



**JAZZ AIR INCOME FUND**

**ANNUAL INFORMATION FORM**

**March 28, 2008**

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## EXPLANATORY NOTES

The information in this Annual Information Form is stated as at December 31, 2007, unless otherwise indicated.

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

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

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

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, restructuring, pension issues, energy prices, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this Annual Information Form and, in particular, the Risk Factors section of this Annual Information Form. The forward-looking statements contained in this Annual Information Form represent Jazz's expectations as of the date of this Annual Information Form, and are subject to change after such date. However, Jazz disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise except as required under applicable laws.

## CORPORATE STRUCTURE

### **Name, Address and Incorporation**

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 has been established to acquire and hold the units of the Trust (the "Trust Units") and the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes of the Trust (collectively, the "Trust Notes").

The Trust is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated January 24, 2006 (the "Trust Declaration of Trust"). The Trust was established to acquire and hold the outstanding limited partnership units of Jazz LP (the "LP Units") and a corresponding interest in Jazz LP's general partner, Jazz GP.

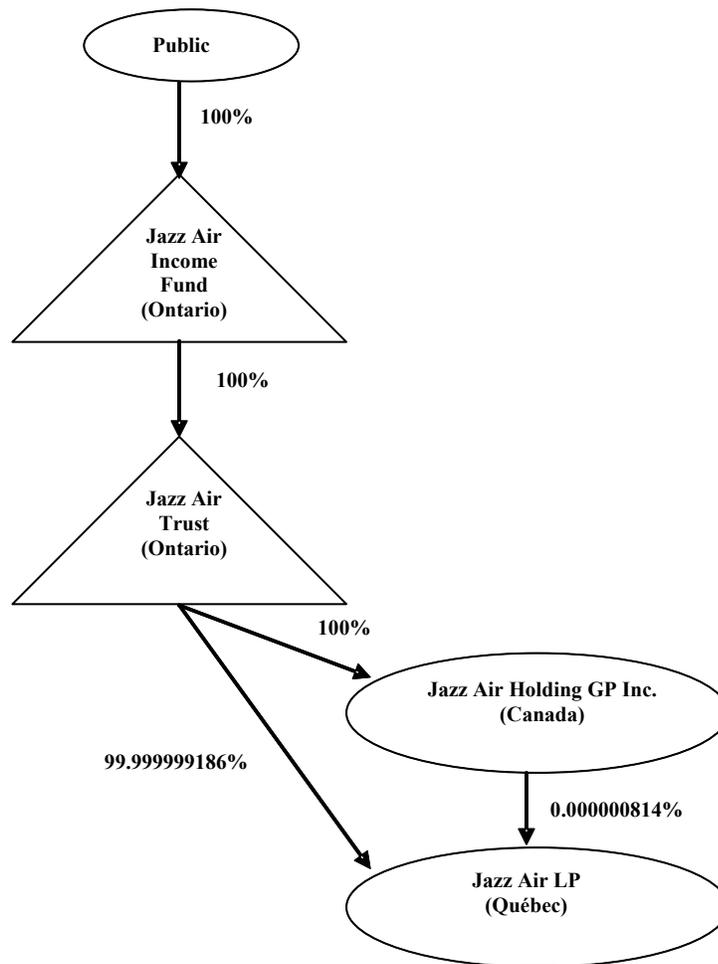
Jazz LP is a limited partnership existing under the laws of the Province of Québec pursuant to a limited partnership agreement dated September 12, 2005, and amended by an amended and restated limited partnership agreement dated January 24, 2006 (the "Jazz LP Partnership Agreement").

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

The head office of the Fund is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, Canada, H4A 3T2.

### Intercorporate Relationship

The following chart illustrates, on a simplified basis, the structure of the Fund as at March 28, 2008 (including jurisdiction of establishment/incorporation of the various entities).



### DEFINITION OF EBITDA

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

EBITDA is not an earning measure recognized under generally accepted accounting principles in Canada ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be

construed as an alternative to net income or loss determined in accordance with GAAP as an indicator of Jazz's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **General**

On February 2, 2006, following the completion of the Fund's initial public offering, the Fund issued 23,500,000 units of the Fund ("Units") at a price of \$10 per Unit for aggregate gross proceeds of \$235.0 million pursuant to the prospectus of the Fund dated January 26, 2006 (the "Initial Public Offering"). In addition, on February 27, 2006, the Fund issued 1,500,000 additional Units at a price of \$10 per Unit for additional gross proceeds of \$15.0 million as a result of the exercise of the option granted by the Fund to the underwriters to purchase up to 1,500,000 additional Units, exercisable for a period of 30 days from the closing of the Initial Public Offering (the "Over-Allotment Option").

Concurrent with the closing of the Initial Public Offering, the Fund used the proceeds from the sale of its Units to invest in LP Units. The Fund acquired, through the Trust, 23,500,000 (19.1%) of the LP Units in exchange for cash consideration of \$235.0 million. On February 27, 2006, as a result of the exercise by the underwriters of the Over-Allotment Option, the Fund purchased through the Trust an additional 1,500,000 LP Units from ACE Aviation Holdings Inc. ("ACE Aviation") for cash consideration of \$15.0 million.

At the closing of the Initial Public Offering, an amount of \$115.0 million was drawn by Jazz LP under the New Term Credit Facilities (as defined herein) for the following purposes: (i) \$99.1 million was used to fund the remaining portion of the Acquisition Promissory Note; (ii) \$13.8 million was to repay other existing term indebtedness; and (iii) \$2.1 million for facility commitment fee.

On February 9, 2007, ACE Aviation exercised its liquidity rights under the Investor Liquidity Agreement (as defined below) and exchanged 638,223 LP Units and 638,223 Jazz GP common shares into 638,223 Units. ACE Aviation's holdings were reduced to 79.1% of the Jazz GP common shares and the LP Units.

On March 2, 2007, ACE Aviation announced a special distribution of Units of the Fund to its shareholders pursuant to a statutory plan of arrangement approved in October 2006. ACE Aviation exchanged on March 14, 2007, 25,000,000 units of Jazz LP and 25,000,000 Jazz GP common shares for an equivalent number of Units of the Fund. The exchange was made in accordance with the terms of the investor liquidity agreement entered into at the time of closing of the Initial Public Offering by the Fund, the Trust, ACE Aviation, Jazz LP and Jazz GP (the "Investor Liquidity Agreement").

For internal corporate reorganization purposes, on March 14, 2007, ACE Aviation exercised its liquidity rights under the Investor Liquidity Agreement and exchanged an additional 25,000,000 units of Jazz LP and 25,000,000 Jazz GP common shares into 25,000,000 Units.

On March 30, 2007, ACE Aviation exchanged its remaining 47,226,920 LP Units and 47,226,920 Jazz GP common shares for an equivalent amount of Units. As a result of these transactions, at March 31, 2007, the Fund held 100% of Jazz, ACE Aviation no longer held a direct interest in Jazz and ACE Aviation held a 58.8% direct interest in the Fund.

On May 24, 2007, ACE Aviation distributed 12,000,000 of its Units to its shareholders. As a result, ACE Aviation's interest in the Fund as of May 24, 2007 fell to 49.0%. As a result of the May 24, 2007 transaction, Jazz 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 Jazz from the equity method to consolidation.

ACE Aviation no longer holds LP Units and Jazz GP common shares. Pursuant to an amendment to the Securityholders' Agreement entered into on May 24, 2007, among ACE Aviation, the Trust and Jazz GP, ACE

Aviation, as a holder of Units, continued to have the right to appoint the majority of the directors of Jazz GP for as long as it held, directly or indirectly, 20% or more of the issued and outstanding Jazz GP common shares.

On October 22, 2007, ACE Aviation disposed of a further 35,500,000 Units, thereby reducing its indirect ownership in Jazz GP to 20.1%. As at December 31, 2007, ACE Aviation, through its holding of 20.1% of the issued and outstanding Units, indirectly held 20.1% of the Jazz GP common shares.

On January 24, 2008, ACE Aviation sold 13,000,000 Units, thereby reducing its ownership in the Fund to 9.5%. As a result, ACE Aviation no longer had the ability to appoint the majority of the board of directors of Jazz GP pursuant to the Securityholders' Agreement. The Fund, the Trust, Jazz LP, Jazz GP and ACE Aviation terminated the Securityholders' Agreement effective as of February 7, 2008.

Further to such transactions, the Fund has 122,864,066 Units issued and outstanding, of which 11,726,920 Units are held by ACE Aviation, representing a 9.5% interest. The Fund holds a 100% indirect interest in Jazz LP.

### **History of the Company**

Prior to its consolidation, the Canadian regional airline industry was highly fragmented with a variety of small regional carriers operating locally on routes within Western Canada, Central Canada, Québec and the Maritimes.

AirBC was formed in 1980 to serve Western Canada. Air Canada purchased 85% of AirBC in 1987 and the remaining 15% interest in 1995. Air Nova was founded in 1986 to serve destinations in Atlantic Canada. Air Canada acquired 49% of Air Nova upon its inception and in 1991 the regional carrier became a wholly-owned subsidiary of Air Canada. In the spring of 1999, Air Nova, which was based in Halifax, and Air Alliance, an Air Canada-owned airline in Québec which was established in 1988, were amalgamated and became Air Nova. Air Ontario was established in 1987 through the merger of Austin Airways and Air Ontario Ltd. After the merger, Air Canada owned 75% of the newly-formed Air Ontario and acquired the remaining 25% interest in 1994.

In 1986, another regional carrier, Air Atlantic, was formed in Atlantic Canada. Air Atlantic became Air Nova's direct competitor in the Atlantic Canadian market. While remaining independently owned, Air Atlantic entered into a commercial agreement with Canadian Airlines International Ltd. to provide feeder service to Canadian Airlines' mainline network. In 1994, Air Atlantic filed for bankruptcy protection and ceased operations in 1998.

In 1991, Canadian Airlines Corporation acquired 100% of Time Air Inc. and Ontario Express Ltd. and 70% of Inter-Canadien (1998) Inc. In April 1993, Canadian Regional Airlines Ltd., a holding company subsidiary of Canadian Airlines Corporation, merged the operations of Time Air and Ontario Express. The two carriers were amalgamated in July 1998 and by then, Inter-Canadien had become a wholly-owned subsidiary of Canadian Regional Airlines Ltd., then the largest regional carrier in Canada. In September 1998, Canadian Regional Airlines Ltd. sold Inter-Canadien, which subsequently ceased operations in November 1999. Canadian Regional Airlines Ltd. was integrated into the Air Canada family during 2000 as part of Air Canada's acquisition of Canadian Airlines International Ltd.

In January 2001, Air Canada Regional Inc., a wholly-owned subsidiary of Air Canada, completed the corporate steps which began in the last quarter of 2000 to combine the individual strengths of four regional airline brands: AirBC, Air Nova, Air Ontario and Canadian Regional Airlines Ltd. This consolidation brought together all of the Canadian regional airlines of substantial size that had a relationship with Air Canada. The operational consolidation of these entities into Air Canada Regional Inc. was completed in 2002 and was marked with the launch of a new brand name, Air Canada Jazz. In June 2002, Air Canada Regional Inc. changed its name to Jazz Air Inc. (the "Predecessor Company").

On April 1, 2003, Air Canada, then the parent company of the Predecessor Company, obtained an order from the Ontario Superior Court of Justice providing creditor protection under the CCAA for Air Canada and certain of its subsidiaries, including the Predecessor Company.

Air Canada and the Predecessor Company emerged from the CCAA protection on September 30, 2004, and concurrently, ACE Aviation became the parent company of Air Canada and certain of its subsidiaries, including the Predecessor Company. As part of the CCAA restructuring, the Predecessor Company implemented significant cost reductions and, on September 30, 2004, Jazz Air Limited Partnership purchased substantially all of the assets and assumed certain specified liabilities of the Predecessor Company.

Jazz and Air Canada also entered into the Initial CPA (as defined below) on September 30, 2004. The Initial CPA was amended on January 1, 2006. On February 2, 2006, the Fund successfully completed its Initial Public Offering, raising gross proceeds of \$250.0 million.

## **THE JAZZ BUSINESS**

### **Overview**

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada's domestic and transborder market presence and strategy. Under the Amended and Restated Capacity Purchase Agreement dated January 1, 2006 (the "CPA") with Air Canada, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 825 departures per weekday to 57 destinations in Canada and 27 destinations in the United States with an operating fleet of 133 Covered Aircraft as of December 31, 2007. At peak demand periods in 2007, Jazz completed scheduled passenger service on behalf of Air Canada with approximately 877 departures per weekday.

Jazz is the focal point of Air Canada's regional passenger strategy, providing Air Canada with approximately 97% of its regional airline capacity based on the passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown by Jazz (the "ASMs"). Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes. Jazz's operations also complement Air Canada's operations by allowing more frequent service in lower density markets than could be provided economically with conventional large jet aircraft.

Jazz's business model was transformed upon the emergence of Air Canada and the Predecessor Company, a corporation incorporated under the laws of Canada and liquidated as of September 30, 2004, from the CCAA by virtue of the implementation of significant cost reductions, the introduction of new regional jet aircraft and the entering into of the capacity purchase agreement between Air Canada and Jazz Air Limited Partnership (the "Successor Partnership") which was in effect from October 1, 2004 until December 31, 2005 ("Initial CPA").

Pursuant to the CPA, Air Canada purchases capacity from Jazz on Jazz's aircraft subject to the CPA (the "Covered Aircraft") in consideration for the payment of certain fees by Air Canada to Jazz. Since October 1, 2004, Jazz has derived substantially all of its revenues (99%) from the Initial CPA and the CPA. Air Canada currently purchases capacity representing substantially all of the capacity of the 133 Covered Aircraft. In addition, the current 2006 – 2008 high level operating plan provided by Air Canada to Jazz for rate setting purposes only (the "2006 – 2008 High Level Operating Plan") provides for Air Canada to continue to purchase substantially all of the capacity of the Covered Aircraft for such period. The 2006 – 2008 High Level Operating Plan is subject to annual and seasonal (twice-a-year) revisions. Notwithstanding any such revisions, Air Canada must purchase a minimum amount of capacity from Jazz until the expiry of the CPA in December 2015. See "The Jazz Business — Capacity Purchase Agreement with Air Canada — Minimum Average Daily Utilization Guarantee".

Jazz operates its flights on behalf of Air Canada using the Covered Aircraft, and provides all crews (flight and cabin), aircraft maintenance and, in some cases, airport operations for such flights. Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for these flights.

Under the CPA, Jazz is paid fees by Air Canada on a variety of different metrics based on an estimate of all costs and expenses to be incurred and paid by Jazz for the applicable period with respect to Scheduled Flights and other services to aircraft, other than Jazz's pass-through costs (the "Controllable Costs"), marked-up by a specified percentage. Such mark-up equates to a specified margin on an estimate of Jazz's revenues from the flights on the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the CPA (the "Scheduled Flights") and other services to aircraft for each calendar year in the applicable period, excluding the revenues resulting from the reimbursement of Jazz's pass-through costs and the payment of performance incentives (the "Scheduled Flights Revenue"). Controllable Costs represented approximately 58.5% of Jazz's total costs for the year ended December 31, 2007. In addition, under the CPA Jazz is entitled to repayment by Air Canada, without mark-up, of certain pass-through costs specified in the CPA and incurred and paid by Jazz with respect to the Scheduled Flights. Pass-through costs represented approximately 41.5% of Jazz's total costs for the year ended December 31, 2007. Management believes that the CPA is beneficial to Jazz as it reduces financial and operating risk and results in a more stable business model than its previous pro-rate revenue sharing agreement. See "The Jazz Business — Capacity Purchase Agreement with Air Canada".

### **Integral Part of Air Canada's Strategy**

Jazz's operations form an essential part of Air Canada's network strategy. Air Canada is Canada's largest airline, with an extensive domestic, transborder and international mainline network. Jazz complements Air Canada's operations by feeding passengers to the mainline service and by allowing more frequent and competitive service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. The complementary nature of the relationship is evidenced by the fact that approximately 34% of Jazz's passengers connect to or from an Air Canada flight. These passengers connect to Air Canada's extensive domestic, transborder and international network, which is further enhanced by Air Canada's membership in the long-standing Star Alliance™ network, the world's largest airline alliance group.

Management estimates that during the year 2007, Jazz contributed approximately 38% of Jazz and Air Canada's combined domestic scheduled capacity and approximately 28% of the combined transborder scheduled capacity of Jazz and Air Canada based on the number of airline seats available. Jazz's regional jets' operational capabilities allow it to profitably service markets that do not have enough passenger traffic to support Air Canada's mainline jet service. In turn, Jazz benefits from Air Canada's strong brand, marketing and product distribution expertise as well as the fact that Air Canada handles all reservation and ticket sales through its reservations system. In addition, Jazz passengers benefit from the Aeroplan™ program and other amenities made available to Air Canada passengers.

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

Through its affiliation with Air Canada, Jazz serves more destinations in Canada than any other airline. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 825 departures per weekday to 57 destinations in Canada and 27 destinations in the United States with an operating fleet of 133 Covered Aircraft as of December 31, 2007. At peak demand periods in 2007, Jazz completed scheduled passenger service on behalf of Air Canada with approximately 877 departures per weekday. Management believes that the scope and diversity of Jazz's coverage area is a significant competitive advantage. Being the only pan-Canadian regional airline, Jazz can shift capacity across regions as demand dictates.

Of the 110 North American destinations served by Air Canada and Jazz as of December 31, 2007, 84 (or approximately 76%) of such destinations were served by Jazz and Jazz was the sole provider at 50 (or approximately 45%) of these 110 destinations. As of December 31, 2007, Jazz was the sole operator of aircraft of 37 seats or greater at 22 airports. Furthermore, during 2007 Jazz provided customer service at 47 airports and was the only airline that served all top 30 airports in Canada as measured by the Canadian Airports Council for total domestic passenger traffic.

Jazz is the only Canadian regional airline with a fleet including regional jets. As at December 31, 2007, Jazz's fleet of 136 operating aircraft consisted of 73 Bombardier regional jets and 63 Dash 8 turboprop aircraft. See "The Jazz Business — Fleet".

Jazz's fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of turboprop aircraft, most of which operate aircraft in the 19 to 50 seat range. These carriers are primarily stand-alone operations, operating in niche markets. None of these carriers approach the size and scope of operation of Jazz. Low-cost carriers, including WestJet, also compete with Air Canada on certain routes in Canada operated by Jazz.

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

Since October 1, 2004, Jazz has derived substantially all of its revenues (99%) from the Initial CPA and the CPA. The CPA will expire on December 31, 2015, subject to renewal for two additional five-year periods. See "The Jazz Business — Capacity Purchase Agreement with Air Canada — Term and Termination of Agreement". The CPA protects Jazz's earnings from many of the day-to-day business risks of scheduled air service such as passenger load factor, flight cancellations due to weather, increases in fuel costs, navigation, landing and terminal fees, and certain other costs. Management believes that the CPA is beneficial to Jazz because it brings stability and predictability to Jazz's operations enabling Management to focus on costs and operational efficiency.

The benefits of the CPA include:

- The significant reduction of Jazz's former exposure to revenue volatility associated with ticket prices and passenger traffic. The number of aircraft operated by Jazz and block hours, which are the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60 ("Block Hours") flown by such aircraft are the main drivers determining Jazz's revenues. Out of the 136 aircraft in Jazz's fleet, as of December 31, 2007, 133 aircraft are Covered Aircraft under the CPA.
- The reduction of Jazz's exposure to cost volatility through full recovery of all pass-through costs such as fuel, navigation, landing and terminal fees, which in the past have been volatile and have undergone significant increases. Pass-through costs represented approximately 41.5% of Jazz's total costs for the year ended December 31, 2007.
- Although Jazz bears the risk of changes to its Controllable Costs, which represented approximately 58.5% of its total costs for the year ended December 31, 2007, it is compensated by a mark-up on its estimated Controllable Costs. Jazz has been able to, and continues to seek to reduce its exposure to fluctuations in certain of these Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, aircraft rent, depreciation on owned aircraft and interest on financed aircraft through agreements with its employees, maintenance, repair and overhaul ("MRO") suppliers and aircraft lessors and financiers.
- Jazz has the ability to increase its profitability by reducing its Controllable Costs over time. In addition, Jazz is able to earn performance incentive payments if it achieves or exceeds certain operational targets.
- The number of Covered Aircraft is 133 and is scheduled to remain at this level until the expiry of the CPA in December 2015. The total number of Covered Aircraft cannot be reduced below the numbers set forth in the existing long range fleet plan without the mutual agreement of Air Canada and Jazz, except if Jazz enters into an agreement with another carrier to provide regional airline services.
- Although Air Canada's actual usage of the Covered Aircraft is not fixed, Air Canada has agreed to pay Jazz for certain minimum levels of operating capacity until the expiry of the CPA in December 2015.

### **Cost Structure**

Management believes that Jazz's cost structure is competitive with North American regional airlines and allows Air Canada to offer services through Jazz at a lower cost than it otherwise could directly. Management believes that Jazz's competitive cost structure is driven in large part by the factors described below:

- The renegotiation of labour agreements with all its union groups as part of the CCAA process resulted in lower pilot and flight attendant costs and allowed Jazz to operate flights with labour costs that are lower than Air Canada's labour costs when operating the same size aircraft.
- The revised agreements with Teamsters Canada, the Canadian Air Line Dispatchers Association (CALDA) and Canadian Auto Workers (CAW) provide Jazz with wages and productivity levels for new hires that are competitive with new industry entrants and low-cost carriers. In the case of the pilots union group, Jazz has a status pay system with one pay scale based on seniority and status regardless of the type of aircraft flown. With the status pay system, there is less incentive for the pilots to seek assignments on larger aircraft, which reduces relocation and training costs, which are otherwise significant costs for Jazz.
- The repudiation and renegotiation of various contractual obligations as part of the CCAA process, including those related to aircraft, real estate and suppliers.
- A simple fleet composed of two aircraft types, Bombardier regional jet aircraft and turboprops, which Management believes is well suited to efficiently serve its extensive network across Canada and transborder to the United States and allows for lower trip costs, better matching of capacity with demand, lower maintenance, inventory and pilot training costs, and better synergies in crew deployment than its prior fleet configuration.

### **History of Operational Performance**

Jazz has a history of strong operational performance, along with an excellent safety record. In addition to the fees Jazz receives from Air Canada under the CPA, Jazz can earn certain performance incentive payments up to 2.36% of its Scheduled Flights Revenue for the relevant period. See "The Jazz Business — Capacity Purchase Agreement with Air Canada — Performance Incentives". In 2007, Jazz outperformed the average of a selected group of United States regional airlines in terms of controllable on-time performance. Over such period, Jazz's average on-time performance was 12.96 percentage points higher than the average for selected United States regional airlines.

### **Growth Strategy**

Management anticipates that Jazz's growth over the next several years will be generated mainly through new business development opportunities.

#### *Charter Operations*

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

In 2007, Jazz had two 37-seat Dash 8-100 aircraft dedicated to Jazz's charter operations, one based in Western Canada and the other in Eastern Canada. Jazz took delivery of two additional Dash 8-300 50-seat aircraft, one in December 2007 and one in January 2008, both added to its charter operation, more than doubling the capacity of the charter division. These newly acquired aircraft will commence operations in the second quarter 2008. Jazz is targeting growth within its charter operation through seeking ongoing program charters with customer types as identified above and through pursuing ACMI opportunities with airlines and other potential customers. ACMI contracts are essentially mid-term contracts for the provision of certain airline services including provision for the aircraft, crews, maintenance support and insurance. These types of arrangements are often entered into as interim arrangements sometimes used to bridge to the customer air carrier's new aircraft deliveries or providing it time to set up its own operation.

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

#### *Relationships with Other Carriers*

In addition to the pursuit of ACMI arrangements with other customers, Jazz, as part of its growth strategy, will also pursue business development opportunities through exploring varying types of relationships with other carriers, both domestically and internationally. Opportunities exist for additional capacity purchase type arrangements, along with selling Jazz's expertise relating to regional operations.

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

Jazz's technical operations team performs regional jet and turboprop line maintenance, heavy maintenance and aircraft modifications to support Jazz's operations. Jazz has two primary MRO facilities, one located in Halifax and the other in London, Ontario. Component shop support is also provided from a third facility in Calgary, Alberta. Supporting in excess of 130 aircraft, the technical operations team maintains one of the largest Dash 8 fleets in the world. Jazz is also building considerable expertise in repair and overhaul of CRJ 100, 200 and 705 series Bombardier regional jets. Jazz has line maintenance staff and facilities in ten Canadian cities. Currently Jazz does not have surplus maintenance capacity available for third party maintenance and repair; however, this could be a potential ancillary business opportunity in the future.

#### *Relationship with Air Canada*

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

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

To support its new business model and benefit from the resulting opportunities, Air Canada continues to identify and analyze new market opportunities for both regional jets and turboprop aircraft.

#### **Fleet**

Unless otherwise specified herein, information relating to Jazz's fleet is provided as of December 31, 2007. As at such date, Jazz's operating fleet was made up of 136 aircraft, of which 73 were regional jets and 63 turboprop aircraft.

Jazz has restructured its fleet to reduce its costs by flying fewer types of aircraft and to ensure an efficient operation by better matching seat capacity with demand. The reduction in the types of aircraft in Jazz's fleet has contributed to cost savings in the areas of maintenance, inventories and pilot training.

Management currently believes that there may be attractive opportunities to acquire additional regional aircraft. In the event that more of these modern aircraft are acquired, it is currently anticipated that such aircraft would be substituted for aircraft operated by Jazz.

Jazz's operating fleet as at December 31, 2007 and 2006 is as follows:

<b>Aircraft (number of seats)</b>	<b>Operating Fleet as at</b>	
	<b>December 31, 2007</b>	<b>December 31, 2006</b>
CRJ – 100/200 (50 seats) .....	57	58
CRJ – 705 (75 seats) .....	16	15
Dash 8 – 300 (50 seats) <sup>(2)</sup> .....	27 <sup>(1)</sup>	26
Dash 8 – 100 (37 seats) <sup>(3)</sup> .....	<u>36</u>	<u>36</u>
Total .....	<u>136</u>	<u>135</u>

(1) Includes one Dash-8-300 aircraft delivered in December 2007 for the Jazz charter operations.

(2) One Dash 8-300 aircraft delivered in January 2008 for the Jazz charter operations has not been reflected in the table.

(3) Two Dash 8-100 (included in the totals for all periods presented) are currently dedicated to Jazz's charter operations.

All aircraft in Jazz's operating fleet as of December 31, 2007 are Covered Aircraft under the CPA except for two Dash 8-100 and one Dash 8-300 aircraft which are allocated for charter purposes.

#### *CRJ-100/200*

The 50-seat Bombardier CRJ-100/200 is a twin engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The CRJ-200 has more efficient engines than the CRJ-100 and a longer flight distance and pay-load capability. Of the 57 CRJ-100/200 in Jazz's fleet, 34 are subleased from Air Canada and 23 are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring between 2008 and 2024.

#### *CRJ-705*

Jazz was the first carrier in the world to operate the state-of-the-art Bombardier CRJ-705 regional jet aircraft. Jazz's CRJ-705s feature leather seats and are configured into ten Executive Class seats and 65 Economy Class seats and offer more Economy Class legroom than any other Canadian carrier's aircraft and boast ample underseat storage. In-flight entertainment systems have been installed in every seat back in 15 of the 16 aircraft and Jazz will be retrofitting the 16th aircraft as well. The CRJ-705 provides Jazz with the capability to offer services comparable to a mainline aircraft.

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

15 CRJ-705 aircraft currently in Jazz's fleet are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, and one is leased from a third party, with such subleases and lease expiring in 2022 and 2024.

#### *Dash 8-300*

The 50-seat Bombardier Dash 8-300 has advanced turboprop characteristics that approach those of a jet aircraft. Of the 27 Dash 8-300 in Jazz's fleet, 19 are owned by Jazz and eight are leased from third parties, with such leases expiring between 2015 and 2016.

### *Dash 8-100*

The Dash 8-100 is a twin engine turboprop medium range aircraft with seating capacity of 37 passengers. Of the 36 Dash 8-100 aircraft in Jazz's fleet, 29 are owned by Jazz and seven are leased from Air Canada Capital Ltd., with such leases expiring between 2008 and 2012.

### **Scope Clause**

Scope clauses are an industry norm for network airlines operating in conjunction with regional carriers and are usually found in collective agreements of pilot union groups. Jazz, like many regional airlines, is restricted by scope provisions in the collective agreement between Air Canada and ACPA. Prior to the CCAA restructuring, Jazz's operations were limited by scope provisions restricting Jazz's operations for Air Canada to thirty-nine 55-seat regional jet aircraft including ten grandfathered BAe-146 aircraft, which have since been retired. The scope provisions in place at the time also required that growth beyond the thirty-nine 55-seat regional jet aircraft could only take place with growth in the Air Canada fleet.

As a result of the CCAA process, a unique arrangement was reached between Air Canada, Jazz, ACPA and ALPA. The agreement, known as the small jets settlement agreement (the "Small Jets Settlement Agreement"), modifies the scope clauses that existed prior to the CCAA restructuring, provides a process to allocate the orders of regional jets to Jazz Covered Aircraft. The Small Jets Settlement Agreement provides the process to allocate the orders of regional jets between Air Canada and Jazz, determines the types and number of jets that can be flown by Jazz and provides mechanisms for resolving disputes over future regional jet additions to either fleet. There are no limits to the number of turboprop aircraft that Jazz may operate for Air Canada.

The Small Jets Settlement Agreement provides that:

- Jazz may maintain a covered fleet of 57 CRJ-100s/200s and 16 CRJ-705 aircraft.
- If either Air Canada or Jazz seeks to increase the covered fleet beyond what is outlined above, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to an arbitrator or a mediator who will then make a decision, taking into account the business case put forward by the respective parties and the impact of the matter at hand on the respective pilots groups.
- Jazz may not operate the CRJ-705 as Covered Aircraft if configured in excess of 75 seats, inclusive of all classes.
- As was previously the case, Air Canada must ensure that a minimum of ASMs are flown by Air Canada compared to ASMs flown by Jazz under the CPA, as defined in the ACPA collective agreement.

On two separate occasions the Jazz fleet of Covered Aircraft has been modified through the Small Jets Settlement Agreement process. In 2005, Jazz took delivery of an additional 8 CRJ-200 aircraft beyond the 50 aircraft maximum described in the Small Jets Settlement Agreement. The additional 8 aircraft were permitted to be added to Jazz's fleet following an arbitration as per the Small Jets Settlement Agreement. In 2007, Jazz took delivery of the sixteenth CRJ-705, also pursuant to the Small Jets Settlement Agreement process.

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

#### *Overview and Scope of Agreement*

Pursuant to the CPA, Air Canada purchases capacity from Jazz on the Covered Aircraft in consideration for the payment of certain fees by Air Canada to Jazz. During the period from October 1, 2004 to December 31, 2007, Jazz derived substantially all of its revenues (99%) from the Initial CPA and the CPA.

All of the 136 aircraft in Jazz's operating fleet as of December 31, 2007 are Covered Aircraft under the CPA except for three Dash 8 aircraft being used for charter purposes. See "The Jazz Business — Fleet". Air Canada currently purchases capacity from Jazz representing substantially all of the capacity of the 133 Covered Aircraft. In addition, the 2006 – 2008 High Level Operating Plan provides for Air Canada to continue to purchase substantially all of the capacity of the Covered Aircraft for such period. The 2006 – 2008 High Level Operating Plan is subject to annual and seasonal (twice-a-year) revisions.

Notwithstanding any revisions to the 2006 – 2008 High Level Operating Plan, Air Canada has agreed to pay Jazz for certain daily minimum levels of operating capacity calculated in terms of a minimum number of Block Hours for each Covered Aircraft other than aircraft being modified, undergoing scheduled maintenance or being painted (the "Active Aircraft") until the expiry of the CPA in December 2015. The minimum average daily utilization guarantee for the 2008 calendar year represents approximately 84% of the planned Block Hours currently scheduled to be flown by Jazz's Covered Aircraft during such period (the "2008 Annual Operating Plan"). See "The Jazz Business - Capacity Purchase Agreement with Air Canada - Minimum Average Daily Utilization Guarantee".

Under the CPA, Jazz operates its flights on behalf of Air Canada using the Covered Aircraft, and provides all crews (flight and cabin), aircraft maintenance and, in some cases, airport operations for such flights. Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for these flights. Air Canada is entitled to all revenues (except bar and buy-on board sales) resulting from the Scheduled Flights and from all freight, Canada Post mail and small package service carried on Scheduled Flights (the "Cargo Services") including, without limitation, ticket sales, baggage charges, passenger charges and employee pass travel service charges.

In addition to being reimbursed for all pass-through costs, Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated Controllable Costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for each calendar year in the applicable period. The fees payable by Air Canada to Jazz on a monthly basis are broken down into a number of categories. These payment categories fall into two broad groups: there are those that are variable depending on the Covered Aircraft utilization and those that remain unchanged regardless of how often or where or with what load factors the Covered Aircraft are utilized.

The most important of the variable payments for establishing Jazz's revenue is the Block Hour Payment paid by Air Canada for each Block Hour flown by Jazz's Covered Aircraft. This payment varies with the Block Hours flown. The other variable payments such as the cycle payment and, even more so, the passenger payment, are relatively small and calibrated to cover the specific costs associated with the activity (either a cycle or flying a passenger) to which they are linked. The other group of payments such as aircraft rent do not change regardless of the Covered Aircraft's utilization and are designed to meet Jazz's costs for these items plus a mark-up.

The following table presents the number of Covered Aircraft for the periods indicated, as well as the corresponding estimated number of Active Aircraft and aircraft used for charter operations for such periods, based on the current long range fleet plan under the CPA:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
	_____	_____
Number of Covered Aircraft.....	133	133
Estimated Number of Active Aircraft .....	127-129	127-129
Number of Aircraft Used for Charter Operations .....	4 <sup>(1)</sup>	2

(1) Includes one Dash-8 300 aircraft delivered in January, 2008.

Jazz and Air Canada have agreed on a long range fleet plan which sets out the number of Covered Aircraft and Active Aircraft, by aircraft type, on a monthly basis through December 2009 and the number of Covered Aircraft on an annual basis through December 2015. The total number of Covered Aircraft cannot, at any time during the term of the CPA which expires in December 2015, be reduced below the numbers set forth in the existing long range fleet plan without the mutual agreement of Air Canada and Jazz, except if Jazz enters into an agreement with another carrier to provide regional airline services (other than charter flights), whether on a capacity purchase or other economic basis, in which case Air Canada will have the right to reduce the number of Covered Aircraft, on a one-for-one basis, by the number of aircraft to be operated under such other agreement. See "Air Canada's Right to Reduce Covered Aircraft". Air Canada may periodically adjust the long range fleet plan so as to require changes to the fleet composition, including any increase in aircraft of any type, provided that any such changes cannot reduce the total number of Covered Aircraft set forth in the existing long range fleet plan and that any replacement aircraft does not reduce the economic benefits to Jazz under the CPA as determined by Air Canada, subject to confirmation of such determination by Jazz, acting reasonably.

#### *Fees Payable by Air Canada*

The fees payable by Air Canada to Jazz are broken down into categories, the principal categories being described in the following table. Such fees are payable on a monthly basis, in advance on the first day of each month, with a month-end reconciliation as to actual operations.

<b>Fees Payable by Air Canada</b>	<b>Calculation</b>	<b>Included in Rate</b>
Block Hour Payment	Block Hour Rate for each aircraft type multiplied by actual Block Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> <li>• Salaries, wages and benefits for flight and cabin crew</li> <li>• Block Hour-driven direct maintenance labour costs</li> <li>• Block Hour-driven direct maintenance material and supply costs</li> </ul>
Cycle Rate Payments	There are a number of cycle rates applicable for each aircraft type, each of which is multiplied by actual number of cycles (being one take off and one landing) completed by each aircraft type in the month although certain of the cycle rates apply only for departures from certain airports	<ul style="list-style-type: none"> <li>• Total crew cycle costs</li> <li>• Cycle or frequency-driven direct maintenance, materials and supplies</li> <li>• Aircraft parking</li> <li>• Aircraft services labour (internal Jazz provided passenger, ground handling and other airport support services) and purchased terminal handling (ground handling supplied by ACGHS or any other third party)</li> <li>• At certain airports, the salaries, wages and benefits of Jazz's employees stationed at that airport</li> <li>• Other factors</li> </ul>
Aircraft Ownership Payment (Variable)	The aircraft ownership payment is comprised of two elements: (i) the aircraft ownership variable rate for each aircraft type which is multiplied by the number of aircraft of that type subject to the CPA in that month, and (ii) aircraft ownership variable rate per Block Hours for each aircraft type which is multiplied by the Block Hours flown in that month (for all aircraft of the relevant type) (the "Aircraft	<ul style="list-style-type: none"> <li>• Interests costs, lease costs and depreciation and amortization costs relating to the Covered Aircraft</li> <li>• Depreciation costs and amortization costs</li> <li>• Transaction and service fees on aircraft leases</li> <li>• Aircraft hull insurance costs (collectively, the "Aircraft Ownership Variable Rate")</li> </ul>

Fees Payable by Air Canada	Calculation	Included in Rate
Aircraft Ownership Payment (Fixed)	Ownership Payment") Aircraft Ownership Payment for each aircraft type	<ul style="list-style-type: none"> <li>• Depreciation on rotables/tooling</li> <li>• Insurance management fee</li> <li>• Spare equipment lease costs</li> <li>• Component inventory ownership charges (collectively, the "Aircraft Ownership Fixed Rate")</li> </ul>
Fixed Cost Payment	Fixed cost rate for all Covered Aircraft	<ul style="list-style-type: none"> <li>• Non-aircraft insurance</li> <li>• Rent and facilities costs</li> <li>• Salaries, wages and benefits for management, administrative and technical services staff and some unionized staff</li> <li>• Employee uniform costs</li> <li>• Communications</li> <li>• Utilities</li> <li>• Office equipment rentals, office supplies</li> <li>• Workers' compensation costs</li> <li>• Travel costs</li> <li>• Training and development costs</li> <li>• Information system costs</li> <li>• Ground service equipment costs</li> <li>• Brand image costs</li> <li>• Miscellaneous costs, fees and services (collectively, the "Fixed Cost Payment")</li> </ul>

In addition to the principal categories described above, Air Canada compensates Jazz for: (i) Scheduled Flights cancelled at the request of Air Canada or as a result of Air Canada-directed schedule changes occurring after the date when Jazz crews have been determined and crew schedules committed for the month; and (ii) Scheduled Flights cancelled due to weather or air traffic control directives during the month. Air Canada and Jazz share the costs related to ferry flights (flights to position aircraft for Scheduled Flights) during the month. Air Canada also pays Jazz a nominal fee per passenger carried. In addition, Jazz receives certain fees from Air Canada for ground handling services Jazz provides to Air Canada.

#### *Pass-Through Costs Reimbursed by Air Canada*

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

#### *Rates and Specified Mark-up*

The rates for the payments of fees described above have been agreed upon for each calendar year until December 31, 2008, although they may be revised from time to time: (i) as a result of permitted changes in Jazz's fleet which are not contemplated in the long range fleet plan described below and which result in an aggregate increase or decrease in the number of aircraft of any single type in excess of 20% of what is contemplated in the

current long range fleet plan; or (ii) with respect to certain rate components, given the actual costs incurred by Jazz during a particular period.

Under the CPA, Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated Controllable Costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for each calendar year in the applicable period. Under the CPA, the percentage mark-up on Jazz's estimated Controllable Costs for each of the 2006 to 2008 calendar years has been set at 16.4%. Such mark-up equates to a 14.09% margin on Jazz's Scheduled Flights Revenue. If Jazz's controllable actual annual margin on its actual Scheduled Flights Revenue under the CPA exceeds 14.09% in any of the 2006 to 2008 calendar years or the targeted margin in any subsequent calendar year during the term of the CPA expiring in December 2015, Jazz shall keep 50% of any such excess amount and remit the remaining 50% of the excess amount to Air Canada.

The specified percentage mark-up on Jazz's estimated Controllable Costs, and thus the specified margin on Jazz's estimated Scheduled Flights Revenue, is subject to (i) revision in 2009 and 2012 with the revised margin being the greater of the initial margin of 14.09% and the average actual margin on Scheduled Flights Revenue achieved by Jazz in each of the prior three years (after giving effect to any margin sharing with Air Canada); and (ii) potential reduction in 2010 if the changes in Jazz's Controllable Costs per ASM between the twelve-month period ending June 30, 2007 and the twelve-month period ending December 31, 2009 are lower than the median of changes to the equivalent costs of a group of comparable North American regional carriers for the same period (adjusted to reflect, among other things, the fleet composition and size, stage length, aircraft utilization, geographical deployment, currency and growth relative to that of Jazz), based on a benchmarking exercise involving such comparable regional carriers to be completed by Jazz and Air Canada.

As a result of (i) the scheduled revision in 2009 and 2012 of the specified percentage mark-up on Jazz's estimated Controllable Costs and the potential to increase the specified percentage mark-up if actual margins achieved by Jazz exceed the specified percentage then applicable under the CPA, and (ii) the equal sharing between Jazz and Air Canada of the amount by which Jazz's actual annual margin on its Scheduled Flights Revenue exceeds the amount specified under the CPA, Jazz would benefit from reductions in its Controllable Costs.

Jazz outperformed the 14.09% targeted operating margin in 2006 and 2007, producing a controllable adjusted actual margin of 14.77% and 14.54% in each of the respective years. However, this may be offset by the potential reduction in the specified percentage mark-up in 2010 when, as described above, a comparison is scheduled to be made with the relative cost changes achieved by a comparable group of North American regional carriers.

During the 2008 year, Jazz and Air Canada will negotiate the estimated Controllable Costs for the period 2009 – 2011.

#### *Performance Incentives*

In addition to the fees described above, Jazz can earn certain performance incentive payments up to 2.36% of its Scheduled Flights Revenue for the relevant period based on four operational performance incentive categories: on-time performance (other than for causes beyond Jazz's control), flights actually flown (other than for causes beyond Jazz's control), incidences of mishandled luggage at airports where Jazz is responsible for luggage handling (as opposed to airports handled by ACGHS), and other customer satisfaction measures related to inflight and check-in satisfaction. For the year ended December 31, 2007, performance incentive payments made by Air Canada to Jazz under the CPA amounted to \$16.7 million or 1.8% of Jazz's Scheduled Flight Revenue for such period.

#### *Operating Plans and Scheduling*

Air Canada provides Jazz with a high level three-year operating plan, which sets out any changes to the number of Covered Aircraft and Active Aircraft on a monthly basis and the frequencies, Block Hours, airport activity, load factors and ASMs for each aircraft type for the next three calendar years, subject to any agreed upon changes during such period. The 2006 – 2008 High Level Operating Plan is the current version of this plan. This

high level plan is used for rate-setting purposes only. On an annual basis, Air Canada shall also provide to Jazz a high level operating plan for the upcoming calendar year for budget and planning purposes. The 2008 Annual Operating Plan is the current version of this plan.

Air Canada and Jazz also jointly agree upon a seasonal operating plan prior to the start of each summer and winter seasonal schedule period, which plan includes Air Canada's forecast with respect to: (i) Block Hours and departures by aircraft type, ASMs and passenger volume; (ii) the airports to which Jazz will operate Scheduled Flights; and (iii) specific dates for the commencement of service to or from new airports, if any. The Block Hours in the final seasonal schedule for each aircraft type are treated as the Guaranteed Block Hours (as defined below) for each aircraft type for purposes of the minimum capacity guarantee described below under "The Jazz Business - Minimum Capacity Guarantee".

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

#### *Changes to Jazz's Fleet*

Jazz and Air Canada have agreed on a long range fleet plan which sets out the number of Covered Aircraft and Active Aircraft, by aircraft type, on a monthly basis through December 2009 and the number of Covered Aircraft on an annual basis through December 2015. The total number of Covered Aircraft cannot, at any time during the term of the CPA expiring in December 2015, be reduced below the numbers set forth in the existing long range fleet plan without the mutual agreement of Air Canada and Jazz, except if Jazz enters into an agreement with another carrier to provide regional airline services (other than charter flights), whether on a capacity purchase or other economic basis, in which case Air Canada will have the right to reduce the number of Covered Aircraft, on a one-for-one basis, by the number of aircraft to be operated under such other agreement. See "Air Canada's Right to Reduce Covered Aircraft". All of Jazz's fleet of 136 aircraft as of December 31, 2007 are Covered Aircraft under the CPA except for three Dash 8 aircraft assigned to Jazz's charter operations. Subsequent to December 31, 2007, Jazz added a fourth Dash 8 aircraft to its charter operations. See "The Jazz Business — Fleet".

Air Canada may periodically adjust the long range fleet plan so as to require changes to the fleet composition, including any increase in aircraft of any type, provided that any such changes cannot reduce the total number of Covered Aircraft set forth in the existing long range fleet plan and that any replacement aircraft does not reduce the economic benefits to Jazz under the CPA as determined by Air Canada, subject to confirmation of such determination by Jazz, acting reasonably.

Air Canada shall provide Jazz with reasonable prior written notice of any such permitted change, taking into consideration the nature and scope of the permitted changes. Jazz shall use its reasonable commercial efforts to accommodate such permitted changes within the requested reasonable time frame. If any change involves aircraft being returned/retired and replaced by other aircraft of another type, Air Canada shall pay the costs related to any such return/retirement, including but not limited to, early return penalties in any lease, break costs in any financing, staff severance, relocation and training costs, the impact to Jazz of the disposition of related inventory net of the proceeds of such sale of inventory, aircraft ground insurance coverage and unscheduled maintenance work required to be performed on a departing aircraft.

If a long range fleet plan change results in an aggregate increase or decrease of the number of aircraft of any single type in excess of 20% from what is contemplated in the then current long range fleet plan, all rates under the CPA will be subject to revision by mutual agreement of Jazz and Air Canada. If the changes to the long range fleet plan involve the addition of a new aircraft type, Jazz and Air Canada will negotiate and agree upon all of the applicable rates, as well as the minimum average daily utilization guarantee for that new aircraft type.

If Air Canada requires an increase in the total number of Covered Aircraft, Air Canada shall be responsible for providing or arranging for the provision of such additional aircraft to Jazz, and Jazz shall use its reasonable commercial efforts to assist and cooperate in the acquisition of such additional aircraft.

If, during the term of the CPA expiring in December 2015, the total number of Covered Aircraft in the long range fleet plan for any period has been increased above 133 aircraft in accordance with the preceding paragraph, Air Canada can elect to modify the then current long range fleet plan by reducing the total number of Covered Aircraft, provided that in the event of such unplanned reduction or retirement, (i) the total number of Covered Aircraft after such reduction is no less than 133 (or such lesser number as may have been previously agreed to by Air Canada and Jazz); and (ii) Air Canada pays the costs of any such reduction including but not limited to early return penalties in any lease, break costs in any financing, staff severance, relocation and training costs, the impact to Jazz of the disposition of related inventory net of the proceeds of such sale of inventory, aircraft ground insurance coverage and unscheduled maintenance work required to be performed on a departing aircraft.

#### *Air Canada's Right to Reduce Covered Aircraft*

Subject to complying with the terms of the CPA, nothing in the CPA will preclude Jazz from providing services to others, including charter flights to the public, capacity services to other carriers or any other air transportation services.

However, in the event that, at any time after the total number of Covered Aircraft has reached 133, Jazz has had discussions with another carrier to provide regional airline services (other than charter flights) and it is contemplating entering into an agreement with such carrier, whether on a capacity purchase or other economic basis, Jazz will then advise Air Canada of the contractual number of aircraft and type to be operated under such prospective agreement. Air Canada shall then indicate by notice to Jazz whether it wishes to reduce the number of Covered Aircraft, on a one-for-one basis, by the number of aircraft to be operated under such prospective agreement, provided that: (i) Air Canada's selection of the type of aircraft to be removed from the list of Covered Aircraft must be of a similar or smaller class of aircraft; and (ii) if such reduction in the number of Covered Aircraft results in an aggregate decrease of the number of aircraft of any single type in excess of 20% from what is contemplated in the then current long range fleet plan, the parties will agree on resulting changes to all rates under the CPA. If Jazz then enters into such an agreement with such carrier, Air Canada shall be bound by the terms of its notice to Jazz.

If the aircraft type that Air Canada elects to remove from the list of Covered Aircraft is different than that to be operated by Jazz under such new agreement, then Air Canada will pay the costs related to any such return/retirement, including but not limited to early return penalties in any lease, break costs in any financing, the impact to Jazz of the disposition of related inventory net of the proceeds of such sale of inventory, aircraft ground insurance coverage and unscheduled maintenance work required to be performed on a departing aircraft.

#### *Return of Aircraft*

The CPA provides that Air Canada shall bear the cost and expense of all return condition obligations contained in any lease, sublease or loan arrangement relating to the Covered Aircraft or the spare engines used to support the Covered Aircraft (the "Spare Engines"), with effect only from October 1, 2004. Any such return condition obligations attributable to the possession, use or operation of any Covered Aircraft or any Spare Engine prior to October 1, 2004 shall be borne by Jazz. Upon the expiry or other termination of any lease, sublease or loan arrangement relating to any Covered Aircraft or any Spare Engine, any credit that Jazz has with any maintenance or technical service provider relating to that Covered Aircraft or Spare Engine (or its components) as a result of any power by the hour type service agreement shall be assigned to Air Canada or the benefit of such credit shall otherwise be made available to Air Canada such that it shall be applied against Air Canada's liability with respect to the return condition obligations.

#### *Minimum Average Daily Utilization Guarantee*

Under the CPA, Air Canada has agreed to pay Jazz for certain daily minimum levels of operating capacity calculated in terms of a minimum number of Block Hours for each Active Aircraft type until the expiry of the CPA in December 2015. The minimum average daily utilization guarantee will not apply in the event Jazz fails to reach the minimum number of Block Hours due to its own default or an inability to supply sufficient capacity. Active Aircraft consist of the Covered Aircraft other than those Covered Aircraft being modified, undergoing scheduled maintenance or being painted. Scheduled maintenance and mandatory modifications of Jazz's fleet are determined on the basis of the manufacturers' recommended maintenance program and the aircraft maintenance and security

requirements established by regulatory authorities. Non-mandatory modification and painting schedules for the Covered Aircraft are determined by agreement between Air Canada and Jazz. The number of Active Aircraft has been established until December 31, 2009 and is not scheduled to fall below 127 at any time. In general, the average number of Active Aircraft per month is expected to represent approximately 95% of the total number of Covered Aircraft for such month.

The minimum average daily utilization guarantee for the 2008 calendar year represents approximately 84% of the planned Block Hours currently scheduled to be flown by Jazz's Covered Aircraft during such period, as contemplated in the 2008 Annual Operating Plan.

#### *Minimum Capacity Guarantee*

Air Canada is required to provide Jazz with a final seasonal schedule three months prior to the first day of each of the summer seasonal schedule period and the winter seasonal schedule period. Payments are made by Air Canada to Jazz based on Block Hours actually flown during a given seasonal period. However, such payments shall not be less than a minimum of 95% of the Block Hours set forth in such final seasonal schedule for any aircraft type (expressed in Block Hours per aircraft type per day) (the "Guaranteed Block Hours"), unless 95% of such Guaranteed Block Hours are less than the total Block Hours pursuant to the minimum average daily utilization guarantee set out in the CPA for that aircraft type. In such a case, Air Canada will be obligated to pay an amount based on the minimum average daily utilization guarantee rather than 95% of the Guaranteed Block Hours. Any payments made by Air Canada in respect of Guaranteed Block Hours shall be subject to deduction for any payments already made in respect of Scheduled Flights cancellations.

#### *Force Majeure*

Air Canada's and Jazz's obligations under the CPA (other than any financial obligations) will be suspended if, and for so long as, any event of force majeure prevents that party from meeting its obligations pursuant to the CPA. Air Canada and Jazz recognize that an event of force majeure may inadvertently result in one party being in default of a collective agreement to which it is a party. Upon the occurrence of an event of force majeure, Air Canada and Jazz will as soon as reasonably possible given the nature of the event of force majeure, meet and work together to minimize the impact of such event of force majeure.

Force majeure is defined under the CPA as including (i) acts of God or the public enemy, civil war, acts of sabotage or terrorism, insurrections or riots; fires, floods, explosions, embargoes, earthquakes or serious accidents, epidemics, or quarantine restrictions; any act of government, governmental priorities, allocations, orders or governmental regulations affecting materials or facilities, inability after due and timely diligence to procure materials, accessories, equipment or parts; or due to any other cause to the extent it is beyond that party's practical control or not occasioned by that party's fault or negligence; and (ii) cessation, slow-down or interruption of work, or any other labour disturbance.

#### *Codesharing and Marketing*

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

In connection with Air Canada's management of the commercial aspects of Jazz's network, Air Canada is responsible for and absorbs all costs related to a number of commercial activities associated with Jazz's business which include the following:

- Air Canada is responsible for all sales and product distribution activities and costs related to Jazz's operations. This covers sales functions, including sales personnel and city ticket offices, advertising, travel agency commissions, computer reservation costs and equipment. Air Canada operates call centres and a website for booking flight reservations on Jazz flights.

- Air Canada provides marketing services such as market strategies, commercial alliances, network planning, scheduling, network management (including pricing, yield management and network performance) product design, frequent flyer reward program, and other related services.

#### *Ground Handling and Cargo Services*

Under the CPA, Air Canada or ACGHS is responsible for providing ground handling services at airports where Air Canada or ACGHS performs ground handling services. Jazz is responsible for performing or obtaining such services at all other locations and Jazz performs such services for Air Canada at certain airports for a fee. Out of the 84 airports serviced by Jazz as of December 31, 2007, ACGHS provides ground handling services at 18 airports, Jazz provides ground handling services at 6 airports and ground handling services at the remaining 60 airports are obtained by Jazz from other third parties. Delays or cancellations directly caused by ACGHS are excluded for purposes of determining Jazz's operational performance against the performance incentive targets under the CPA. Jazz and ACGHS have entered into a separate agreement for the provision of such ground handling services to Jazz at airports serviced by ACGHS. See "The Jazz Business — Other Agreements with Air Canada — ACGHS Agreement".

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

#### *Charter Flights*

Jazz is entitled to operate charter flights during the term of the CPA, expiring in December 2015, with the Covered Aircraft (subject to the payment of a charter fee to Air Canada) or with other aircraft as long as Jazz continues to meet its obligations under the CPA and does not market such flights as Air Canada flights. Jazz is responsible for all incremental costs and expenses in respect of such flights and is entitled to all revenues therefrom. Certain charter services are subject to Air Canada's consent, which shall not be unreasonably withheld.

#### *Facilities*

Under the CPA, Air Canada is responsible for the costs associated with: (i) opening, closing and moving maintenance and crew bases, where such changes are due to changes required by Air Canada to operate the Scheduled Flights; (ii) any additional facilities required as a result of increased frequency of Scheduled Flights; and (iii) any relocation of Jazz to comparable airport facilities reasonably acceptable to Jazz contiguous to Air Canada leased premises, ramp, gate and office space.

If Air Canada decides to provide Scheduled Flights to or from an airport not already served by Jazz, Air Canada must approve and assume all one-time costs associated with commencing services to the new airport, including signage, airport fit-up, training and installation of telephone, information technology and other required equipment. Similarly, if Air Canada chooses to reduce or suspend service to an airport that is served by Jazz, Air Canada must assume the one-time termination costs associated therewith, including costs and penalties of terminating leases and licenses, unamortized improvement expenses previously incurred by Jazz, and staff relocation and severance costs. In both cases, the Fixed Cost Payment described above under "Fees and Pass-Through Costs" will also be adjusted accordingly, either to include recurring expenses relating to the new airports or to reduce or remove the costs associated with reduced or closed airports.

#### *Term and Termination of Agreement*

The CPA will expire on December 31, 2015, subject to renewal on terms to be negotiated for two additional five-year periods unless either party gives written notice of non-renewal to the other not less than one year prior to the end of the initial term or the first renewal term. Either party is entitled to terminate the CPA at any time upon occurrence of an event of default (as determined by an arbitration panel in accordance with the terms of the CPA). Events of default include, without limitation:

- bankruptcy or insolvency of the other party;
- suspension or revocation of Jazz's right to operate as a scheduled airline;
- any amounts payable by Air Canada or Jazz to the other pursuant to the CPA are not paid when due, and such default continues for 30 days after receipt by the party in default of written notice from the other party identifying the default and demanding that it be rectified;
- failure by Air Canada or Jazz to comply with any other of its obligations pursuant to the CPA and such default continues for 30 days after receipt by the party in default of written notice from the other party identifying the default and demanding that it be rectified;
- more than 50% of the Covered Aircraft fail to operate Scheduled Flights for more than seven consecutive days or 25% of the Covered Aircraft fail to operate Scheduled Flights for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any event of force majeure. Force majeure is defined to include any cessation, slow-down or interruption of work or any other labour disturbance;
- failure by Jazz to meet certain performance criteria;
- any change of control of Jazz (other than in favour of the Fund) without the consent of Air Canada;
- a default by Jazz with respect to any material term, including the payment of any amount due, under any material agreement to which Jazz is a party if such default continues for more than the allotted period of grace, if any;
- a default by Air Canada or Jazz with respect to a material term of any other material agreement between Jazz and Air Canada, if such default continues for more than the allotted period of grace, if any;
- failure by Jazz to maintain adequate insurance; and
- failure by Jazz to comply with Air Canada's audit and inspection rights.

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

The CPA also provides that in the event that the CPA terminates prior to the expiry or termination of any lease, sublease or loan arrangement relating to the Covered Aircraft or the Spare Engines, the return condition obligations (including any credit) referred to above under "Return of Aircraft" for all such leases, subleases and loan arrangements shall be calculated as of the termination date of the CPA. Air Canada shall, concurrently with the termination of the CPA, pay to Jazz an amount equal to such return condition obligations.

## **Other Agreements with Air Canada**

### *Master Services Agreement*

In addition to the CPA, Jazz and Air Canada have entered into a master services agreement dated September 24, 2004 (the "MSA") pursuant to which Air Canada provides certain services to Jazz in return for a fee based on the fair market value of the services provided by Air Canada to Jazz. The services contemplated by the MSA provide Jazz with infrastructure support and are mostly administrative in nature, including information technology, insurance and tax services, corporate real estate, environmental affairs and legal services. The most significant services relate to information technology whereby Jazz benefits from the agreements signed by Air Canada with each of IBM and BCE Nexxia, as well as Air Canada's internal information technology resources.

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

### *ACGHS Agreement*

On September 24, 2004, ACGHS and Jazz entered into an agreement pursuant to which ACGHS provides certain aircraft related ground handling services to Jazz. Effective January 1, 2006, such agreement was replaced by the ground handling services agreement (the "ACGHS Agreement") dated September 26, 2005 between Jazz and ACGHS. Pursuant to the ACGHS Agreement, ACGHS has agreed to provide certain aircraft related ground handling services to Jazz, including baggage handling and processing, baggage, cargo and mail loading and uploading, and aircraft servicing at 18 airports in Canada.

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

The initial term of the ACGHS Agreement expires on December 31, 2010, subject to automatic renewal for additional three-year periods at the end of the initial term and each renewal term unless Jazz or ACGHS provides notice of its intention not to renew the agreement at least one year prior to the initial term or any renewal term. However, the fees charged under the ACGHS Agreement are only fixed through December 31, 2008. If by September 30, 2008, Jazz and ACGHS are unable to reach an agreement with respect to the fees applicable for the period from January 1, 2009 to December 31, 2010, the ACGHS Agreement will automatically terminate on December 31, 2008. For any renewal term, Jazz and ACGHS shall also agree on the fees applicable for such term.

### *ACTS Agreements*

Pursuant to the component maintenance agreement (the "ACTS Agreement") dated August 1, 2005 between Jazz and ACTS, ACTS has agreed to provide selected maintenance, repair, overhaul and related services with respect to Jazz's CRJ regional jets. According to the ACTS Agreement, ACTS serves as Jazz's exclusive repair agency to provide component repair and overhaul work on parts which can be removed from the aircraft in respect of CRJ-100/200 and common CRJ-705 parts not performed internally by Jazz employees. Fixed fees are paid by Jazz for such services based on the hours in which the regional jets are in operation.

The initial term of the ACTS Agreement expires in August 2015 and it is renewable for three successive two-year periods. However, beginning in August 2008, either Jazz or ACTS may terminate the ACTS Agreement upon 180 days' prior written notice.

On February 26, 2008, ACTS and Jazz entered into two agreements both effective January 1, 2007. One agreement is for CF34-3A1 engine maintenance and the other is for CF34-3B1 engine maintenance. According to both agreements, ACTS is the exclusive engine overhaul provider for certain of Jazz's CF34-3A1 and CF34-3B1 engines. Fees are paid by Jazz for every hour an engine operates. The agreements both expire on December 31, 2015.

#### *Trademark Agreements*

Pursuant to a trademark license agreement dated September 30, 2004 entered into between Air Canada and Jazz (the "Trademark License Agreement"), Air Canada has granted Jazz a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks owned or registered by Air Canada around the world including Jazz and those which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the Jazz business. The Trademark License Agreement can be terminated in the event the CPA is terminated. However, Air Canada and Jazz have also entered into a special trademark agreement on September 30, 2004 (the "Special Trademark Agreement") which would grant all of Air Canada's rights to the Jazz trademark to Jazz (and preclude Air Canada from using the Jazz trademark or licensing the Jazz trademark to third parties) on the occurrence of certain events involving (i) the expiration or termination of the CPA if, at such time, Jazz is no longer an affiliate of Air Canada; (ii) the occurrence of a change of control pursuant to which Jazz ceases to be an affiliate of Air Canada if, at or prior to such time, the CPA has expired or has been terminated; or (iii) the sale or transfer of all or substantially all of the assets or business of Jazz to a third party that is not an affiliate of Air Canada if, at or prior to such time, the CPA has expired or has been terminated.

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

Jazz operates both domestic and transborder services for Air Canada under the CPA. Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 825 departures per weekday to 57 destinations in Canada and 27 destinations in the United States. At peak demand periods in 2007, Jazz completed scheduled passenger service on behalf of Air Canada with approximately 877 departures per weekday.

With 84 destinations served throughout North America, the current Jazz route network extends coast to coast in Canada from British Columbia to Newfoundland and Labrador, and into the United States as far south as Houston, Texas and Sacramento, California. Jazz's route network represents one of the largest geographical territories operated by a regional carrier.

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

As a key part of the overall Air Canada network, Jazz has an important presence at the major Air Canada hubs located in Toronto, Vancouver, Montreal and Calgary, each of which has extensive access to domestic, transborder and international markets. Jazz flies to destinations in Canada and the United States from each such hub. The Jazz network provides substantial volumes of feed or network revenue to or from Air Canada as approximately 34% of Jazz's traffic connects to the Air Canada mainline network.

Toronto Pearson is the most vital hub in Canada and a significant airline origin and destination market in North America. As of December 31, 2007, Jazz operated 123 departures per weekday from Toronto. Vancouver International Airport is the second largest hub in Canada and is Air Canada's gateway to the Pacific rim. As of December 31, 2007, Jazz operated 86 weekday departures from Vancouver International Airport. Montreal's Pierre-Elliott Trudeau International Airport is the third most important hub in the Air Canada network. As of December 31, 2007, Jazz operated 79 weekday departures from Montreal. Calgary International Airport is Air Canada's fourth most important hub. As of December 31, 2007, Jazz operated 58 weekday departures from Calgary.

## **Environmental Matters**

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

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

## **Logos and Trademarks**

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

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

## **Competition**

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

Jazz's fleet is ten times larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of primarily turboprop aircraft, most of which operate aircraft in the 19 to 50 seat range. These carriers operate primarily independent services, flying in niche markets. Few other regional airlines in Canada operate under capacity purchase agreements, and those who do have relationships with Air Canada for turboprop aircraft with 19 seats or less. None of these carriers approach the size and scope of operation of Jazz as their fleets usually have less than 15 aircraft. These smaller regional carriers include Central Mountain Air, Hawkair, Pacific Coastal Airlines, Corporate Express, and Transwest Air in Western Canada; Calm Air, Air Creebec and Porter Airlines in Central Canada; Provincial Airlines and Air Labrador in Atlantic Canada; and First Air, Air Norterra and Air Inuit in Canada's North. Low-cost carrier WestJet also competes with Air Canada on certain routes in Canada operated by Jazz.

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

## **Facilities**

Jazz owns two buildings, one in Halifax, where Jazz's Chief Executive Offices are located and one in London, Ontario. Jazz carries on heavy maintenance, repair and overhaul operations at both of its Halifax and London, Ontario facilities. The Halifax facility is located at the Halifax Robert L. Stanfield International Airport and is comprised of approximately 133,000 square feet of office and hangar space. The London, Ontario facility is

located at the London Airport and is comprised of approximately 83,800 square feet of office and hangar space. The land comprising Jazz's Halifax and London, Ontario facilities is leased from the airport authorities.

Jazz also leases other facilities and the following describes the four principal leased facilities of Jazz and two smaller facilities. The first five are leased from Air Canada:

<u>Description</u>	<u>Square Feet</u>	<u>Expiry Date</u>
Hangar, parking and office space at Toronto Pearson .....	187,713	February 28, 2010
Hangar and office space at Vancouver International Airport.....	86,554	August 31, 2010
Hangar and office space at Calgary International Airport .....	91,964	Lease expired; new lease expiring May 31, 2011, pending approval.
Hangar and office space at Montreal-Pierre Elliott Trudeau International Airport.....	86,213	Lease expired, new lease expiring December 31, 2014 pending approval
Jazz GSE Shop Hangar A at Toronto Pearson.....	2,904	December 31, 2010
Office space at Airway Center at Toronto .....	21,779	August 31, 2010

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

### **Debt Financing**

On November 25, 2005, Jazz entered into a commitment letter with CIBC World Markets Inc.'s and RBC Dominion Securities Inc.'s parent Canadian chartered banks in respect of the establishment of \$150.0 million senior secured syndicated credit facilities (the "Credit Facilities"). The credit facilities made available to Jazz LP consisted of one \$115.0 million (or the U.S. dollar equivalent thereof) term facility (the "Term Facility"), and a \$35.0 million (or the U.S. dollar equivalent thereof) revolving credit facility (the "Revolving Facility"), subject to the satisfaction of certain customary conditions, including the completion of the Initial Public Offering. The Credit Facilities were entered into on February 2, 2006 for a three year term.

The Credit Facilities were provided by a syndicate of lenders (the "Lenders") with RBC Dominion Securities Inc.'s parent bank acting as the administrative agent (the "Agent"). Each of the Term Facility and the Revolving Facility had an initial three-year term. On each anniversary of the closing of the Initial Public Offering, the term of the Revolving Facility can be extended at Jazz LP's request for additional one-year periods, subject to prior approval by Lenders holding no less than two-thirds of the total commitment under the Revolving Facility. During the first quarter of 2007, the lenders approved a one year extension of the initial term to February 1, 2010.

Advances under the Credit Facilities bear interest at the prevailing prime rate, U.S. base rate, bankers' acceptance rate or LIBOR plus, in each case, an applicable margin to those rates that will initially vary between 1.75% and 3.75 % depending on the type of advance and Jazz's quarterly total debt to EBITDA ratios. In addition, a commitment fee was payable based on the unused amount of the Revolving Facility calculated daily and payable quarterly in arrears.

The Term Facility was available in one drawdown only on the closing of the Initial Public Offering to repay a portion of the Acquisition Promissory Note, to repay other existing term indebtedness and for general working capital purposes. The Revolving Facility was available on the closing of the Initial Public Offering for

general corporate and working capital purposes. A swingline facility of up to \$5.0 million was also provided exclusively by the Agent as a sub-component of the Revolving Facility for cash management and working capital purposes. On the closing of the Initial Public Offering, Jazz LP drew \$115.0 million under the Term Facility which remains drawn as of December 31, 2007 along with \$2.9 million in letters of credit issued as security with certain suppliers and drawn against the Revolving Facility.

The Credit Facilities are secured by a first priority security interest and hypothec over the present and after-acquired personal and certain real property of Jazz LP, subject to certain exclusions and permitted liens. Jazz LP's obligations in respect of the Credit Facilities is guaranteed by each of the Trust and Jazz GP, with the Trust providing a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations, and with Jazz GP providing a pledge of its interests in Jazz LP as security for its guarantee obligations. The Fund provides certain covenants in favour of the Lenders pursuant to a collateral covenant agreement.

The Credit Facilities contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations on paying distributions.

The terms of the Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz LP to holders of record of LP Units during any twelve-month period from exceeding the aggregate Distributable Cash (as defined herein) of Jazz LP during such period. Distributions by Jazz LP are also prohibited upon the occurrence and continuance of an event of default under the Credit Facilities.

The Credit Facilities also contain various financial covenants outlined as follows:

<b>Ratio</b>	<b>Result</b>
Leverage (EBITDA/Debt)	In compliance
Interest coverage (Interest expense / EBITDA)	In compliance
Adjusted leverage <sup>(1)</sup>	In compliance
Adjusted interest coverage <sup>(1)</sup>	In compliance

(1) Adjusted leverage and adjusted interest coverage ratios include the add-back of other non-CPA related facilities and aircraft expense.

In the fourth quarter of 2007, Jazz 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 the following financial covenants:

<b>Covenant</b>	<b>Result</b>
Minimum cash balance	In compliance
Tangible asset disposal	In compliance

## **REGULATORY ENVIRONMENT**

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, safety and ground and navigation facilities, falls wholly within the jurisdiction of the federal government and is the responsibility of the Minister of Transport. The Canadian Transportation Agency is responsible for issuing air carrier licenses for both domestic and international services and regulates international air fares as well as terms and conditions of carriage. Since 1996, NAV Canada, a private sector, non-share capital corporation financed through

publicly-traded debt, is responsible for providing air navigation services in Canada. All major Canadian airports are operated by Canadian airport authorities that are not-for-profit corporations.

### **Domestic Services**

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

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

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

In addition, on November 2, 2004, the Minister of Industry tabled amendments to the *Competition Act* in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the *Competition Act*. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. On October 16, 2007, private Bill C-454 containing provisions to remove the airline-specific "abuse of dominance" provisions from the *Competition Act* was tabled for the first reading in the House of Commons. Management cannot predict if or when such proposed legislation will come into force.

On April 27, 2004, the Government of Canada amended the *Canadian Computer Reservation Systems (CRS) Regulations* adopted under the *Aeronautics Act* (Canada) to lessen the regulatory requirements and place greater reliance on market forces in the distribution system in part to generate greater market efficiencies and reduced costs for airlines. With the amendments, no airline is required to participate in all CRSs operating in Canada and every airline has the freedom to select the levels of participation that best serve its operations. Also, all airlines and CRS vendors are now permitted to freely negotiate fees on strictly commercial terms.

On June 15, 2006, Bill C-20, An Act respecting airports, airport authorities and other airport operators and amending the *Transportation Appeal Tribunal of Canada Act*, was tabled for first reading in the House of Commons. Bill C-20 provides for, among other things, a declaration of Canadian airport policy, a number of basic obligations of airport operators and the powers and capacity of airport authorities and the scope of their activities. Bill C-20 also introduces principles affecting airport users such as slot allocation and a framework for the fees imposed by large airport authorities. Bill-20 was not re-introduced in the 39<sup>th</sup> Parliament – 2<sup>nd</sup> Session and Management cannot predict if or when such proposed legislation will re-introduced in the House of Commons or, if re-introduced, if or when it will come into force.

On June 22, 2007, Bill C-11, *An Act to amend the Canada Transportation Act and the Railway Safety Act* and to make consequential amendments to other Acts (Canada), received royal assent and is now into force except for the provision which seek to amend the rules relating to the advertising of prices for air services. Management cannot predict if or when the provisions on the advertising of prices for air services will come into force. Bill C-11, among other things, amends the CTA with respect to the air transportation sector, in relation to complaints

processes, the disclosure of terms and conditions of carriage, and specific recognition that in the event of an inconsistency or conflict between an international agreement or convention respecting air services to which Canada is a party and the *Competition Act*, the provisions of the agreement or convention prevail to the extent of the inconsistency or conflict.

On October 19, 2006, the federal government tabled the Clean Air Act with the intention to strengthen the legislative basis for taking action on reducing air pollution and greenhouse gases. On October 21, 2006, the federal government published in the Canada Gazette Part I, Notice of intent to develop and implement regulations and other measures to reduce air emissions. At this time there are no specific targets for aviation emissions.

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

### **Transborder Services**

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

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

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

In the United States, the Federal Administration Authority ("FAA") prohibits a United States certificated air carrier from wet leasing an aircraft from a foreign licensed air carrier. A wet lease is an arrangement whereby a carrier leases an aircraft together with crew to operate the aircraft. Until March 24, 2008, this rule would extend to prohibit a capacity purchase type of agreement whereby a United States air carrier would buy and hold out in its own name all of the capacity of an aircraft operated by a foreign air carrier. Effective March 24, 2008, the United States Department of Transportation ("DOT") published a Notice concerning its policy on leasing arrangements between United States certificated air carriers and non-United States air carriers. The policy has now been changed to relax the prohibition. Contracts for non-United States airlines to provide aircraft and crew will now be permitted if, on application to the DOT, it is determined the non-United States air carrier meets the regulatory criteria. Flying operated under such newly permitted contracts cannot include point-to-point flying within the United States.

## Charter Services

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

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

## Official Languages Act

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

In September 2004, as a result of the emergence of Air Canada and the Predecessor Company from protection under the CCAA, several internal divisions and former subsidiaries of Air Canada were spun off into limited partnerships under the direct or indirect control of ACE Aviation. While the linguistic obligations stated above continue to apply to Air Canada itself, ACE Aviation and the successor entities it owns or owned are not currently subject to official language obligations, except that pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

On May 2, 2005, Bill C-47, *An Act to amend the Air Canada Public Participation Act* (Canada) ("Bill C-47"), was tabled in the House of Commons. On November 3, 2005, Bill C-47 passed second reading and was referred to the Standing Committee on Transport. Bill C-47 sought to amend existing legislation to ensure that Air Canada's successor entities are subject to official language requirements. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-47 was terminated. On December 10, 2007, Bill C-36, *An Act to amend the Air Canada Public Participation Act* (Canada) ("Bill C-36") was tabled in the House of Commons. Bill C-36 proposes provisions on official languages similar to those contained in Bill C-47. Management cannot predict if or when such proposed legislation will come into force.

## Security Initiatives

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

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

charge was introduced on April 1, 2002. The charges have been revised in subsequent federal budgets. Since April 1, 2005, the maximum charge is \$10 for domestic travel and \$17 for transborder and international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by regulation to provide the Canada Border Services Agency with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide access to passenger name records in the carriers' internal reservation systems. Foreign countries including the United States have enacted and have established similar information requirements with respect to flights operating into and/or from their territory.

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

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

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

### **Safety Initiatives**

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

Jazz implemented a safety management system in accordance with the recent amendments to the *Canadian Aviation Regulations*. The President and Chief Executive Officer, Joseph D. Randell, has been appointed as the executive currently accountable for Jazz's safety management system and Jazz's Director of Corporate Safety is responsible for the implementation of the safety management system. Jazz is in compliance or surpasses all regulatory requirements.

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

## Privacy

Jazz is subject to applicable Canadian and United States privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. Among other things, Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* (Canada) (the "PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities by a federally regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally regulated employers. Subject to certain exceptions, the PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders and within provinces without substantially similar private sector privacy legislation. The PIPEDA requires informed consent by the individuals whose personal information is collected and used. The personal information may then only be used for the purposes for which it was originally collected or for other purposes specified in, or allowed by, the PIPEDA. Jazz has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Management believes that its privacy policy and practices comply with applicable law in Canada and the United States.

## DESCRIPTION OF THE FUND

### General

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

### Activities of the Fund

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

- (i) acquiring, investing in, transferring, disposing of, and otherwise dealing with securities issued by the Trust or a wholly-owned subsidiary of the Fund which is a "Canadian corporation" (within the meaning of the Tax Act) ("ExchangeCo");
- (ii) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to the holders of Units of the Fund (the "Unitholders");
- (iii) issuing Units or securities convertible into Units, including for the following purpose of (i) obtaining funds to conduct the activities of the Fund, including raising funds for acquisition (ii) satisfying non-cash distributions to Unitholders, (iii) implementing any unitholder rights plan, unit purchase plans, distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, or (iv) giving effect to the rights of exchange under the Investor Liquidity Agreement;
- (iv) issuing debt securities (including debt securities convertible into or exchangeable for Units or other securities of the Fund) or otherwise borrowing and mortgaging, hypothecating, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;

- (v) guaranteeing the payment of any indebtedness, liability or obligation of Jazz LP, Jazz GP or their respective subsidiaries or the performance of any obligation of any of them, and mortgaging, hypothecating, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness, in each case to the extent permitted under the *Tax Act*;
- (vi) disposing of any part of the assets of the Fund;
- (vii) purchasing securities pursuant to any issuer bid made by the Fund;
- (viii) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (ix) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the trustees of the Fund (each a "Trustee" and collectively, the "Trustees") from time to time, or as are contemplated by the Fund Declaration of Trust,

provided that the Fund will not undertake any activity, take any action, omit to take any action or make or retain any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act, or would result in the Units being treated as "foreign property" for the purposes of the Tax Act.

### **Units**

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

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

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

### **Issuance of Units**

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

## Trustees

The Fund has a minimum of three Trustees and a maximum of ten Trustees, all of whom must be Canadian within the meaning of the CTA. In addition, the *Tax Act* requires that the Fund be a resident in Canada within the meaning of the *Tax Act*. The Trustees are to supervise the activities, and manage the affairs, of the Fund. Katherine M. Lee, G. Ross MacCormack and Richard H. McCoy are the current trustees of the Fund.

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

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

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

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

The Fund Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee is entitled to indemnification from the Fund in respect of the exercise of the Trustee's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all the Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful.

## **Officers**

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

## **Cash Distributions**

The Fund intends to make distributions of its available cash to the maximum extent possible to the Unitholders. The Fund intends to make equal monthly cash distributions to Unitholders of record on the last business day of each month, less estimated cash amounts required for expenses and other obligations of the Fund, including any tax liability, and cash redemptions of Units.

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

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

The Fund intends to make monthly cash distributions to Unitholders of record on the last business day of each month, and the distributions are paid no later than the last business day of the following month.

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

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

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

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

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

- (iii) an amount equal to the volume weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;
- (iv) an amount equal to the volume weighted average of the closing prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten

consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a volume weighted average trading price; or

- (v) if there was trading on the applicable exchange or market for fewer than five of the ten trading days, an amount equal to the volume weighted average of the following prices established for each of the ten consecutive trading days ending on such date: the volume weighted average of the last bid and last asking prices of the Units for each day on which there was no trading; the volume closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the volume weighted average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

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

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

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

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

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption shall, subject to any applicable regulatory approvals (which the Fund shall use reasonable commercial efforts to obtain forthwith), be redeemed by way of a distribution in specie. In such circumstances, Series 1 Trust Notes and Trust Units of a value as determined by the Trustees equal to the Redemption Price will be redeemed by the Trust in consideration of the issuance to the Fund of Series 3 Trust Notes and Series 2 Trust Notes, respectively. The Series 2 Trust Notes and the Series 3 Trust Notes will then be

transferred to ExchangeCo, in exchange for Series 2 Exchange Notes and Series 3 Exchange Notes (collectively, the "Exchange Notes"), respectively. The Series 2 Exchange Notes and Series 3 Exchange Notes will have terms similar to the Series 2 Trust Notes and Series 3 Trust Notes, respectively, except that the interest rates on the Series 2 Exchange Notes and Series 3 Exchange Notes will be 0.05% less than the interest rates on the Series 2 Trust Notes and Series 3 Trust Notes. The Exchange Notes will then be distributed in satisfaction of the Redemption Price. No fractional Exchange Notes in integral multiples of less than \$100 will be distributed and, where the number of securities to be received by a Unitholder includes a fraction or a multiple less than \$100, that number shall be rounded to the next lowest whole number or integral multiple of \$100 and the balance shall be paid by cheque. The Fund will be entitled to all interest paid or accrued and unpaid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities on the redemption of Units of a Unitholder, the Trustees currently intend to make payable and designate to that Unitholder any income or capital gain realized as a result of any disposition of property by the Fund undertaken to facilitate the redemption of the Unitholder's Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Exchange Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Exchange Notes and they may be subject to resale restrictions under applicable securities laws. Exchange Notes so distributed may not be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act (collectively, the "Plans"), depending on the circumstances at the time.

### **Repurchase of Units**

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

### **Meetings of Unitholders**

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

- the election or removal of Trustees;
- the election or removal of nominees of the Fund chosen by the Unitholders to serve as trustees of the Trust (except filling casual vacancies);
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under "Amendments to the Fund Declaration of Trust");
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;

- the exercise of certain voting rights attached to the securities of the Trust held by the Fund (as set out under "Description of the Fund — Exercise of Certain Voting Rights Attached to Securities of the Trust" below);
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Unitholder approval;
- the dissolution of the Fund prior to the end of its term; and
- any other matters required by securities law, stock exchange rules or other applicable laws or regulations to be submitted to Unitholders for their approval,

provided that the Unitholders shall not pass any resolution that would cause the Fund or the Trust to breach the terms of the Investor Liquidity Agreement (as defined herein).

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

A resolution electing or removing nominees of the Fund to serve as trustees of the Trust (except filling casual vacancies) or with respect to the exercise of certain voting rights attached to the securities of the Trust held by the Fund, and a resolution appointing or removing the Trustees or the auditors of the Fund must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Units who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the Units entitled to vote on such resolution.

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

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy holder need not be a Unitholder. Two persons present in person or represented by proxy and representing in total at least 10% of the votes attached to all outstanding Units will constitute a quorum for the transaction of business at all meetings.

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

### **Voting Rights**

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

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

- if more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding Units (determined on a fully diluted basis) are not owned and controlled by Qualified Canadians, the vote attaching to each Unit that is not owned and controlled by a Qualified Canadian will decrease automatically by such amount as is necessary to ensure that the

aggregate number of votes attaching to all outstanding Units that are not owned and controlled by Qualified Canadians does not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate number of outstanding votes attaching to all outstanding Units; and

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

### **Limitation on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, for so long as is required by the Tax Act to meet such test, the Fund Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49.9% of the Units. This 49.9% limitation will be applied with respect to the issued and outstanding Units on both (i) a non-diluted basis and (ii) a fully-diluted basis calculated on the assumption that any Units issuable at the time of calculation to ACE Aviation pursuant to the Investor Liquidity Agreement have been issued and are held by ACE Aviation.

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

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

Non-Resident Beneficiaries within such period, the Trustees may sell such Units on behalf of such Unitholders, and in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such sale, the affected holders shall cease to be Unitholders and their rights shall be limited to receiving the net proceeds of sale.

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

### **Additional Limitations**

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

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

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

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

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

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

### **Term of the Fund**

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

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

### **Take-over Bids**

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

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

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

- any sale, lease or other disposition of all or substantially all of the assets of the Trust or Jazz LP except in conjunction with an internal reorganization of the Trust or Jazz LP;
- any amalgamation, arrangement or other merger of the Trust or Jazz LP with any other entity, except in conjunction with an internal reorganization of the Trust or Jazz LP;
- any material amendment to a trust indenture entered into as of the closing of the Initial Public Offering between the Trust and a trustee (the "Trust Note Indenture") other than in contemplation of a further issuance of Trust Notes to the Fund that are identical in all respects to the Trust Notes issued in connection with the Initial Public Offering or in conjunction with an internal reorganization of the Trust or Jazz LP;
- the winding-up or dissolution of the Trust or Jazz LP prior to the end of the term of the Fund; or
- any material amendment to the constating documents of the Trust or Jazz LP to change the authorized share capital or partnership interests which may be prejudicial to the Fund.

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

## Information and Reports

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

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

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

## Book-Entry System

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

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

## Conflicts of Interest Restrictions and Provisions

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

## Rights of Unitholders

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

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Fund Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect

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

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

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

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

## **DESCRIPTION OF THE TRUST**

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

### **General**

The Trust is an unincorporated, open-ended trust established under the laws of the Province of Ontario pursuant to the Trust Declaration of Trust. The Trust will have a minimum of three trustees and a maximum of ten trustees, all of whom must be Canadians within the meaning of the CTA. In addition, the Tax Act requires that the

Trust be a resident in Canada and, to this end, the Trust Declaration of Trust provides that a majority of the trustees of the Trust (the "Trust's Trustees") must be residents of Canada within the meaning of the Tax Act. The activities of the Trust are restricted to, among other things:

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

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

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

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

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

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

- take any action upon any matter which under applicable law (including policies of the Canadian securities regulatory authorities) or applicable stock exchange rules would require approval by Special Resolution or super-majority (as defined or described therein) of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading;
- materially amend the Trust Declaration of Trust except in certain limited circumstances similar to those under which the Fund Declaration of Trust may be amended without the consent of Unitholders;
- materially amend the Jazz LP Partnership Agreement;

- materially amend the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes or in connection with an internal reorganization of the Trust or Jazz LP;
- sell, lease or exchange all or substantially all of the property of the Trust or Jazz LP other than in the ordinary course of business or in connection with an internal reorganization of the Trust or Jazz LP;
- authorize the termination, liquidation or winding-up of the Trust or Jazz LP, other than at the end of the term of the Trust; or
- authorize the amalgamation, arrangement, merger or similar transaction of the Trust or Jazz LP with any other person, except in connection with an internal reorganization of the Trust or Jazz LP.

### **Redemption Right**

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

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

Where:

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

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

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

time prior to the payment of the redemption price, to receive Series 2 Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$100 and the balance shall be paid by cheque.

### **Cash Distributions**

The Trust intends to make monthly cash distributions to the Fund of its net monthly cash receipts, after satisfaction of its interest obligations, if any, and less any estimated cash amounts required for expenses and other obligations of the Trust, any cash redemptions or repurchases of Trust Units or Trust Notes and any tax liability. Such distributions will be paid within ten days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders.

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

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

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

### **Trust Notes**

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

As of March 28, 2008, \$1,033,968,524.45 principal amount of Series 1 Trust Notes have been issued by the Trust to the Fund as a result of the Initial Public Offering and the exercise by ACE Aviation on February 9, 2007, March 14, 2007 and March 30, 2007 of its right under the Investor Liquidity Agreement to exchange its LP Units and Jazz GP common shares into Units.

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

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

## **Interest and Maturity**

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

### *Payment upon Maturity*

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

### *Redemption*

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

### *Subordination*

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

### *Default*

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

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

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

## **Unit Certificates**

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

## **Meetings of Unitholders**

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

## **DESCRIPTION OF JAZZ LP**

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

### **Capitalization**

Jazz LP may issue an unlimited number of LP Units to any person. The Jazz LP Partnership Agreement authorizes Jazz GP to cause Jazz LP to issue additional LP Units for any consideration and on any terms and conditions as are established by Jazz GP. See "Acquisition, Subscription, Liquidity and Security Holders' Agreement".

### **Distributions**

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

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

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

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

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

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

with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Jazz LP to that partner.

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

### **Limited Liability**

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

### **Transfer of LP Units**

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

### **Amendment**

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

Notwithstanding the foregoing,

- no amendment which would adversely affect the rights and obligations of Jazz GP, as general partner, may be made without its consent; and
- Jazz GP may make amendments to the Jazz LP Partnership Agreement to reflect: (i) a change in the name of Jazz LP or the location of the principal place of business of Jazz LP or the registered office of Jazz LP; (ii) a change in the governing law of the partnership to that of any other province of Canada; (iii) admission, substitution, withdrawal or removal of limited partners in accordance with the Jazz LP Partnership Agreement; (iv) a change that, as determined by Jazz GP, is reasonable, necessary or appropriate to qualify, or continue the qualification of, Jazz LP as a limited partnership in which the limited partners have limited liability under the applicable laws; (v) a change that, as determined by Jazz GP, is reasonable, necessary or appropriate to enable Jazz LP to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Jazz LP Partnership Agreement which may be defective or inconsistent with any other provision contained in the Jazz LP Partnership Agreement or which should be made to make the Jazz LP Partnership Agreement consistent with the disclosure set out in the Fund's prospectus dated January 25, 2006 prepared in connection with the Initial Public Offering; or (vii) a change that, as determined by Jazz GP, does not materially adversely affect the limited partners.

## **Meetings and Voting Rights**

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

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

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

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

## **DESCRIPTION OF JAZZ GP**

### **Functions and Powers of Jazz GP**

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

### **Withdrawal or Removal of Jazz GP**

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

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

### **Share Capital and CTA Restrictions**

In order to ensure compliance with the restrictions of the CTA, the share capital of Jazz GP is composed of an unlimited number of Class A variable voting shares, an unlimited number of Class B voting shares, an unlimited number of Class A preferred shares and an unlimited number of Class B preferred shares. The Class A variable voting shares may only be held, beneficially owned or controlled by persons who are not Qualified Canadians and the Class B voting shares may only be held, beneficially owned and controlled by persons who are Qualified Canadians. The Class A preferred shares and the Class B preferred shares are non-voting. Upon completion at closing of the Initial Public Offering of the transactions described under "Acquisition, Subscription, Liquidity and Security Holders' Agreement", the only outstanding shares in the capital of Jazz GP will be Class B voting shares.

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

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

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

## PEOPLE

For the year ended December 31, 2007, Jazz had an average of 4,450 full time equivalent ("FTE") employees compared to an average of 4,144 FTE employees for 2006. This reflects a 7.4% increase from 2006, as shown in the table below:

	Union	Year ended December 31, 2007	Year ended December 31, 2006 (1)	Change	Change %
Pilots (2)	ALPA	1,337	1,258	79	6.3
Technical Services	CAW	818	773	45	5.8
Customer Service Agents	CAW	728	680	48	7.1
Flight Attendants	Teamsters	750	694	56	8.1
Management (2)	–	466	424	42	9.9
Administrative and Technical Support	–	265	237	28	11.8
Dispatchers	CALDA	56	53	3	5.7
Crew Scheduling	CAW	30	25	5	20.0
		4,450	4,144	306	7.4

(1) Comparative figures have been restated to conform to current presentation.

(2) 2006 comparative figures have been restated to reflect 17 management pilots previously included in Airline Pilot Association ("ALPA") which are now included in management.

Management carefully monitors growth and these employment increases are considered appropriate in comparison with capacity growth of 8.6% as measured by ASMs, for the year ended December 31, 2007.

All collective agreement wage reviews have now been concluded and are in place until mid year 2009. The wage increases awarded ranged from 1% to 1.75% until 2009.

## RISK FACTORS

### Risks Relating to the Relationship with Air Canada

#### *Dependence on Air Canada*

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

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

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft;
- fuel costs, which since 2005 have increased to and fluctuated near or at historically high levels, constitute a significant portion of Air Canada's operating expenses;
- labour conflicts or disruptions can have a material adverse effect on Air Canada's business, results from operations and financial condition;

- the airline industry is highly competitive and subject to price discounting; and
- the risk factors described under "Risks Relating to the Industry".

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

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

#### *Termination of the CPA*

Substantially all of Jazz's current revenues are received pursuant to the CPA with Air Canada which currently covers all of Jazz's existing operating fleet (except four Dash 8 aircraft as of March 28, 2008). The CPA will terminate on December 31, 2015 and is subject to renewal on terms to be negotiated for two additional periods of five years unless either party terminates the agreement by providing a notice not less than one year prior to December 31, 2015 or the end of the first renewal term. In addition, either party is entitled to terminate the CPA at any time upon the occurrence of an event of default. Events of default include, without limitation:

- bankruptcy or insolvency of the other party;
- suspension or revocation of Jazz's right to operate as a scheduled airline;
- any amounts payable by Air Canada or Jazz pursuant to the CPA are not paid when due, and such default continues for a period of 30 days after notice;
- failure by Air Canada or Jazz to comply with any of its obligations pursuant to the CPA and such default continues for a period of 30 days after notice;
- more than 50% of the Covered Aircraft fail to operate Scheduled Flights for more than seven consecutive days or 25% of the Covered Aircraft fail to operate Scheduled Flights for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any event of force majeure (including any cessation, slow-down, interruption of work or any other labour disturbance);
- failure by Jazz to meet certain performance criteria;
- a default by Jazz with respect to any material term, including the payment of any amount due, under any material agreement to which Jazz is a party if such default continues for more than the allotted period of grace, if any;
- a default by Air Canada or Jazz with respect to a material term of any other material agreement between Jazz and Air Canada and such default continues for more than the allotted period of grace, if any;
- failure by Jazz to maintain adequate insurance; and
- failure by Jazz to comply with Air Canada's audit and inspection rights.

If the CPA is terminated, Jazz's revenue and earnings would be significantly reduced or eliminated unless Jazz is able to enter into satisfactory substitute arrangements. There is no assurance that Jazz would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Jazz as the CPA.

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

The CPA provides that upon the expiry or termination of the CPA, other than termination as a result of a default by Jazz or Air Canada, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines shall automatically be terminated and Air Canada (or any affiliate of Air Canada) shall have the right to repossess the Covered Aircraft and the spare engines. There can be no assurance that Jazz will be able to find replacement aircraft. In the event that Jazz is able to find replacement aircraft, there can be no assurance that Jazz will be able to do so on terms as favourable as the terms of its current leases with Air Canada (or any affiliate of Air Canada). Unless Jazz is able to find replacement aircraft on reasonable terms, Jazz's ability to offer scheduled and charter flights to any carrier would be materially adversely affected, which would have a material adverse effect on Jazz's business, results from operations and financial condition.

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

#### *Access to Airport Facilities and Slots*

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

Jazz's inability to have appropriate access to sufficient airport facilities or slots or the possibility to do so with a significant cost increase would have a material adverse effect on Jazz's business, results from operations and financial condition.

#### *Reduced Utilization Levels*

While the CPA requires Air Canada to meet certain minimum utilization levels for Jazz's aircraft, Air Canada determines, in its sole discretion, which routes Jazz flies. If Air Canada was unable to find sufficient capacity for its own aircraft or was able to operate at a competitive cost compared to Jazz or use other suppliers at competitive cost, or for any other reason, Air Canada could reduce Jazz's flights to the minimum utilization levels or could require Jazz to fly its aircraft on routes that may under-utilize Jazz's aircraft capacity or may make it more difficult for Jazz to reach incentive targets and thus Jazz may earn less revenue under the CPA. Though Jazz would still be guaranteed a minimum revenue, if its aircraft were underutilized by Air Canada, Jazz would lose the ability to recover a margin on the direct operating costs of flights that would otherwise have been realized had Jazz's aircraft been more fully utilized. Jazz would also lose the opportunity to earn incentive compensation. The minimum average daily utilization guarantee will not apply in the event Jazz fails to reach the minimum number of Block Hours due to its own default or an inability to supply sufficient capacity. The minimum average daily utilization guarantee for the 2007 calendar year represented 339,375 Block Hours.

### *Force Majeure*

Air Canada's and Jazz's obligations under the CPA (other than any financial obligations) will be suspended if, and for so long as, any event of force majeure prevents a party from meeting its obligations pursuant to the CPA.

In addition, Air Canada and Jazz recognize that an event of force majeure may inadvertently result in one party being in default of a collective agreement to which it is a party. As a result of any event of force majeure that occurs during the term of the CPA, Air Canada and Jazz may decide to renegotiate certain terms of the CPA, including, without limitation, rates for the payment of fees by Air Canada, minimum capacity purchase guarantees as well as certain elements of the then current three-year, annual or seasonal operating plans and the long range fleet plan, including Block Hours and departures, ASMs, airports to which Jazz will operate and the number of Covered Aircraft. Such changes to the terms of the CPA, whether temporary or long-term, could have a material adverse effect on Jazz's business, results from operations and financial condition.

### *Replacement of Services Provided by Air Canada under the CPA and the MSA*

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

### *Changes in Costs and Fees*

Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated controllable costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue for each calendar year in the applicable period. Air Canada is responsible for scheduling and pricing the flights, and absorbs the risk of variations in ticket prices, passenger loads and fuel prices. The rates for some of these fees are fixed for each of the 2006 to 2008 calendar years and have been determined based on cost estimates for each of those calendar years and will only be revised in very particular circumstances by Jazz and Air Canada prior to then. If such controllable costs exceed Jazz's estimates, Jazz may realize decreased profits and even losses under the CPA, and may be unable to generate sufficient cash flow to pay its debts on time and Jazz may have to reduce its expansion plans. If any of these events occurs, Jazz's business, results from operations and financial condition could be materially adversely affected.

In 2008 and 2011, Jazz and Air Canada will establish rates for each of the succeeding three years. There can be no assurance that the estimates of the future costs will be accurate in any future reset. Such fees will also be measured against the median cost performance of a select group of United States regional airline operators between the twelve-month period ended June 30, 2007 and the twelve-month period ending December 31, 2009. If Jazz fails to improve its cost performance on a comparative basis with such group, its margin for the period commencing January 1, 2010 could be reduced regardless of whether it meets its own cost estimates.

### *ACPA Scope Clauses and Small Jets Settlement Agreement*

Air Canada's collective bargaining agreement with ACPA and the Small Jets Settlement Agreement entered into among Air Canada, Jazz, ACPA and the Air Line Pilots Association ("ALPA") limit the number of regional jet aircraft which can be operated by Jazz under its CPA with Air Canada. The Small Jets Settlement Agreement also prevents Jazz from operating the CRJ-705 aircraft if configured in excess of 75 seats, inclusive of all classes, and

sets out a minimum ratio of ASMs flown by Air Canada compared to the CPA ASMs flown by Jazz. These restrictions may cause Air Canada to reduce the level of capacity it purchases from Jazz under the CPA, prevent Jazz from expanding its market share, or impede Jazz's fleet development which could significantly reduce Jazz's expected growth, revenue and earnings. Jazz cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Jazz.

#### *Constraints on Jazz's Ability to Establish New Operations*

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

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

#### *Exclusivity Arrangements*

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

#### *Potential Conflicts with Air Canada*

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

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

Jazz may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Jazz.

#### *Limited Ability to Participate in Improved Market Conditions*

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

### *Star Alliance*

The strategic and commercial arrangements with Star Alliance™ members provide Air Canada with important benefits, including code-sharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave the Star Alliance™ or otherwise be unable to meet its obligations thereunder, it could result in a negative impact on the network of Air Canada and Jazz and Jazz's business, results from operations and financial condition could be materially adversely affected.

### **Risks Relating to Jazz**

#### *Employees*

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

#### *Labour Costs and Labour Relations*

Labour costs constitute the largest percentage of Jazz's total operating costs that are borne by Jazz. There can be no assurance that the estimates of Jazz's future labour costs will be accurate. If such costs exceed Jazz's estimates, Jazz may realize decreased profits or even losses under the CPA. Most of Jazz's employees are unionized and new or modified collective bargaining agreements were concluded in 2003 and 2004. No strikes or lock-outs may lawfully occur until after the agreements expire in 2009. However, there can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in Jazz's service. Any labour disruption or work stoppage could adversely affect the ability of Jazz to conduct its operations and have a material adverse effect on its ability to carry out its obligations under the CPA and on its business, results from operations and financial condition. There can be no assurance that future agreements with employees' unions will be on terms in line with Jazz's expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Jazz.

If there is a labour disruption or work stoppage by any of the unionized work groups of Air Canada, there would also likely be a material adverse effect on Jazz's business, results from operations and financial condition.

If there is a labour disruption or work stoppage by any unionized work group of Air Canada which provides services to Jazz under the CPA, Jazz may lose access to such services and there can be no assurance that sufficient replacement services could be obtained or that replacement services could be obtained on a cost effective basis.

#### *Condition to Labour Productivity Enhancements*

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

### *Leverage and Restrictive Covenants in Current and Future Indebtedness*

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

In addition, the Credit Facilities contain numerous restrictive covenants limiting the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Jazz to create liens or other encumbrances, to pay distributions on the LP Units of Jazz LP or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facilities contain a number of financial covenants that require Jazz to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a termination of distributions by Jazz and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facilities, including any possible hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of Jazz would be sufficient to repay in full that indebtedness. Jazz will have to refinance its available credit facilities or other debt and there can be no assurance that Jazz will be able to do so or be able to do so on terms as favourable as those presently in place. If Jazz is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on Jazz's financial position, which may result in a reduction or suspension of cash distributions to Unitholders of the Fund and cause taxable income for Unitholders of the Fund to exceed cash distributions. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive than the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of the Fund to pay cash distributions and cause taxable income for Unitholders of the Fund to exceed cash distributions.

### *Reliance on Key Personnel*

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

## **Risks Relating to the Industry**

### *Impact of Competition on Air Canada's Need to Utilize Jazz's Services*

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

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

### *Impact of Increased Competition in the Regional Airline Industry on Jazz's Growth Opportunities*

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

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

### *Economic and Geopolitical Conditions*

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

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

### *Airline Industry Characterized by Low Gross Profit Margins and High Fixed Costs*

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

### *Terrorist Attacks*

The September 11, 2001 terrorist attacks and subsequent terrorist activity, notably in the Middle East, Southeast Asia and Europe, have caused uncertainty in the minds of the traveling public. The occurrence of a major terrorist attack (whether domestic or international and whether involving Air Canada, Jazz, another carrier or no carrier at all) and increasingly restrictive security measures, such as the current restrictions on the content of carry-

on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Jazz's flights. Though, under the terms of the CPA any resulting reduction in passenger revenues and/or increases in insurance and security costs is principally at Air Canada's risk, such an event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

#### *Severe Acute Respiratory Syndrome (SARS), Influenza or Other Epidemic Diseases*

As a result of the international outbreaks of Severe Acute Respiratory Syndrome in 2003, the World Health Organization (the "WHO") issued on April 23, 2003 a travel advisory, which was subsequently lifted on April 30, 2003, against non-essential travel to Toronto, Canada. The seven day WHO travel advisory relating to Toronto, the location of Air Canada's and Jazz's primary hub, and the international SARS outbreak had a significant adverse effect on passenger demand for air travel destinations served by Air Canada and Jazz, and on the number of passengers traveling on Air Canada's and Jazz's flights and resulted in a major negative impact on traffic on Air Canada's entire network. The WHO warns that there is a substantial risk of an influenza pandemic within the next few years. An outbreak of another epidemic disease such as Influenza (whether domestic or international) or a further WHO travel advisory (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Jazz's flights. Any resulting reduction in passenger revenues is principally at Air Canada's risk, such an event could have a material adverse effect on Jazz's business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

#### *Interruptions or Disruptions in Service*

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

#### *Dependence on Technology*

Jazz relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs, and operate its business. Proper implementation and operation of technology initiatives is fundamental to Jazz's ability to operate a profitable business. Jazz continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Jazz's ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Jazz's business, results from operations and financial condition.

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

#### *Seasonal Nature of the Business, Other Factors and Prior Performance*

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

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

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

### *Regulatory Matters*

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

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

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

On November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. On October 16, 2007, private Bill C-454 containing provisions to remove the airline-specific "abuse of dominance" provisions from the Competition Act was tabled for the first reading in the House of Commons. Management cannot predict if or when such proposed legislation will come into force.

In the event that the Commissioner of Competition commences inquiries or brings similar applications with respect to significant competitive domestic routes and such applications are successful, it could have a material adverse effect on Jazz's business, results from operations and financial condition.

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

### *Third Party War Risk Insurance*

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

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

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

### *Casualty Losses*

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

## **Risks Related to the Structure of the Fund**

### *Dependence on Jazz*

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

### *Cash Distributions Are Not Guaranteed and Will Fluctuate with the Business Performance*

Although the Fund intends to distribute the interest received in respect of the trust notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Jazz's business or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and depends upon numerous factors, including Jazz's profitability and its ability to sustain operating cash flows and the fluctuations in Jazz's working capital and capital expenditures, all of which are susceptible to a number of risks.

If the Fund elects to convert from its current structure to a corporate structure, there can be no assurance that the Fund will maintain its current distribution policy and that dividends will be paid to its shareholders in amounts equivalent to the current monthly distributions paid to Unitholders.

#### *Nature of Units*

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

#### *Unitholder Liability*

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

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

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

#### *Income Tax Matters*

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

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

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

## Time Period Safe Harbour Amount

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

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

Although this was likely not the intent of the SIFT Rules proposed by Finance, there can be no assurance that the SIFT Rules, as they currently read, may not be interpreted and applied in a manner that would cause the Trust and Jazz LP to be considered SIFTS. If the Trust and Jazz LP were considered to be SIFTS, it is assumed that they would also be considered to have been SIFTS on October 31, 2006. On December 20, 2007, Finance announced proposed technical amendments to the SIFT rules to, among other things, ensure that trusts and partnerships that are not publicly traded and that are wholly-owned by, among other entities, SIFTS, such as the Trust and Jazz LP, are not considered to be SIFTS. No assurance may be given that these proposed amendments will be enacted as currently proposed or at all. If the Trust and Jazz LP were considered to be SIFTS, it is assumed that they would also be considered to have been SIFTS on October 31, 2006.

On June 26, 2007, the Ministère des Finances (Québec) (the "Ministère") published Information Bulletin 2007-5 confirming that Quebec's tax legislation will be harmonized with the SIFT Rules but that a separate Quebec tax regime relating to SIFT entities will be implemented. More specifically, the Ministère announced that a SIFT with an establishment in Quebec at any time in a taxation year will be subject to a Quebec tax at a rate generally equal to the Quebec tax rate relating to corporations and that a business allocation formula based on the gross income of a SIFT and the wages and salaries it pays, similar to the one used for the purpose of determining the tax payable by a corporation that has activities in Quebec and outside Quebec, will apply to determine the tax payable to Quebec by a SIFT that has, in a taxation year, an establishment both in Quebec and outside Quebec. On February 26, 2008, Finance announced changes to the SIFT Rules that will, among other things, result in harmonization between the SIFT Rules and the separate Quebec tax regime relating to SIFT entities.

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

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

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

#### *Nature of Distributions*

The after-tax return for any Units owned by Unitholders which are subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the Fund (portions of which may be fully or partially taxable or may be tax deferred). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders. The SIFT Rules will apply a tax on certain income earned by a SIFT trust or partnership, and treat the taxable distributions of such income received by investors in such entities as taxable dividends. The SIFT Rules do not change the tax treatment of distributions that

are in excess of the taxable income of a SIFT trust. The SIFT Rules generally do not apply to income trusts, the units of which were publicly traded as of October 31, 2006, such as the Fund, until January 1, 2011, subject to compliance with the Normal Growth Guidelines released by the Department of Finance on December 15, 2006, as may be amended from time to time.

#### *Investment Eligibility*

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

#### *Restrictions on Potential Growth*

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

#### *Conversion to Corporate Structure*

Should the Fund decide to convert from its current structure to a corporate structure prior to January 1, 2011, there may be an adverse impact on the market price of the Units resulting from the change in status.

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

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49.9% of the Units. In addition, the voting rights of non-resident Unitholders are limited to 25% of the aggregate number of outstanding votes attaching to all outstanding Units and 25% of the aggregate number of votes that may be cast at any meeting of the Unitholders. These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including non-residents of Canada and United States persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain investors and thereby adversely affect the liquidity and market value of the Units held by the public.

#### *Risk Related to Current Legal Proceedings*

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 \$850.0 million 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 as being without merit and will be vigorously contested in court.

## **DISTRIBUTIONS**

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

The Fund intends to make distributions of its available cash to the maximum extent possible to the Unitholders. The Fund intends to make equal monthly cash distributions to Unitholders of record on the last business day of each month, less estimated cash amounts required for expenses and other obligations of the Fund, including any tax liability, and cash redemptions of Units.

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

The Trust intends to make monthly cash distributions to the Fund of its net monthly cash receipts, after satisfaction of its interest obligations, if any, and less any estimated cash amounts required for expenses and other obligations of the Trust, any cash redemptions or repurchases of Trust Units or Trust Notes and any tax liability. Such distributions shall be paid within ten days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders.

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

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

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

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

### **Distributions**

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

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

## **ACQUISITION, SUBSCRIPTION, LIQUIDITY AND SECURITY HOLDERS' AGREEMENT**

### **Acquisition Agreement**

Pursuant to the terms of the Acquisition Agreement, the Successor Partnership sold all or substantially all of its assets to Jazz LP in consideration for the issuance of 99,365,143 LP Units having a value of approximately \$993.7 million, the issuance by Jazz LP of the Acquisition Promissory Note payable in favour of the Successor Partnership and the assumption by Jazz LP of all or substantially all of the Successor Partnership's liabilities. Upon completion of the transactions contemplated by the Acquisition Agreement, the Successor Partnership holds all of the LP Units of Jazz LP, except for the LP Unit held by Jazz GP. The Successor Partnership and the Jazz General Partner Inc. were subsequently liquidated and, as a result, such LP Units of Jazz LP and the Acquisition Promissory Note held by the Successor Partnership were ultimately transferred to ACE Aviation.

The completion of the transactions contemplated by the Acquisition Agreement was conditional upon, among other things, the completion of the Offering, the receipt of certain approvals and consents, and the funds being made available for drawdown by Jazz LP under the Credit Facilities.

## **Subscription Agreement**

On the closing of the Initial Public Offering, the Fund, the Trust, ACE Aviation and Jazz LP entered into a subscription agreement (the "Subscription Agreement"). The following is a summary of certain provisions of the Subscription Agreement, which summary is not intended to be complete. Reference is made to the Subscription Agreement for a complete description and the full text of its provisions.

Pursuant to the terms of the Subscription Agreement, the Trust subscribed for LP Units representing 19.1% of the outstanding LP Units in consideration for the payment to Jazz LP of an amount equal to the gross proceeds of the Initial Public Offering received by the Trust from the Fund.

The Subscription Agreement contains customary representations and warranties and related indemnities from ACE Aviation and Jazz LP in favour of the Fund and the Trust. These representations and warranties address various matters relating to the regional airline business operated by Jazz LP and related partnership and operational matters, and include a representation and warranty that the prospectus of the Fund dated January 25, 2006 contains full, true and plain disclosure of all material facts relating to the Fund, Jazz and the Units and does not contain any misrepresentation. The majority of these representations and warranties survived the closing of the Initial Public Offering only for a period of two years, except for: (i) certain limited representations and warranties, which survive indefinitely; (ii) representations and warranties relating to taxation matters, which survive the closing of the Initial Public Offering for the duration of the applicable reassessment and appeal period; and (iii) the representation and warranty as to the prospectus disclosure, which survive the closing of the Initial Public Offering for a period of three years.

ACE Aviation and Jazz LP are obligated to indemnify the Fund and the Trust in respect of breaches of such representations and warranties. In addition, ACE Aviation is obligated to indemnify Jazz LP in respect of Jazz LP's indemnification obligations under the Subscription Agreement. The maximum aggregate liability of ACE Aviation and Jazz LP under their indemnities in the Subscription Agreement is equal to the net proceeds of the Initial Public Offering in the amount of \$217.0 million. All claims for indemnification under the Subscription Agreement are subject to an aggregate deductible in the amount of \$1.0 million and to a minimum individual claim amount of \$0.1 million.

Purchasers under the prospectus of the Fund dated January 25, 2006 do not have a direct statutory right of action against ACE Aviation. The purchasers' sole remedy against ACE Aviation is through the Fund or the Trust exercising their rights under the Subscription Agreement to claim for indemnification in respect of a breach by ACE Aviation or Jazz LP of the representations and warranties contained under that agreement, subject to the limitations of liability described above. In addition, there can be no assurance of recovery by the Fund or the Trust from ACE Aviation or Jazz LP for breaches of the representations and warranties.

## **Investor Liquidity Agreement**

On the closing of the Initial Public Offering, the Fund, the Trust, ACE Aviation, Jazz LP and Jazz GP entered into the Investor Liquidity Agreement. The following is a summary of certain provisions of the Investor Liquidity Agreement, which summary is not intended to be complete. Reference is made to the Investor Liquidity Agreement for a complete description and the full text of its provisions.

The Investor Liquidity Agreement granted ACE Aviation or any entity controlled by it the right to effectively liquidate all or any portion of its LP Units and shares of Jazz GP or exchange such LP Units and shares of Jazz GP for Units. As described in "General Development of the Business", ACE Aviation exercised its exchange rights under the Investor Liquidity Agreement on February 9, 2007, March 14, 2007, March 14, 2007 and March 30, 2007 and exchanged 638,223 LP Units, 25,000,000 LP Units, 25,000,000 LP Units and 47,226,920 LP Units on each such respective dates, and equivalent numbers of Jazz GP common shares, into Units. As a result, ACE Aviation no longer holds any of the issued and outstanding LP Units or Jazz GP common shares.

Pursuant to the Investor Liquidity Agreement, ACE Aviation has also been granted demand and "piggy-back" registration rights by the Fund, subject to certain restrictions, enabling it to require the Fund to file a

prospectus and otherwise assist with a public offering of Units, pursuant to the terms and conditions contained in the Investor Liquidity Agreement. In the event of a "piggy-back" offering, the Fund's financing requirements would take priority. The costs of any public offerings of Units will be borne by Jazz, other than the underwriters' commissions which will be borne by ACE Aviation.

### **Securityholders' Agreement**

On the closing of the Initial Public Offering, the Fund, the Trust, ACE Aviation, Jazz LP and Jazz GP entered into the Securityholders' Agreement. The Securityholders' Agreement contained appointment rights in favour of ACE Aviation and other provisions including restrictions on transfers of LP units. As described in "General Development of the Business", ACE Aviation exercised its exchange rights under the Investor Liquidity on February 9, 2007, March 14, 2007, March 14, 2007 and March 30, 2007 and exchanged 638,223 LP Units, 25,000,000 LP Units, 25,000,000 LP Units and 47,226,920 LP Units, on each such respective dates, and equivalent numbers of Jazz GP common shares, into Units. As a result, ACE Aviation no longer holds any of the issued and outstanding LP Units or Jazz GP common shares.

Pursuant to an amendment to the Securityholders' Agreement entered into on May 24, 2007, among ACE Aviation, the Trust and Jazz GP, ACE Aviation, as a holder of Units, continued to have the right to appoint the majority of the directors of Jazz GP for as long as it held, directly or indirectly, 20% or more of the issued and outstanding Jazz GP common shares. On October 22, 2007, ACE Aviation disposed of a further 35,500,000 Units, thereby reducing its indirect ownership in Jazz GP to 20.1%. As at December 31, 2007, ACE Aviation, through its holding of 20.1% of the issued and outstanding Units, indirectly held 20.1% of the Jazz GP common shares.

On January 24, 2008, ACE Aviation sold 13,000,000 Units, thereby reducing its ownership in the Fund to 9.5%. As a result, ACE Aviation no longer had the ability to appoint the majority of the board of directors of Jazz GP pursuant to the Securityholders' Agreement. See "Management, Trustees and Directors, — Governance of Jazz GP". The Fund, the Trust, Jazz LP, Jazz GP and ACE Aviation terminated the Securityholders' Agreement effective as of February 7, 2008.

### **RELATED PARTY TRANSACTIONS**

As discussed in this Annual Information Form under "The Jazz Business - Capacity Purchase Agreement with Air Canada - Overview and Scope of Agreement" Jazz derived substantially all of its revenues (99%) under the Initial CPA and the CPA during the period from October 1, 2004 to December 31, 2007.

Jazz has entered into several arrangements and agreements with Air Canada including the CPA, the MSA, the Trademark License Agreement and the Special Trademark Agreement which are described in this Annual Information Form under "The Jazz Business - Capacity Purchase Agreement with Air Canada" and "The Jazz Business – Other Agreements with Air Canada" .

The transactions between Jazz and Air Canada are in the ordinary course of business and accordingly are recorded at fair market value, representing the amount agreed between the parties. Also, refer to Note 15 of the Jazz Air Income Fund Restated Consolidated Financial Statements for the year ended December 31, 2007 and section 10 of the Jazz Air Income Fund and Jazz Air LP 2007 Restated Management's Discussion and Analysis of Results of Operations and Financial Condition for details of the related party transactions and balances with ACE Aviation, Air Canada and their affiliates.

### **MARKET FOR SECURITIES**

The Fund's Units are listed for trading on the Toronto Stock Exchange under the symbol "JAZ.UN".

### **TRADING PRICE AND VOLUME**

The following table shows the monthly range of high and low prices per Unit, the total monthly volumes and the average daily volumes of Units traded on the TSX for the months of January to, and including December 31, 2007.

<b>2007 Month</b>	<b>Price Per Unit (\$) Monthly High</b>	<b>Price Per Unit (\$) Monthly Low</b>	<b>Units Total Monthly Volume</b>	<b>Units Average Daily Volume</b>
January	\$8.72	\$8.15	4,288,164	194,917
February	\$8.74	\$7.90	5,357,467	267,873
March	\$8.88	\$7.92	19,400,877	881,858
April	\$8.40	\$8.04	11,689,941	584,497
May	\$8.55	\$8.06	10,227,668	464,894
June	\$8.84	\$8.10	15,981,007	761,000
July	\$8.63	\$8.06	5,841,105	278,148
August	\$8.30	\$7.65	8,716,203	396,191
September	\$8.10	\$7.70	4,120,118	216,848
October	\$8.00	\$7.50	16,564,737	752,943
November	\$8.05	\$7.42	13,167,960	598,544
<u>December</u>	\$7.99	\$7.35	10,843,561	570,714

#### **TRANSFER AGENT AND REGISTRAR**

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

## MANAGEMENT, TRUSTEES AND DIRECTORS

### Trustees of the Fund

As of March 28, 2008, the following three individuals are the three Trustees of the Fund.

Name and Municipality of Residence	Position with the Fund	Principal Occupation	Trustee Since
Katherine M. Lee <sup>(1)</sup> Toronto, Ontario	Trustee	Managing Director, GE Real Estate Canada	January 24, 2006
G. Ross MacCormack <sup>(2)</sup> Newport, Vermont United States	Trustee	Aviation Consultant	January 24, 2006
Richard H. McCoy <sup>(3)</sup> Toronto, Ontario	Chairman and Trustee	Corporate Director	January 24, 2006

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

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

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

The term of office for each Trustee will continue until he or she resigns or is replaced at a meeting of the Unitholders. Trustees will be elected annually by the Unitholders. Additional trustees will be nominated for election at the annual meeting of unitholders to be held on May 8, 2008. Please refer to the proxy circular of Jazz Air Income Fund to be filed on [www.sedar.com](http://www.sedar.com) with respect to such meeting. See "Description of the Fund – Trustees".

### Directors of Jazz

The board of directors of Jazz GP is comprised of seven members, as follows.

Name and Municipality of Residence	Position with Jazz	Principal Occupation	Director Since
Sydney John Isaacs <sup>(1)</sup> Westmount, Québec	Director	Senior Vice President, Corporate Development and Chief Legal Officer, ACE Aviation	January 1, 2008
Katherine M. Lee <sup>(2)</sup> Toronto, Ontario	Director	Managing Director, GE Real Estate Canada	January 24, 2006
G. Ross MacCormack <sup>(3)</sup> Newport, Vermont United States	Director	Aviation Consultant	January 24, 2006
Richard H. McCoy <sup>(4)</sup> Toronto, Ontario	Chairman and Director	Corporate Director	January 1, 2008
John T. McLennan <sup>(5)</sup> Mahone Bay, Nova Scotia	Director	Corporate Director	January 24, 2006

<u>Name and Municipality of Residence</u>	<u>Position with Jazz</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Joseph D. Randell ..... Waverley, Nova Scotia	Director	President and Chief Executive Officer, Jazz Air	January 24, 2006
Bryan L. Rishforth <sup>(6)</sup> ..... Bryn Mawr, Pennsylvania, United States	Director	Managing Partner, R&R Global Partners, Ltd.	January 24, 2006

- (1) Member of the Governance and Corporate Matters Committee.  
(2) Chair of the Audit, Finance and Risk Committee and a member of the Human Resources and Compensation Committee and the Nominating Committee.  
(3) Chair of the Human Resources and Compensation Committee and a member of the Nominating Committee and the Governance and Corporate Matters Committee.  
(4) Chairman of the Board of Trustees and the Board of Directors.  
(5) Member of the Human Resources and Compensation Committee and Audit Risk and Finance Committee.  
(6) Chair of the Governance and Corporate Matters Committee, Chair of the Nominating Committee and member of the Audit, Risk and Finance Committee.

### Officers of Jazz

The following table sets out, for each of the current executive officers of Jazz, the person's name, municipality of residence, positions with Jazz, principal occupation, date of start of office and number of Units beneficially owned.

<u>Name and Municipality of Residence</u>	<u>Position with Jazz</u>	<u>Principal Occupation</u>	<u>Executive Since</u>
Richard H. McCoy Toronto, Ontario	Chairman	Corporate Director	January 1, 2008
Joseph D. Randell Waverley, Nova Scotia	President and Chief Executive Officer	President and Chief Executive Officer, Jazz	January 1, 2001
Allan Rowe Bedford, Nova Scotia	Senior Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer, Jazz	August 1, 2004
Bill Bredt Oakville, Ontario	Senior Vice President and Chief Operating Officer	Senior Vice President and Chief Operating Officer, Jazz	August 1, 2004
Colin L. Copp Delta, British Columbia	Vice President, Employee Relations	Vice President, Employee Relations, Jazz	August 1, 2004
Richard Flynn Dartmouth, Nova Scotia	Vice President, Finance	Vice President, Finance, Jazz	May 30, 2005
Barbara Snowdon Bedford, Nova Scotia	General Counsel and Corporate Secretary	General Counsel and Corporate Secretary, Jazz	June 20, 2007

<u>Name and Municipality of Residence</u>	<u>Position with Jazz</u>	<u>Principal Occupation</u>	<u>Executive Since</u>
Jolene Mahody Halifax, Nova Scotia	Vice President, Corporate Strategy	Vice President, Corporate Strategy, Jazz	August 1, 2004
Richard A. Steer Georgetown, Ontario	Vice President, Maintenance and Engineering	Vice President, Maintenance and Engineering, Jazz	March 16, 2005
Scott Tapson Bedford, Nova Scotia	Vice President, Business Development	Vice President, Business Development, Jazz	August 1, 2004
Steven Linthwaite Guelph, Ontario	Vice President, Flight Operations	Vice President, Flight Operations, Jazz	September 3, 2007
Nicholas Careen Dartmouth, Nova Scotia	Vice President, Airports and System Operations Control (SOC)	Vice President, Airports and System Operations Control (SOC), Jazz	September 3, 2007

As at March 28, 2008, the Trustees and the directors and officers of Jazz as a group held 141,160 Units representing approximately 0.11% of the outstanding Units.

### **Biographies**

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

**Sydney John Isaacs** was appointed Senior Vice President, Corporate Development & Chief Legal Officer for ACE Aviation in November 2004. Mr. Isaacs is a director of Jazz GP. He joined Air Canada in 2000, initially in a business development capacity, and subsequently became Senior Director, Mergers & Acquisitions, and then Senior Director, Restructuring. Mr. Isaacs was previously a partner at Stikeman Elliott LLP, where he advised clients on a variety of corporate and commercial matters. Mr. Isaacs holds degrees from McGill University and the London School of Economics.

**Katherine M. Lee** is a chartered accountant who has been the Managing Director at GE Real Estate Canada since January 2002. Ms. Lee joined GE Capital Realty Group in January 1995 following a career at Ernst & Young LLP, where she held a variety of positions, starting as staff accountant to insolvency and corporate recovery manager. From 1995 to 1997, Ms. Lee was the Portfolio and Business Development Manager for GE Capital Realty Group in Canada, from 1997 to 1999, Director, Mergers and Acquisitions for GE Capital's Pension Fund Advisory Services based in San Francisco, and from 1999 to 2001, Ms. Lee was the Managing Director of GE Capital Real Estate — Korea based in Seoul and Tokyo.

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

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

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

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

**Bryan L. Rishforth** is a corporate director. He is Founder and Managing Partner of R&R Global Partners, Ltd, an international private equity advisory firm specializing in assisting company boards and management teams of public and private entities. In 2005, Mr. Rishforth founded Cerberus Capital Consultants, LLC to provide private equity advisory and operations management services to Cerberus Capital Management, LP, as Senior Executive Advisor. Previously, at GE and GE Capital he served in senior leadership and executive management positions across its manufacturing, services and financing businesses, including roles as general manager and division executive. As Chief Risk Manager of GE Aviation, he led the oversight, management and profitable growth of GE's \$20 billion engine service agreement portfolio. Mr. Rishforth is a former board member of Sylvania Lighting International and Peguform Automotive, and is Vice-Chairman Emeritus of Global Motorsport Group. He is an active member of the Mid-Atlantic Capital Alliance, the Eastern Technology Council, and Philadelphia's Business Leaders Network. Mr. Rishforth is an Electrical Engineering Eta Kappa Nu honours graduate from Drexel University and an alumnus of GE's Executive Development, Corporate Audit Staff and Advanced Six Sigma programs.

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

**Bill Bredt** was appointed Senior Vice President and Chief Operating Officer of Jazz on August 1, 2004 and has over 30 years experience in the aviation industry. Mr. Bredt's career has spanned many leadership positions at Air Canada. Prior to joining Jazz, Mr. Bredt was Vice President, Network and Revenue Management at Air Canada until he was appointed as President of ZIP Air Inc. in April 2004.

**Colin L. Copp** was appointed Vice President, Employee Relations on August 1, 2004 and has over 18 years of experience in the aviation industry. Mr. Copp began his career at AirBC where he held several key roles such as Manager, Flight Dispatch and Regulatory Affairs; Director, Operations; and Vice President, Flight Operations. At Jazz, Mr. Copp held the position of Director, Flight Operations; and was later promoted to Vice President, Labour

Relations and Corporate Safety. Over the years Mr. Copp has been extensively involved in labour relations, leading several collective bargaining teams during the integration of the regional airlines, and was the executive lead negotiator responsible for all labour negotiations and restructuring during the CCAA process. Mr. Copp attended Trinity Western University's Aviation Program and holds a Commercial Pilots License. Mr. Copp is also a graduate of the Justice Institute of British Columbia where he completed his Conflict Resolution certification as both a Negotiator and Mediator and holds the entitled designation of "Cert. Con Res."

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

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

**Jolene Mahody** was appointed Vice President, Corporate Strategy on August 1, 2004. Ms. Mahody's career in the aviation industry began over 15 years ago serving in various finance roles at Air Nova, including Finance Controller. At Jazz, Ms. Mahody held various director level positions including Director, Finance, Director Six Sigma and Director, Commercial and Resource Planning. Ms. Mahody holds a Bachelor of Business Administration (Major in Accounting) from St. Francis Xavier University, Nova Scotia, and has received her Chartered Accounting designation from the Institute of Chartered Accountants of Nova Scotia.

**Richard Steer** was appointed Vice President, Maintenance and Engineering on March 16, 2005. Mr. Steer has over 20 years of experience in the aviation industry and recently held the position of Director, Line Maintenance at Delta Air Lines in Atlanta, Georgia. At Delta Air Lines, Mr. Steer led a group of 2,600 professionals responsible for the maintenance of 550 aircraft and managed a budget in excess of \$400 million. Mr. Steer holds an Airframe and Power Plant License, a Federal Communication Commission license and a degree in specialized technology from the Pittsburgh Institute of Aeronautics.

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

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

**Nicholas Careen** was appointed Vice President Airports and System Operations Control (SOC) on September 3, 2007. Mr. Careen's career in the airline industry began with Air Nova in Halifax in 1994 as a crew scheduler. Since then his career has encompassed working a number of supervisory positions within SOC and

Airports with Jazz and its predecessors, and moving into the roles of managing SOC, Director of SOC and appointment as Senior Director SOC and Resource Planning in January, 2005. Mr. Careen has also held positions outside of the Operations department, including as one of the first Black Belts trained by GE to assist in the implementation of Six Sigma at Jazz. He became the Director of Six Sigma for Jazz. Mr. Careen holds a Bachelor of Arts (Political Science) from Memorial University of Newfoundland.

### **Certain Governance Matters**

On the closing of the Initial Public Offering, the Fund, the Trust, ACE Aviation, Jazz LP and Jazz GP entered into a unanimous securityholders' agreement governing their securityholdings in, and the business and affairs of, Jazz GP and Jazz LP (the "Securityholders' Agreement"). The agreement provided that the board of directors of Jazz GP was to be initially comprised of nine members.

ACE Aviation, in its sole discretion, was entitled to appoint all of the directors of Jazz GP, except for two directors, so long as it owned a majority of the shares of Jazz GP and the limited partnership interests in Jazz LP. In such circumstances, the Trustees were entitled to designate two directors of the board of Jazz GP who were Independent of ACE Aviation and who were not be directors of ACE Aviation or subsidiaries of ACE Aviation (other than Jazz GP).

Where ACE Aviation held less than 50% but 20% or more of the shares of Jazz GP and the limited partnership interests in Jazz LP, the Trustees were entitled to appoint four directors of the board of Jazz GP who were Independent of ACE Aviation and who were not directors of ACE Aviation or subsidiaries of ACE Aviation (other than Jazz GP). ACE Aviation, in its sole discretion, was entitled to appoint the balance of the directors of Jazz GP.

As long as ACE Aviation owned 20% or more of the shares of Jazz GP and the limited partnership interests in Jazz LP, ACE Aviation could, in its sole discretion, establish the number of directors of the board of Jazz GP so as to increase or decrease the number of directors which it was entitled to appoint to such board. In addition, while ACE Aviation or a subsidiary of ACE Aviation was a party to the CPA, ACE Aviation was entitled to appoint two directors of Jazz GP, irrespective of its level of ownership of limited partnership interests in Jazz LP.

As described in "General Development of the Business", ACE Aviation exercised its exchange rights under the Investor Liquidity on February 9, 2007, March 14, 2007, March 14, 2007 and March 30, 2007 and exchanged 638,223 LP Units, 25,000,000 LP Units, 25,000,000 LP Units and 47,226,920 LP Units, on each such respective dates, and equivalent numbers of Jazz GP common shares, into Units. As a result, ACE Aviation no longer holds any of the issued and outstanding LP Units or Jazz GP common shares. ACE

Pursuant to an amendment to the Securityholders' Agreement entered into on May 24, 2007, among ACE Aviation, the Trust and Jazz GP, ACE Aviation, as a holder of Units, continued to have the right to appoint the majority of the directors of Jazz GP for as long as it held, directly or indirectly, 20% or more of the issued and outstanding Jazz GP common shares. On October 22, 2007, ACE Aviation disposed of a further 35,500,000 Units, thereby reducing its indirect ownership in Jazz GP to 20.1%. As at December 31, 2007, ACE Aviation, through its holding of 20.1% of the issued and outstanding Units, indirectly held 20.1% of the Jazz GP common shares. On January 24, 2008, ACE Aviation sold 13,000,000 Units, thereby reducing its ownership in the Fund to 9.5%. As a result, ACE Aviation no longer had the ability to appoint the majority of the board of directors of Jazz GP pursuant to the Securityholders' Agreement.

The Fund, the Trust, Jazz LP, Jazz GP and ACE Aviation terminated the Securityholders' Agreement effective as of February 7, 2008.

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

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

Pursuant to articles of incorporation of Jazz GP, the board of directors of Jazz GP shall be comprised of a minimum of one and a maximum of fifteen directors. Pursuant to the by-laws of Jazz GP, a majority of directors of Jazz GP must be Canadian residents. A vote by Unitholders of the Fund in favour of the nominees presented for election as trustees of the Fund shall constitute such Unitholders' directions and instructions to the trustees of the Fund and to the trustees of the Trust to vote the common shares of Jazz GP held by the Trust in favour of the appointment of such nominees as directors of Jazz GP. Each director of Jazz GP will hold office until his successor is elected or appointed or until such director is replaced at a meeting of shareholders of Jazz GP, unless his office is vacated earlier.

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

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

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

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

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

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

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

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

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

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

- (i) ***Katherine M. Lee*** is a chartered accountant who has been the Managing Director at GE Real Estate Canada since January 2002. Ms. Lee joined GE Capital Realty Group in January 1995 following a career at Ernst & Young LLP, where she held a variety of positions, starting as staff

accountant to insolvency and corporate recovery manager. From 1995 to 1997, Ms. Lee was the Portfolio and Business Development Manager for GE Capital Realty Group in Canada, from 1997 to 1999, Director, Mergers and Acquisitions for GE Capital's Pension Fund Advisory Services based in San Francisco, and from 1999 to 2001, Ms. Lee was the Managing Director of GE Capital Real Estate — Korea based in Seoul and Tokyo.

- (ii) **John T. McLennan** is a corporate director. Mr. McLennan is a director of Amdocs Ltd., Emera, and ACE Aviation. Mr. McLennan was Vice-Chairman and Chief Executive Officer of Allstream from May 2000 until June 2004. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc.
- (iii) **Bryan L. Rishforth** is a corporate director. He is Founder and Managing Partner of R&R Global Partners, Ltd, an international private equity advisory firm specializing in assisting company boards and management teams of public and private entities. In 2005, Mr. Rishforth founded Cerberus Capital Consultants, LLC to provide private equity advisory and operations management services to Cerberus Capital Management, LP, as Senior Executive Advisor. Previously, at GE and GE Capital he served in senior leadership and executive management positions across its manufacturing, services and financing businesses, including roles as general manager and division executive. As Chief Risk Manager of GE Aviation, he led the oversight, management and profitable growth of GE's \$20 billion engine service agreement portfolio. Mr. Rishforth is a former board member of Sylvania Lighting International and Peguform Automotive, and is Vice-Chairman Emeritus of Global Motorsport Group. He is an active member of the Mid-Atlantic Capital Alliance, the Eastern Technology Council, and Philadelphia's Business Leaders Network. Mr. Rishforth is an Electrical Engineering Eta Kappa Nu honours graduate from Drexel University and an alumnus of GE's Executive Development, Corporate Audit Staff and Advanced Six Sigma programs.

#### *Pre-Approval Policies and Procedures*

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

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

*Audit Fees*

Fees payable for the years ended December 31, 2007 and December 31, 2006 to PricewaterhouseCoopers LLP and its affiliates are \$571,588 and \$341,458, respectively, as detailed below:

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
Audit fees	\$487,308	\$235,000
Audit-related fees	\$79,300	\$97,145
Tax Fees	\$2,130	\$2,286
All other fees	<u>\$2,850</u>	<u>\$7,027</u>
	<u>\$571,588</u>	<u>\$341,458</u>

The nature of each category of fees is described below.

Audit fees. Audit fees were paid for professional services rendered for the audit of the Fund's and Jazz LP's annual financial statements, for the reviews of quarterly reporting by the Fund and Jazz LP and for services normally provided in connection with statutory and regulatory filings or engagements, including costs incurred in 2007 in connection with the secondary offering of units of the Fund.

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

Tax fees. Tax fees were paid for professional services rendered with respect to payroll compliance.

All other fees. Other fees paid were for miscellaneous administrative products and services.

Most of the audit and other fees paid to PricewaterhouseCoopers LLP and its affiliates in 2007 and 2006 relate to services rendered to Jazz LP.

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

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

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

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

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

#### *Penalties or Sanctions*

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

#### *Personal Bankruptcies*

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

### **CONFLICTS OF INTEREST**

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

### **PROMOTER**

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

### **INTEREST OF EXPERTS**

PricewaterhouseCoopers LLP are the auditors of the Fund and have advised that they are independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Ordre des comptables agréés du Québec.

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

Other than as set out below or described elsewhere in this Annual Information Form, none of the directors, trustees or senior officers, as applicable, of (i) the Fund, the Trust or Jazz, (ii) ACE Aviation, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Fund, the Trust, Jazz or any of their subsidiaries.

The Fund, the Trust or Jazz are parties to the following material agreements with ACE Aviation or Air Canada:

- the CPA;
- the MSA;
- the Trademark License Agreement;
- the Special Trademark Agreement;
- the Acquisition Agreement;
- the Subscription Agreement; and
- the Investor Liquidity Agreement.

For a description of such agreements, see "The Jazz Business — Capacity Purchase Agreement with Air Canada", "The Jazz Business — Other Agreements with Air Canada", "Acquisition, Subscription, Liquidity and Security Holders' Agreement — Subscription Agreement" and "Acquisition, Subscription, Liquidity and Security Holders' Agreement — Investor Liquidity Agreement".

#### **MATERIAL CONTRACTS**

The contracts that are material to the Fund and/or Jazz and that were entered into within the year ended December 31, 2007 or before such year but which are still in effect, other than those contracts entered into the ordinary course of business, are as follows:

- the Fund Declaration of Trust, described under "Description of the Fund";
- the Trust Declaration of Trust, described under "Description of the Fund";
- the Trust Note Indenture, described under "Description of the Trust";
- the Limited Partnership Agreement of Jazz LP, described under "Description of Jazz LP";
- the Investor Liquidity Agreement, described under "Acquisition, Subscription, Liquidity and Security Holders' Agreement";
- the Acquisition Agreement, described under "Acquisition, Subscription, Liquidity and Security Holders' Agreement";
- the Subscription Agreement, described under "Acquisition, Subscription, Liquidity and Security Holders' Agreement";
- the credit agreement creating the Credit Facilities, described under "Debt Financing";
- the CPA, described under "The Jazz Business — Capacity Purchase Agreement with Air Canada";
- the MSA, described under "The Jazz Business — Other Agreements with Air Canada — Master Services Agreement";
- the Trademark License Agreement, described under "The Jazz Business — Other Agreements with Air Canada"; and

- the Special Trademark Agreement, described under "The Jazz Business — Other Agreements with Air Canada".

### ADDITIONAL INFORMATION

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

Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans are contained in the Fund's information circular for its annual meeting of Unitholders of the Fund to be held on May 8, 2008. Additional financial information is provided in the Jazz Air Income Fund Restated Consolidated Financial Statements for the year ended December 31, 2007 and Jazz Air Income Fund and Jazz Air LP Restated 2007 Management's Discussion and Analysis of Results of Operations and Financial Condition.

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

- (a) when the Fund is in the course of a distribution of its securities under a short form prospectus, or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:
  - (i) one copy of the Fund's latest annual information form, together with one copy of any document or the pertinent pages of any document, incorporated therein by reference;
  - (ii) one copy of the consolidated audited financial statements of the Fund for the most recently completed financial year for which financial statements have been filed, together with the Auditors' Report thereon, and one copy of any interim financial statements of the Fund for any period after its most recently completed financial year;
  - (iii) one copy of the information circular of the Fund in respect of its most recent annual meeting of Unitholders that involved the election of trustees of the Fund or one copy of any annual filing prepared instead of that information circular, as appropriate; and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under subparagraphs (i) to (iii); or
- (b) at any other time, the Fund shall provide to any person or company one copy of any of the documents referred to in subparagraphs (a)(i), (ii) and (iii) above, provided that the Fund may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of the Fund's securities.

## GLOSSARY OF TERMS

"**2007 Annual Operating Plan**" shall have the meaning ascribed thereto under "The Jazz Business — Capacity Purchase Agreement with Air Canada — Overview and Scope of Agreement";

"**2006 – 2008 High Level Operating Plan**" shall have the meaning ascribed thereto under "The Jazz Business — Overview";

"**2006 Proposed Amendments**" shall have the meaning ascribed thereto under "Risk factors – Income Tax Matters";

"**5% Shareholder**" shall have the meaning ascribed thereto under "Description of the Fund -Additional Limitations";

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

"**ACGHS**" means ACGHS Limited Partnership, a limited partnership established under the laws of the Province of Québec;

"**ACGHS Agreement**" means the ground handling services agreement dated September 26, 2005 between Jazz and ACGHS;

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

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

"**ACTS**" means ACTS Aero Technical Support & Services Inc., a corporation established under the laws of Canada;

"**ACTS Agreement**" means the component maintenance agreement dated August 1, 2005 between Jazz and ACTS;

"**Acquisition Agreement**" shall have the meaning ascribed thereto under "Acquisition, Subscription, Liquidity and Security Holders' Agreement — Acquisition Agreement";

"**Acquisition Promissory Note**" means the promissory note to be issued by Jazz LP in favour of the Successor Partnership on the closing of the Initial Public Offering as partial consideration in accordance with the Acquisition Agreement, representing the sum of (i) the net proceeds of the Offering estimated in the amount of \$217.0 million; (ii) the excess of the working capital transferred by the Successor Partnership to Jazz LP over the estimated working capital required by Jazz LP to operate its business, such excess amount to be determined as at the closing of the Initial Public Offering; and (iii) the proceeds of the drawdown under the Term Facility in the amount of \$115.0 million expected to be made by Jazz LP at the closing of the Initial Public Offering, less the long-term debt of the Successor Partnership in the amount of \$13.6 million assumed by Jazz LP at the closing of the Initial Public Offering under the Acquisition Agreement;

"**Agent**" shall have the meaning ascribed thereto under "Debt Financing";

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

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

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

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

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

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

"**Cargo Services**" shall have the meaning ascribed thereto under "The Jazz Business — Capacity Purchase Agreement with Air Canada";

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

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

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

"**CDS Participant**" as the meaning ascribed thereto under "Description of the Fund – Book-Entry Only System";

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

"**Controllable Costs**" shall have the meaning ascribed thereto under "The Jazz Business — Overview";

"**Covered Aircraft**" means Jazz's aircraft subject to the CPA;

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz;

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

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

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

"**Exchange Notes**" means, collectively, the Series 2 Exchange Notes and Series 3 Exchange Notes of ExchangeCo";

"**ExchangeCo**" shall have the meaning ascribed thereto under "Description of the Fund — Activities of the Fund";

"**FAA**" means the United States Federal Administration Authority;

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

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

"**Fund Declaration of Trust**" means the declaration of trust dated November 25, 2005, as amended by an amended and restated declaration of trust dated January 24, 2006, pursuant to which the Fund is established, as may be amended from time to time;

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

"**GAAP**" means generally accepted accounting principles in Canada;

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

"**ICAO**" means the International Civil Aviation Organization;

"**Independent**" means independent as defined in National Policy 58-201 — Corporate Governance Guidelines;

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

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

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

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

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

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

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

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

"**LP Units**" means the limited partnership units of Jazz LP;

"**Management**" means management of Jazz;

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

"**MRO**" means maintenance, repair and overhaul;

"**Non-Resident Beneficiaries**" shall have the meaning ascribed thereto under "Description of the Fund — Limitation on Non-Resident Ownership";

"**Non-Residents**" shall have the meaning ascribed thereto under "Description of the Fund — Limitation on Non-Resident Ownership";

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

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

"**Over-Allotment Option**" means the option granted by the Fund to the Underwriters to purchase up to 3,525,000 additional Units, exercisable within 30 days after the Initial Public Offering;

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

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

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

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

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

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

"**SARS**" means the severe acute respiratory syndrome;

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

"**Scheduled Flights Revenue**" shall have the meaning ascribed thereto under the "The Jazz Business — Overview";

"**Securityholders' Agreement**" means the unanimous securityholders' agreement entered into on the closing of the Initial Public Offering by the Fund, the Trust, Jazz LP, Jazz GP and ACE Aviation governing their securityholdings in, and the business and affairs of, Jazz GP and Jazz LP;

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

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

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

"**Special Resolution**" means a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the units who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the units entitled to vote on such resolution;

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

"**Subordination End Date**" means December 31, 2006;

"**Subscription Agreement**" shall have the meaning ascribed thereto under "Acquisition, Subscription, Liquidity and Security Holders' Agreement — Subscription Agreement";

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

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

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

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

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

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

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

**"Trust Note Indenture"** shall have the meaning ascribed thereto under "Description of the Trust — Trust Notes";

**"Trust Notes"** means, collectively, the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes of the Trust;

**"Trust Units"** means units of the Trust;

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

**"Trust's Trustees"** means the trustees of the Trust;

**"TSX"** means the Toronto Stock Exchange;

**"Underwriters"** means CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., TD Securities Inc., Citigroup Global Markets Canada Inc., Merrill Lynch Canada Inc., Canaccord Capital Corporation, Orion Securities Inc., Research Capital Corporation, Versant Partners Inc., Westwind Partners Inc., Dundee Securities Corporation and Wellington West Capital Markets Inc.;

**"Unitholders"** means the holders of Units;

**"Units"** means units of the Fund;

**"WHO"** means the World Health Organization; and

**"Widely-Held Test"** as the meaning ascribed thereto under "Description of the Fund Additional Limitations".

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

**(the "Committee")**

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

**(the "Corporation")**

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

**(the "Fund")**

**1. Structure, Qualifications**

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

**2. Procedure**

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

Corporation and the trustees of the Fund, with copies to the Chief Executive Officer of the Corporation.

**3. Objectives**

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

**4. Duties**

To achieve its objectives, the Committee shall:

- (a) Monitor and review the quality and integrity of the Partnership's and the Fund's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analysis ("MD&A") to be filed with regulatory authorities and provided to unitholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Committee shall also review the annual information form and other similar documents. These reviews will include:
- (i) discussions with management and the external auditor and a consideration of the report by the external auditor to the Committee of matters related to the conduct of an audit;
  - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Partnership and the Fund, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
  - (iii) a review of significant adjustments arising from an audit;

- (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements;
  - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Partnership and the Fund including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
  - (vi) a review of the external auditor's suggestions for improvements to the Partnership's operations and internal controls;
  - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;
  - (viii) a review to ascertain that various covenants are complied with; and
  - (ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.
  - (c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Partnership's and the Fund's quarterly financial statements and related MD&A.
  - (d) Review with management, the external auditor and legal counsel, the Partnership's and the Fund's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Partnership and the Fund and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.
  - (e) Meet with the external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and coordination of work between the external auditor and the internal audit department.
  - (f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Committee. The Corporation shall ensure that funding is available to the Committee for payment of compensation to the external auditor.
  - (g) Review:
    - (i) and approve, or delegate to a member of the Committee the responsibility to review and approve and subsequently report to the Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the external auditor prior to the commencement of such work. In this regard the Committee will prepare a report for presentation to the unitholders of the Fund, as required by applicable law, regarding the Committee's policies and procedures for the approval of such non-audit services in the period;

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

- (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
  - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
  - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
- (m) Obtain from both the internal audit department and the external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.
  - (n) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Partnership's and the Fund's financial statements.
  - (o) Review policies and procedures for the receipt, retention and treatment of complaints received by the Partnership and the Fund from employees, unitholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters. The Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Committee.
  - (p) Review policies for approval of senior management expenses.
  - (q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.
  - (r) Review with management the Partnership's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
  - (s) Review and approve all related party transactions as such term is defined from time to time in Policy Statement Q-27 of the Quebec Securities Commission and Rule 61-501 issued by the Ontario Securities Commission, as may be amended from time to time.
  - (t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
  - (u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Committee as the Committee may consider appropriate. The Corporation shall ensure that funding is available to the Committee in respect of the aforementioned activities.
  - (v) Report regularly to the Board in writing on the activities, findings and conclusions of the Committee.

- (w) Review this Charter on an annual basis and recommend to the Board any changes to it that the Committee considers advisable.
- (x) Complete a self-assessment annually to determine how effectively the Committee is meeting its responsibilities.
- (y) Perform such other functions as may be delegated from time to time by the Board.
- (z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.
- (aa) Set policies for the hiring of employees or former employees of the external auditors.

## **OTHER**

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

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

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

### **(b) Public Disclosure**

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

**(c) Risk Identification and Management**

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

**(d) Contingent Liabilities**

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

**(e) Corporate Authorizations Policies**

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

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

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

**(g) Responsibilities**

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

are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

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

Revised August 8, 2007