorized $	Drawn at June 30, 2009 $	Drawn at December 31, 2008 $
Revolving term facility [a]	35,000	-	-
Term facility [b]	115,000	115,000	115,000
Prepaid interest [c]	-	(341)	(213)
Unamortized commitment fee [c]	-	-	(58)
	150,000	114,659	114,729
Less: Current portion	-	114,659	-
Total	150,000	-	114,729

(a) The revolving term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at June 30, 2009, there were no borrowings under the revolving term facility. Available credit under the revolving term facility, after deducting letters of credit, bears interest at 0.50%.

Letters of credit

Jazz has issued irrevocable letters of credit in the aggregate amount of $3,789. This amount reduces the available credit under the revolving term facility and bears interest at 2.875%.

(b) The term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at June 30, 2009, of borrowings under the term facility, $114,400 were in the form of bankers' acceptances with a 90 day term and an effective interest rate of 3.22%. A further $600 was in the form of prime rate advances bearing interest at 4.06%. As at June 30, 2009, Jazz had entered into interest rate swap agreements with a third party in respect of $115,000 of debt which has effectively resulted in a fixed interest rate of 5.98% until February 2, 2010.

(c) Long-term debt is presented net of prepaid interest and unamortized financing charges.

Borrowings under the credit facilities are secured by substantially all the present and future assets of Jazz. The continued availability of the credit facilities is subject to Jazz's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants. As at June 30, 2009, Jazz is in compliance with all debt covenants.

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

4 Distributions

Jazz declared a distribution for the month ended June 30, 2009 of $0.0838 per Unit (June 30, 2008 - $0.0838 per Unit). The distribution of $10,296 (2008 - $10,296) is payable July 15, 2009 to Unitholders of record on June 30, 2009.

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

	June 30, 2009		June 30, 2008	
	Amount $	Amount per Unit $	Amount $	Amount per Unit $
January	10,296	0.0838	10,296	0.0838
February	10,296	0.0838	10,296	0.0838
March	10,296	0.0838	10,296	0.0838
April	10,296	0.0838	10,296	0.0838
May	10,296	0.0838	10,296	0.0838
June	10,296	0.0838	10,296	0.0838
	61,776	0.5028	61,776	0.5028

5 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,	
	2009 $	2008 $	2009 $	2008 $
Decrease (increase) in accounts receivable - trade and other	(12,667)	(12,135)	(7,195)	(7,994)
Decrease (increase) in spare parts, materials and supplies	5,667	1,480	5,906	(609)
Decrease (increase) in prepaid expenses	(4,420)	(512)	(4,938)	(2,191)
Increase (decrease) in accounts payable and accrued liabilities	(1,267)	15,715	(8,751)	14,353
Increase (decrease) in other long-term liabilities	(6,247)	(3,803)	(8,873)	(5,289)
	(18,934)	745	(23,851)	(1,730)

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

6 Economic dependence

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

	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $
Operating revenue				
Air Canada	370,958	406,653	737,995	800,500
Operating expenses				
Air Canada	9,920	11,155	23,142	21,846
Air Canada Capital Ltd.	25,255	21,760	52,182	43,303
ACGHS Limited Partnership	12,997	13,797	31,875	34,735

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

	As at June 30, 2009 $	As at December 31, 2008 $
Accounts receivable		
Air Canada	71,338	58,353
ACGHS Limited Partnership	130	169
Accounts payable and accrued liabilities		
Air Canada	50,989	58,752
Air Canada Capital Ltd.	8,628	9,405
ACGHS Limited Partnership	10,713	14,777

Capacity Purchase Agreement

Jazz is party to the CPA with Air Canada, under which Air Canada purchases the capacity of certain specified aircraft operated by Jazz under the tradename of "Air Canada Jazz" on routes specified by Air Canada. The CPA has a term of ten years and will automatically renew for two additional periods of five years unless either party gives notice to the other of its intention not to renew, no less than one year prior to the expiry of the then current term. Under this agreement, Jazz is required to provide Air Canada with the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance, and airport operations for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays Jazz for the capacity provided.

Jazz is paid fees, on a monthly basis, for the capacity provided. These fees consist of a number of variable components based on different metrics, including block hours flown, flight hours, cycles (number of take-offs and landings), number of passengers and number of aircraft covered by the CPA. The rates for these metrics are fixed for annual periods and vary by aircraft type with current rates in effect until December 31, 2011. In addition, Air Canada is required to reimburse Jazz for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. As these costs are required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue. Pass-through costs amounted to $117,351 for the three months ended June 30, 2009 and $236,245 for the six months ended June 30, 2009 ($171,979 for the three months ended June 30, 2008; and $330,032 for the six months ended June 30, 2008).

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

6 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, including the controllable target margin requirements) 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 are retroactive to January 1, 2009.

Jazz is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria. Rates under the CPA were established so as to achieve a controllable target margin of 14.32% for Jazz, effective January 1, 2009 (for the years 2006 to 2008, the target margin was 14.09%), excluding incentive and pass-through revenue, and before the deduction of profit sharing expenses paid to employees as a result of performance achievements on the CPA services provided to Air Canada.

On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to the current uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives (refer to Note 10 – Subsequent events for further details).

Margin adjustment

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 14.32%, Jazz will pay Air Canada an amount equal to 50% of the dollar value of the margin exceeding 14.32%. Margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights, including employee profit sharing expenses; however, it excludes incentive and pass-through revenue. This margin adjustment for the three months ended June 30, 2009 of $nil ($nil for the three months ended June 30, 2008) is accounted for as a reduction of revenue.

Master Services Agreement

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

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

Other

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

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

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

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

7 Post-employment expenses

Jazz has recorded pension and other post-employment future benefit expenses for the three months ended June 30, 2009 of $3,948 ($4,988 for the three months ended June 30, 2008) and $7,925 for the six months ended June 30, 2009 (six months ended June 30, 2008 - $9,560).

8 Commitments

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

		As at June 30, 2009	
		Other third parties $	Air Canada and its subsidiaries $
Year ending December 31,	2009	6,770	72,482
	2010	12,059	118,183
	2011	8,997	101,309
	2012	5,430	94,815
	2013	4,865	92,726
	Thereafter	34,056	706,339

A significant portion of these lease payments are payable in US dollars.

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

9 Contingencies

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

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

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

9 Contingencies (continued)

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.

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. Jazz carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities).

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

10 Subsequent events

a) On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to the current uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives.

The agreed amendments include: (i) a five year extension of the term of the CPA from December 31, 2015 to December 31, 2020; (ii) an agreement by Air Canada to target a minimum annual forecast of 375,000 Block Hours; (iii) effective August 1, 2009, a reduction in the mark-up on Controllable Costs from 16.72% to 12.50% for the first 375,000 Block Hours flown and to 5% for Block Hours flown in excess of 375,000 annually; (iv) an agreement to adjust such mark-up on Controllable Costs upwards in the event the actual number of Block Hours flown in any calendar year is less than 375,000 (such adjusted mark-up not to exceed 16.72%); (v) a phased in reduction in the minimum fleet guarantee from 133 Covered Aircraft to 125 Covered Aircraft (with an additional 8 "swing aircraft" that will facilitate flying of 400,000 Block Hours or more); and (vi) a commitment to commence fleet renewal in 2011. The minimum utilization guarantee remains at 339,000 Block Hours, notwithstanding the reduced number of aircraft.

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

10 Subsequent events (continued)

b) On July 28, 2009, the Trustees authorized an adjustment to cash distributions to reflect the amended CPA and its extension in term and to otherwise improve liquidity during an uncertain period. Effective with the distribution payment to be paid in September to unitholders of record on August 31, 2009, cash distributions will be reduced by approximately 40% to $0.60 per Unit annually.