Jazz Air Income Fund

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2009

November 12, 2009

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The following management's discussion and analysis of financial condition and results of operations ("MD&A") of Jazz Air Income Fund ("the Fund") is prepared as at November 12, 2009 and should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Fund and the notes therein for the three and nine months ended September 30, 2009, the audited consolidated financial statements of the Fund and the notes therein for the year ended December 31, 2008, the annual MD&A dated February 10, 2009, and the Fund's Annual Information Form dated March 30, 2009. The audited consolidated financial statements of the Fund and the unaudited interim consolidated financial statements of the Fund are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

The Fund is entirely dependent upon the operations and financial condition of Jazz Air LP (the "Partnership"). The earnings and cash flows of the Fund are affected by certain risks. For a description of those risks, please refer to Section 17 – Risk Factors.

As a result of the different ownership percentages of the Partnership held indirectly by the Fund throughout the periods presented, which have resulted in different bases of accounting (from equity to consolidation), figures presented for the Fund for periods prior to 2008 are not comparative. The Fund's year to date operating income, net earnings, and earnings per unit have been adjusted to remove the effect of certain consolidation amounts (i.e. by adding back amortization of Capacity Purchase Agreement ("CPA") asset, other operating expenses, and future income taxes), in order to present results which are comparable to those previously reported by the Partnership.

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

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

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

Caution regarding forward-looking information

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

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to the Partnership's relationship with Air Canada, risks relating to the airline industry, energy prices, general industry, market, credit, and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A (in particular, the Risk Factors section of this MD&A and the Annual Information Form of the Fund dated March 30, 2009). The forward-looking statements contained in this discussion represent the Fund's expectations as of November 12, 2009, and are subject to change after such date. However, the Fund disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

1. OVERVIEW

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

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. Jazz and Air Canada are parties to the Capacity Purchase Agreement ("CPA"), pursuant to which Air Canada currently purchases substantially all of Jazz's fleet capacity based on predetermined rates. Under the CPA, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 829 departures per weekday to 55 destinations in Canada, and 29 destinations in the United States, with an operating fleet of 133 Covered Aircraft as of September 30, 2009. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes.

Under the CPA, Jazz operates flights on behalf of Air Canada at set rates which are based on a variety of different metrics that are substantially independent of Passenger Load Factor. Air Canada controls and is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service handling at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft on the schedule specified by Air Canada.

Under the CPA, Jazz is paid fees based on certain variables, including Block Hours flown, flight hours, cycles (number of take-offs and landings) and passengers carried, in addition to certain variable and fixed aircraft ownership rates. Jazz is also entitled to repayment of certain pass-through costs specified in the CPA, including fuel, navigation, landing and terminal fees and certain other costs. Jazz is also eligible to receive incentive payments for successfully achieving certain performance levels on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction. During the first quarter of 2009, Jazz reached an agreement with Air Canada regarding the establishment of new rates for Controllable Costs that are payable by Air Canada under the CPA for the three year period ending December 31, 2011. The new rates are retroactive to January 1, 2009 (refer to Section 10 – Economic Dependence for further discussion of the CPA).

On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives. On September 22, 2009, Jazz and Air Canada executed the CPA Amending Agreement to formally reflect certain amendments to the CPA (refer to Section 10 – Economic Dependence).

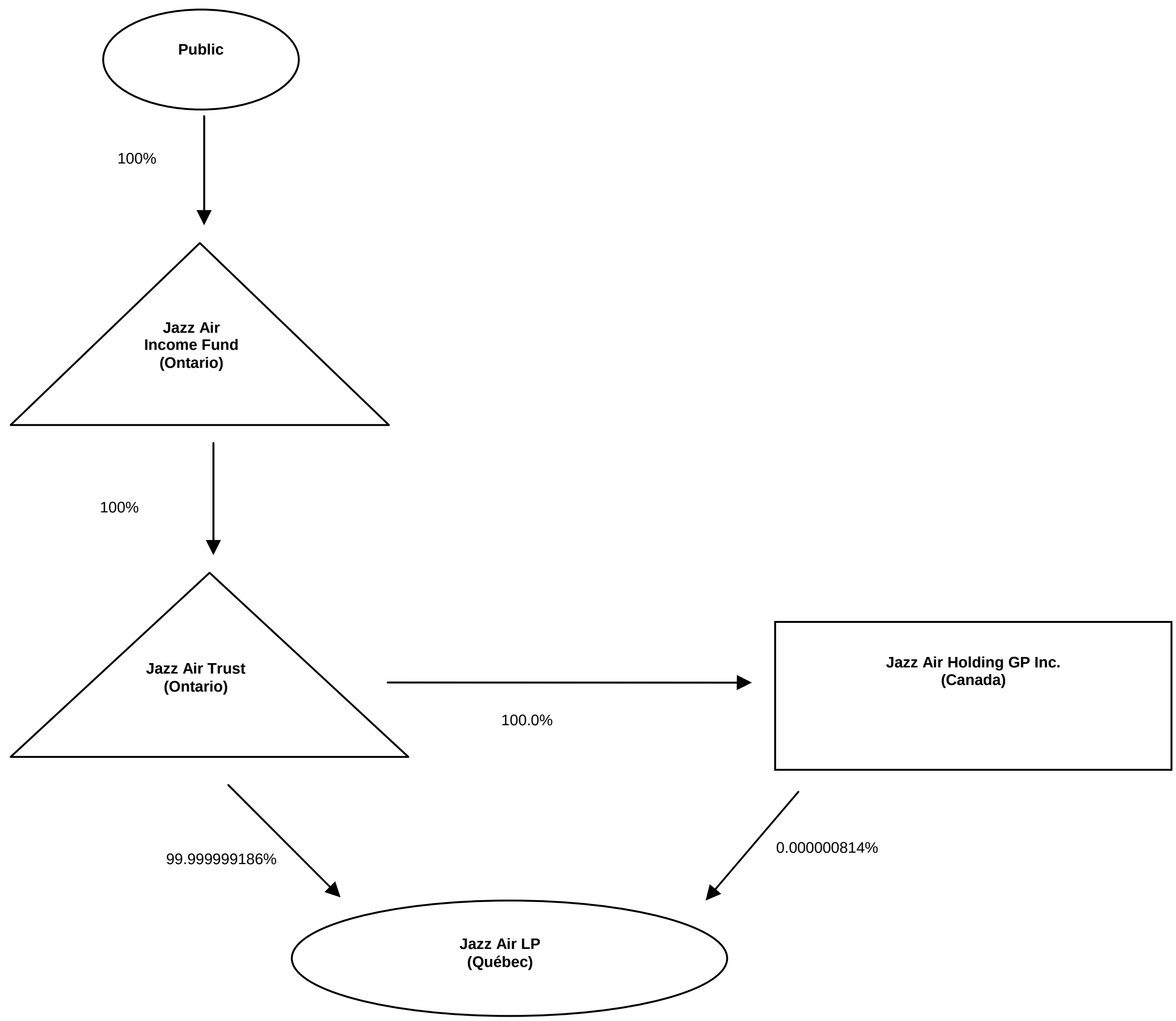
Jazz is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity. For further discussion, please see Section 17 - Risk Factors.

Jazz has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Jazz revenues under the CPA do not fluctuate significantly with Passenger Load Factors (refer to Section 10 – Economic Dependence for further discussion of the CPA).

Most of Jazz's employees are unionized and its collective bargaining agreements all expired at the end of June 2009. Jazz has pursued negotiations with each union. On August 30, 2009, Jazz reached a tentative three year agreement with its maintenance and engineering employees who are represented by the Canadian Auto Workers ("CAW"). That tentative agreement was subsequently ratified on September 12, 2009 by a union vote. On August 28, 2009, Jazz reached a tentative agreement with its customer service and airport services division, also represented by the CAW, which was narrowly rejected by a union vote on September 24, 2009. There were 337 votes in favour of and 341 votes against the tentative agreement. On October 27, 2009, Jazz announced that a new tentative agreement has been reached with the customer service and airport services division, which is subject to ratification. Jazz is currently in negotiations with all other unionized groups of employees.

Organizational structure

The following chart illustrates, on a simplified basis, the structure of Jazz (including the jurisdictions of establishment and incorporation of the various entities) and the indirect investment by Jazz in the Partnership as at September 30, 2009.



2. HIGHLIGHTS

Third Quarter 2009 vs third Quarter 2008 highlights

- Achieved 94% of the incentives available under the CPA.
- Distributable cash of $37.9 million for the three months ended September 30, 2009, compared to $44.3 million, down 14.4% or $6.4 million.
- Billable Block Hours down 5.5% and operating income, before amortization of CPA asset, down 23.4% to $34.8 million for the three months ended September 30, 2009.
- EBITDA of $42.5 million for three months ended September 30, 2009, down $10.3 million or 19.5%.

Key statistical information

Statistical information for the three and nine months ended September 30, 2009 is as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Variance %	2009	2008	Variance %
Departures	72,575	75,818	(4.3)	209,237	219,268	(4.6)
Block Hours	99,388	104,728	(5.1)	288,456	305,911	(5.7)
Billable Block Hours	100,486	106,325	(5.5)	294,437	312,532	(5.8)
Passengers	2,340,138	2,549,724	(8.2)	6,675,752	7,473,645	(10.7)
Revenue Passenger Miles (RPMs) (000's)	997,751	1,074,929	(7.2)	2,808,272	3,166,060	(11.3)
Available Seat Miles (ASMs) (000's)	1,449,292	1,502,652	(3.6)	4,127,200	4,337,970	(4.9)
Passenger Load Factor (%)	68.8	71.5	(3.8)	68.0	73.0	(6.8)
Operating Expenses ($000's)	344,893	392,069	(12.0)	1,019,571	1,135,061	(10.2)
Cost per Available Seat Mile (CASM) (¢)	23.80	26.09	(8.8)	24.70	26.17	(5.6)
CASM Excluding Aircraft Fuel (¢)	18.85	17.29	9.0	20.07	18.31	9.6
Controllable CASM (¢)	14.92	13.54	10.2	15.86	14.21	11.6
Number of Operating Aircraft (end of period)(1)	137	137	-	137	137	-
Full-time Equivalents (FTEs) (end of period)	4,509	4,523	(0.3)	4,509	4,523	(0.3)

(1) Refer to Section 14 – Fleet

3. SUMMARY OF CONSOLIDATED STATEMENT OF INCOME

Certain of the following financial information of Jazz has been derived from, and should be read in conjunction with, the interim financial statements for the three months and nine months ended September 30, 2009 and the related notes.

(expressed in thousands of Canadian dollars, except units and earnings per unit) (unaudited)	Three months ended September 30, 2009 $	2008 $	Variance %	Nine months ended September 30, 2009 $	2008 $	Variance %
Operating revenue	379,659	437,439	(13.2)	1,122,662	1,243,605	(9.7)
Operating expenses	344,893	392,069	(12.0)	1,019,571	1,135,061	(10.2)
Operating income before amortization of CPA asset[1] and other operating	34,766	45,370	(23.4)	103,091	108,544	(5.0)
Amortization of CPA asset[1]	10,525	10,525	-	31,575	31,575	-
Operating income	24,241	34,845	(30.4)	71,516	76,969	(7.1)
Non-operating expenses	(1,520)	(3,096)	(50.9)	(4,292)	(8,548)	(49.8)
Income before future income taxes	22,721	31,749	(28.4)	67,224	68,421	(1.7)
Recovery of future income taxes[2]	2,600	-	(100.0)	4,598	8,662	(46.9)
Net income for the period	25,321	31,749	(20.2)	71,822	77,083	(6.8)
Adjusted net income[3]	33,246	42,274	(21.4)	98,799	99,996	(1.2)
Adjusted net income[3] per unit	0.27	0.35	(22.9)	0.81	0.82	(1.2)

(1) The CPA asset (the rights of Jazz under the CPA) was recorded at fair value as a result of Jazz's step purchase of the Partnership during 2007. The value of the CPA is amortized on a straight line basis over the life of the agreement.
(2) Beginning January 1, 2011 Jazz will become subject to income tax. The future tax expense or recovery represents the change in the future liability during the period based on the changes of temporary differences during the period.
(3) Adjusted net income equals net income before amortization of CPA asset and recovery of future income taxes. This is a non-GAAP measurement.

4. THIRD QUARTER ANALYSIS

The following is a discussion that compares the results of operations of Jazz for the three months ended September 30, 2009 to the three months ended September 30, 2008.

Operating Revenue

Operating revenue decreased from $437.4 million to $379.7 million in the third quarter of 2009, representing a decrease of 13.2%. This decrease in revenue was primarily attributable to a $60.0 million, or a 31.8%, decrease in pass-through costs under the CPA, reduced Billable Block Hours of 5.5%, a 4.3% reduction in departures, and a reduction in the mark-up charged by Jazz under the CPA, effective August 1, 2009 from 16.72% to 12.50% (refer to Section 10 – Economic Dependence for further discussion); offset by a higher US dollar exchange rate and rate increases made pursuant to the CPA.

Performance incentives payable by Air Canada to Jazz under the CPA amounted to $5.4 million or 2.2% of Jazz's Scheduled Flights Revenue. For the same period in 2008, performance incentives under the CPA amounted to $4.1 million or 1.7% of Jazz's Scheduled Flights Revenue.

Other revenue earned from charter flights and other sources such as groundhandling decreased from $4.1 million to $3.6 million.

Operating Expenses

Operating expenses decreased from $392.1 million to $344.9 million, a decrease of $47.2 million or 12.0%.

- Salaries, wages and benefits increased by $2.7 million due to increased FTE's in certain areas, wage and scale increases under collective agreements, and increased incentive compensation expense; offset by lower Block Hours for flight operations, lower number of FTEs in certain areas and a reduction in pension expense arising as a result of a revised actuarial valuation.
- Aircraft fuel costs decreased by $60.7 million due to a decrease of $55.9 million in the cost of fuel, and a $4.8 million decrease in fuel usage due to a reduction in the number of Block Hours.
- Depreciation and amortization expense increased by $0.3 million due to increased capital expenditures on aircraft rotable parts and other equipment; offset by changes in accounting estimates implemented during the second quarter of 2008 for aircraft and certain flight equipment, and other assets reaching full amortization at the end of 2008.
- Aircraft maintenance expense increased by $11.3 million as a result of: the effect of the increase in the US dollar exchange rate on certain material purchases of $0.9 million, increased rates under new maintenance contracts of $7.7 million, and other maintenance costs of $2.7 million.
- Airport and navigational fees decreased by $1.7 million due to a decrease in airport fees of $1.4 million and a decrease in navigational fees of $0.3 million (arising as a result of changes in aircraft deployment) and a decrease in departures of 4.3%; offset by a general rate increase.
- Aircraft rent increased by $1.2 million primarily arising as a result of a higher US dollar exchange rate.
- Terminal handling costs decreased by $1.0 million due to a reduction in the number of departures; offset by changes in aircraft deployment which resulted in rate increases and a decrease in de-icing costs.
- Other expenses increased by $0.7 million due to an increase in general overhead expenses which included professional fees associated with contingency planning and the CPA Amending Agreement.

Non-Operating Expenses

Non-operating expenses amounted to $1.5 million, a decrease of $1.6 million. The change was mainly attributable to a foreign exchange gain arising as a result of the change in value of the Canadian dollar relative to the US dollar, and a gain on the disposal of property and equipment; offset by increased net interest expense.

Jazz's costs fall into two principal categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees, certain aircraft rent (effective August 1, 2009, refer to Section 10 – Economic Dependence) and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and aircraft rent (with the exception of certain pass-through aircraft), which are borne by Jazz, but in respect of which Jazz indirectly recovers amounts from Air Canada through the fees it charges Air Canada under the CPA.

The following table presents Jazz's operating costs in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended September 30, 2009 $	Three months ended September 30, 2008 $	Change $	Change %
Pass-through cost items				
Fuel	71,231	131,277	(60,046)	(45.7)
Navigational fees	19,573	19,885	(312)	(1.6)
Airport user fees	31,266	32,589	(1,323)	(4.1)
De-icing	768	367	401	109.3
Terminal handling services	3,060	2,265	795	35.1
Aircraft rent(1)	937	-	937	100.0
Other	1,842	2,278	(436)	(19.1)
Total pass-through costs	128,677	188,661	(59,984)	(31.8)
Controllable Cost items				
Salaries, wages and benefits	88,615	85,951	2,664	3.1
Aircraft maintenance, materials and supplies	43,506	32,201	11,305	35.1
Aircraft rent(1)	31,747	31,438	309	1.0
Terminal handling services	16,464	18,631	(2,167)	(11.6)
Depreciation and amortization of property and equipment and other	7,710	7,419	291	3.9
Other	28,174	27,768	406	1.5
Total Controllable Costs(2)	216,216	203,408	12,808	6.3
Total Operating Costs	344,893	392,069	(47,176)	(12.0)

(1) Pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz agreed, effective as of August 1, 2009, to treat the rent charged to Jazz for five of the CRJ100 aircraft as a pass-through cost (refer to Section 10 – Economic Dependence).

(2) Included costs relating to operations that were not covered under the CPA, such as charter costs.

Operating margin performance

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended September 30, 2009				Three months ended September 30, 2008			
	Revenue $	Expenses $	Operating Margin $	Operating Margin %	Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	242,006	213,422	28,584	11.8	240,532	200,375	40,157	16.7
Pass-throughs	128,677	128,677	-	-	188,661	188,661	-	-
Incentives	5,376	-	5,376	100.0	4,141	-	4,141	100.0
Other	3,600	2,794	806	22.4	4,105	3,033	1,072	26.1
	379,659	344,893	34,766	9.2	437,439	392,069	45,370	10.4

The Controllable Adjusted Actual Margin for the third quarter of 2009 was 11.81%, which is less than the weighted average target margin established under the CPA of 12.24% (refer to Section 10 – Economic Dependence) by 43 basis points, or approximately $1.0 million. The shortfall was primarily attributable to incentive compensation expense which is excluded from the CPA revenue rate development. Prior period rates provided sufficient margin to cover incentive compensation expenses. In the third quarter of 2008, Controllable Adjusted Actual Margin was 16.70%, which was 261 basis points or approximately $6.3 million greater than the target margin of 14.09%.

CPA revenue for the third quarter of 2009 increased by 0.6% or $1.5 million as a result of: an increase in the mark-up from 16.40% to 16.72% for the month of July 2009 (resulting from Jazz's out-performance of the controllable target margin from 2006 to 2008), an increase in the rates payable under the CPA and a higher US dollar exchange rate; offset by a reduction in the number of Billable Block Hours, and a change in the mark-up effective August 1, 2009 from 16.72% to 12.50% (refer to Section 10 – Economic Dependence).

CPA Controllable Costs increased by 6.5% or $13.0 million primarily as a result of: increases in salaries, wages and benefits and aircraft maintenance, materials and supplies (refer to previous discussion on quarter-over-quarter changes in operating expenses).

Jazz earned 94% of the incentives available under the CPA, or $5.4 million, as compared to last year's incentives of 73% or $4.1 million. Incentives earned in the third quarter of 2009 were higher as a result of the increase in CPA controllable revenue and improvements in on-time performance, customer check-in and baggage performance.

The margin on other revenue was earned from charter flights and other sources, such as ground handling services.

5. YEAR-TO-DATE ANALYSIS

The following is a discussion that compares the results of operations of Jazz for the nine months ended September 30, 2009 to the nine months ended September 30, 2008.

Operating Revenue

Operating revenue decreased from $1,243.6 million to $1,122.7 million, representing a decrease of 9.7%. This decrease in revenue was primarily attributable to a $153.8 million, or a 29.6%, decrease in pass-through costs under the CPA, reduced Billable Block Hours of 5.8%, a 4.6% reduction in departures and a reduction in the mark-up charged by Jazz under the CPA, effective August 1, 2009 from 16.72% to 12.50% (refer to Section 10 – Economic Dependence for further discussion); offset by a higher US dollar exchange rate and rate increases made pursuant to the CPA.

Performance incentives payable by Air Canada to Jazz under the CPA amounted to $14.4 million or 2.0% of Jazz's Scheduled Flights Revenue. For the same period in 2008, performance incentives under the CPA amounted to $12.0 million or 1.7% of Jazz's Scheduled Flights Revenue.

Other revenue earned from charter flights and other sources such as groundhandling decreased from $9.7 million to $8.0 million.

Operating Expenses

Operating expenses decreased from $1,135.1 million to $1,019.6 million, a decrease of $115.5 million or 10.2%.

- Salaries, wages and benefits decreased by $1.4 million due to lower Block Hours for flight operations, lower number of FTEs in certain areas and a reduction in pension expense arising as a result of a revised actuarial valuation; offset by wage and scale increases under collective agreements, increased FTE's in other areas and increased incentive compensation expense.
- Aircraft fuel costs decreased by $149.7 million due to a decrease of $132.3 million in the cost of fuel, and a $17.4 million decrease in fuel usage due to a reduction in the number of Block Hours.
- Depreciation and amortization expense increased by $0.2 million due to increased capital expenditures on aircraft rotable parts and other equipment; offset by changes in accounting estimates implemented during the second quarter of 2008 for aircraft and certain flight equipment, and other assets reaching full amortization at the end of 2008.
- Aircraft maintenance expense increased by $26.3 million as a result of: the effect of the increase in the US dollar exchange rate on certain material purchases of $9.1 million, increased rates under new maintenance contracts of $16.4 million, and other maintenance costs of $4.8 million; offset by a decrease in heavy maintenance outsourcing of $4.0 million.
- Airport and navigational fees decreased by $5.5 million due to a decrease in airport fees of $3.9 million and a decrease in navigational fees of $1.6 million arising as a result of changes in aircraft deployment, and a decrease in departures of 4.6%; offset by a general rate increase.
- Aircraft rent increased by $12.6 million primarily arising as a result of higher US dollar exchange rates.
- Terminal handling costs decreased by $0.9 million due to a decrease in de-icing costs and a reduction in the number of departures; offset by changes in aircraft deployment which resulted in rate increases.
- Other expenses increased by $2.8 million due to an increase in general overhead expenses which included professional fees associated with contingency planning and the CPA Amending Agreement.

Non-Operating Expenses

Non-operating expenses amounted to $4.3 million, a decrease of $4.3 million. The change was mainly attributable to a $3.0 million fair value adjustment in the first quarter of 2008 related to Asset Backed Commercial Paper, a gain on the disposal of property and equipment, and a lower foreign exchange loss arising as a result of the change in value of the Canadian dollar relative to the US dollar; offset by increased net interest expense.

Jazz's costs fall into two principal categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees, certain aircraft rent (effective August 1, 2009, refer to Section 10 – Economic Dependence) and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and aircraft rent (with the exception of certain pass-through aircraft), which are borne by Jazz, but in respect of which Jazz indirectly recovers amounts from Air Canada through the fees it charges Air Canada under the CPA.

The following table presents Jazz's operating costs in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	Nine months ended September 30, 2009 $	Nine months ended September 30, 2008 $	Change $	Change %
Pass-through cost items				
Fuel	190,325	338,777	(148,452)	(43.8)
Navigational fees	56,404	58,030	(1,626)	(2.8)
Airport user fees	89,402	93,218	(3,816)	(4.1)
De-icing	13,167	14,032	(865)	(6.2)
Terminal handling services	8,785	7,739	1,046	13.5
Aircraft rent(1)	937	-	937	100.0
Other	5,902	6,897	(995)	(14.4)
Total pass-through costs	364,922	518,693	(153,771)	(29.6)
Controllable Cost items				
Salaries, wages and benefits	260,595	261,998	(1,403)	(0.5)
Aircraft maintenance, materials and supplies	125,398	99,059	26,339	26.6
Aircraft rent(1)	102,951	91,302	11,649	12.8
Terminal handling services	53,839	54,898	(1,059)	(1.9)
Depreciation and amortization of property and equipment and other	22,734	22,532	202	0.9
Other	89,132	86,579	2,553	2.9
Total Controllable Costs(2)	654,649	616,368	38,281	6.2
Total Operating Costs	1,019,571	1,135,061	(115,490)	(10.2)

(1) Pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz agreed, effective as of August 1, 2009, to treat the rent charged to Jazz for five of the CRJ100 aircraft as a pass-through cost (refer to Section 10 – Economic Dependence).

(2) Included costs relating to operations that were not covered under the CPA, such as charter costs.

Operating margin performance – 2009 versus 2008

(expressed in thousands of Canadian dollars) (unaudited)	Nine months ended September 30, 2009				Nine months ended September 30, 2008			
	Revenue $	Expenses $	Operating Margin $	Operating Margin %	Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	735,318	648,023	87,295	11.9	703,193	608,843	94,350	13.4
Pass-throughs	364,922	364,922	-	-	518,693	518,693	-	-
Incentives	14,380	-	14,380	100.0	12,029	-	12,029	100.0
Other	8,042	6,626	1,416	17.6	9,690	7,525	2,165	22.3
	1,122,662	1,019,571	103,091	9.2	1,243,605	1,135,061	108,544	8.7

The Controllable Adjusted Actual Margin for the first nine months of 2009 was 11.87%, which is less than the weighted average target margin established under the CPA of 13.63% (refer to Section 10 – Economic Dependence) by 176 basis points, or approximately $12.9 million. The shortfall was primarily attributable to incentive compensation expense which is excluded from the CPA revenue rate. Prior period rates provided sufficient margin to cover incentive compensation expenses. In the first nine months of 2008, Controllable Adjusted Actual Margin was 13.42%, which was 67 basis points or approximately $4.7 million less than the target margin of 14.09%

CPA revenue for the first nine months of 2009 increased by 4.6%, or $32.1 million as a result of: an increase in the mark-up from 16.40% to 16.72% from January 1 to July 31, 2009 (resulting from Jazz's out-performance of the controllable target margin from 2006 to 2008), an increase in the rates payable under the CPA, and a higher US dollar exchange rate; offset by a reduction in the number of Billable Block Hours and a change in the mark-up effective August 1, 2009 from 16.72% to 12.50% (refer to Section 10 – Economic Dependence).

CPA Controllable Costs increased by 6.4% or $39.2 million primarily as a result of: increases in aircraft rent and aircraft maintenance, materials and supplies (refer to previous discussion on quarter-over-quarter changes in operating expenses).

Jazz earned 83% of the incentives available under the CPA, or $14.4 million, as compared to last year's incentives of 72% or $12.0 million. Incentives earned in the first nine months of 2009 were higher as a result of the increase in CPA controllable revenue and improvements in on-time performance, customer check-in, baggage performance and in-flight customer satisfaction.

The margin on other revenue was earned from charter flights and other sources, such as ground handling services.

6. PERFORMANCE INDICATORS

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

EBITDA

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

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indication of financial performance. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

Jazz currently intends to make distributions to the holders of Units ("unitholders") (refer to Caution regarding forward-looking information and Section 16 - Outlook). Any such distributions will be made to unitholders of record on the last business day of each month, within 15 days of the end of each month, net of estimated cash amounts required for expenses and other obligations of Jazz, cash redemptions or repurchases of Units, and any tax liability. Declared distributions to the unitholders amounted to $22.6 million and $84.4 million, respectively, for the three and nine months ended September 30, 2009 ($30.9 million and $92.7 million for the three and nine months ended September 30, 2008). Distributions are recorded when declared. Distributions are determined by the board of directors of Jazz GP, as general partner of the Partnership and by the Trustees of Jazz, on the basis of performance and taking into account future cash requirements.

On July 28, 2009, the Trustees adjusted cash distributions to reflect the amendments to the CPA and the extension of the CPA's term and to otherwise improve liquidity during an uncertain period. Effective with the distribution payment to be paid in September 2009 to unitholders of record on August 31, 2009, the Trustees resolved to reduce cash distributions by approximately 40% to $0.60 per Unit annually. The actual amount distributed in respect of the Units is not guaranteed and depends upon numerous factors, including Jazz's profitability and its ability to sustain operating cash flows and the fluctuations in Jazz's working capital and capital expenditures and refinancing of debt obligations, all of which are susceptible to a number of risks. (Refer to Section 17 - Risk Factors.)

Standardized Distributable Cash

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

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

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

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended September 30, 2009 $	Three months ended September 30, 2008 $	Nine months ended September 30, 2009 $	Nine months ended September 30, 2008 $
Operating income	24,241	34,845	71,516	76,969
Depreciation and amortization[1]	18,235	17,944	54,309	54,107
EBITDA	42,476	52,789	125,825	131,076
EBITDA margin (%)[2]	*11.2*	*12.1*	*11.2*	*10.5*
EBITDA	42,476	52,789	125,825	131,076
Non-operating expenses	(1,520)	(3,096)	(4,292)	(8,548)
Maintenance capital expenditures[3]	(3,041)	(5,398)	(9,010)	(15,262)
Distributable cash	37,915	44,295	112,523	107,266

(1) Includes depreciation and amortization of property and equipment and other and amortization of CPA asset.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.
(3) Refer to Section 8 for further discussion.

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended September 30, 2009 $	Three months ended September 30, 2008 $	Nine months ended September 30, 2009 $	Nine months ended September 30, 2008 $
Cash flows from operating activities	62,897	49,026	117,179	122,451
Maintenance capital expenditures, net of gain on disposal	(2,850)	(5,398)	(7,634)	(15,254)
Standardized distributable cash	60,047	43,628	109,545	107,197
Change in non-cash operating working capital[1]	(22,777)	3,025	1,074	4,755
Amortization of prepaid aircraft rent and related fees[1]	(482)	(483)	(1,447)	(1,446)
Unit based compensation[1]	(479)	(725)	(1,437)	(2,304)
Funding of unit based compensation, net of forfeitures[1]	6	(284)	2,050	1,811
Foreign exchange gain (loss)[1]	1,581	(808)	2,517	(1,342)
Unrealized loss on Asset Backed Commercial Paper ("ABCP")[1]	-	-	-	(2,985)
Other[1]	19	(58)	221	1,580
Distributable cash	37,915	44,295	112,523	107,266
Distributions declared	22,582	30,888	84,358	92,664
Payout ratio – distributions declared/ standardized distributable cash	*37.6%*	*70.8%*	*77.0%*	*86.4%*
Payout ratio – distributions declared/ distributable cash	*59.6%*	*69.7%*	*75.0%*	*86.4%*

Cumulative – since IPO[2]	2009	2008
Standardized distributable cash	543,107	406,150
Distributable cash	534,432	384,491
Distributions declared	429,671	314,425
Standardized distributable cash payout ratio	*79.1%*	*77.4%*
Distributable cash payout ratio	*80.4%*	*81.8%*

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

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended September 30, 2009 $	Nine months ended September 30, 2009 $	Year ended December 31, 2008 $	Year ended December 31, 2007[1] $
Cash flows from operating activities	62,897	117,179	155,088	143,767
Adjusted net income[2]	33,246	98,799	134,936	150,654
Cash distributions declared relating to the period	22,582	84,358	123,552	123,552
Excess of cash flows from operating activities over cash distributions declared	40,315	32,821	31,536	20,215
Excess of adjusted net income[2] over cash distributions declared	10,664	14,441	11,384	27,102
Payout ratios				
Distributions declared/cash flows from operating activities	*35.9%*	*72.0%*	*79.7%*	*85.9%*
Distributions declared/adjusted net income[2]	*67.9%*	*85.4%*	*91.6%*	*82.0%*

(1) 2007 results presented for comparative purposes are those of the Partnership.
(2) Adjusted net income equals net income before amortization of CPA asset, recovery of future income taxes, and goodwill impairment loss. This is a non-GAAP measurement.

7. QUARTERLY FINANCIAL DATA

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

(unaudited)	Q4 2007[1]	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Operating revenue ($000)	372,119	396,361	409,805	437,439	392,684	369,434	373,569	379,659
Operating expenses ($000)	336,089	362,004	380,988	392,069	352,957	337,823	336,855	344,893
Amortization of CPA asset ($000)	n/a	10,525	10,525	10,525	10,525	10,525	10,525	10,525
Operating income ($000)	36,030	23,620	18,504	34,845	29,202	21,086	26,189	24,241
Total non-operating income (expense) ($000)	(932)	(4,061)	(1,391)	(3,096)	(158,017)[2]	(1,961)	(811)	(1,520)
Net income (loss) ($000)	35,098	21,765	23,569	31,749	(86,493)	21,123	25,378	25,321
Adjusted net income[3] ($000)	n/a	30,296	27,426	42,274	34,940	29,650	35,903	33,246
Billable Block Hours	102,158	105,347	100,860	106,325	98,232	95,541	98,410	100,486
Revenue Passenger Miles (000's)	1,025,108	1,045,289	1,045,842	1,074,929	937,993	863,315	947,206	997,751
Available Seat Miles (000's)	1,398,828	1,412,000	1,423,318	1,502,652	1,319,052	1,269,475	1,408,433	1,449,292
Passenger Load Factor (%)	73.3	74.0	73.5	71.5	71.1	68.0	67.3	68.8
Cost per Available Seat Mile (CASM) (¢)	24.03	25.64	26.77	26.09	26.76	26.61	23.92	23.80
CASM, excluding fuel expense (¢)	18.06	19.04	18.67	17.29	19.98	22.09	19.51	18.85
Controllable CASM (¢)	13.80	14.44	14.68	13.54	15.40	17.25	15.58	14.92
Controllable Adjusted Actual Margin (%)	14.1	12.9	10.5	16.7	14.9	11.0	12.7	11.8
EBITDA ($000)	42,863	41,194	37,093	52,789	47,604	39,071	44,278	42,476
Distributable cash ($000)	33,056	32,669	30,302	44,295	37,418	33,989	40,619	37,915
Distributable cash per unit ($)	0.27	0.27	0.25	0.36	0.31	0.28	0.33	0.31
Distributions declared per unit ($)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Net income (loss) per unit, in accordance with GAAP - Jazz ($)	0.10	0.18	0.19	0.26	(0.71)	0.17	0.21	0.21
Net income per unit, in accordance with GAAP - Partnership ($)	0.29	0.25	0.22	0.35	0.28	n/a	n/a	n/a
Adjusted net income[3] per unit ($)	n/a	0.25	0.22	0.35	0.29	0.24	0.29	0.27

(1) 2007 results for comparative purposes are those of the Partnership.
(2) Includes a goodwill impairment loss of $153.2 million.
(3) Adjusted net income equals net income before amortization of CPA asset, recovery of future income taxes, and goodwill impairment loss. This is a non-GAAP measurement.

8. LIQUIDITY AND CAPITAL RESOURCES

The recent global financial crisis has tightened liquidity in the financial markets and has affected investor confidence in global equity markets, leading to significant declines in global market indices and negatively impacting the value of publicly-traded securities of many companies. Management has evaluated aspects of Jazz's business and financial condition that could be affected by these conditions as they currently exist. As at the date of this report, no material adverse consequences with respect to its liquidity have occurred. (Refer to Section 17 – Risk Factors.)

Jazz continues to generate positive operating income and cash flows from operations. At September 30, 2009, Jazz had $151.3 million in cash and cash equivalents on hand, representing an increase of $15.3 million or 11.2% from September 30, 2008. Despite the difficult credit market conditions, Jazz currently maintains the ability to generate sufficient cash flow to fund cash distributions (which are at the discretion of the Board), planned capital expenditures and to service its debt obligations. (Refer to Caution regarding forward-looking information.)

Summary of Cash Flows

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

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended September 30, 2009 $	2008 $	Nine months ended September 30, 2009 $	2008 $
Cash provided by operating activities	62,897	49,026	117,179	122,451
Cash used in financing activities	(27,384)	(31,444)	(90,539)	(94,274)
Cash used in investing activities	(2,850)	(5,398)	(7,215)	(15,044)
Net change in cash and cash equivalents during the periods	32,663	12,184	19,425	13,133
Cash and cash equivalents – Beginning of periods	118,638	123,823	131,876	122,874
Cash and cash equivalents – End of periods	151,301	136,007	151,301	136,007

Operating activities

Jazz continued to generate positive cash flows from operations of $62.9 million and $117.2 million for the three and nine months ended September 30, 2009, compared to $49.0 million and $122.5 million for the same periods in 2008. The increase for the three months ended September 30, 2009 primarily relates to a decrease in accounts receivable; offset by a lower net income during such period. The decrease for the nine months ended September 30, 2009 primarily relates to a decrease in accounts payable and accrued liabilities and a lower net income; offset by a decease in accounts receivable and spare parts, materials and supplies.

Financing activities

Cash used in financing activities for the three and nine months ended September 30, 2009 included distributions to unitholders of Jazz of $26.7 million and $88.5 million, respectively, and a repayment of obligations under capital leases of $0.6 million and $2.0 million, respectively.

Cash used in financing activities for the three and nine months ended September 30, 2008 included distributions to unitholders of Jazz of $30.9 million and $92.7 million, respectively and $0.6 million and $1.6 million, respectively, for repayment of obligations under capital leases.

Investing activities

Investing activities for the three and nine months ended September 30, 2009 included capital expenditures of $3.0 million and $9.0 million, respectively. Capital expenditures consisted of capital investments made to replenish aircraft rotable parts and other purchases necessary to support the ongoing operations. Cash provided by investing activities for the nine months ended

September 30, 2009 included the collection of a long-term receivable of $0.4 million, and proceeds on disposal of property and equipment of $1.4 million.

Investing activities for the three and nine months ended September 30, 2008 included capital expenditures of $5.4 million and $15.3 million, respectively. Capital expenditures consisted of capital investments made to replace the maintenance information system, replenish aircraft rotable parts, and other purchases necessary to support the ongoing operations. Cash provided by investing activities included the collection of a long-term receivable of $0.2 million.

Contractual obligations and other commitments

The table below summarizes for Jazz's principal cash debt repayments and future minimum lease payments under operating leases for flight equipment and base facilities that have initial or remaining non-cancellable terms in excess of one year for the years 2009 through to 2013 and thereafter.

(expressed in thousands of Canadian dollars)			Payments Due by Period				
(unaudited)	Total $	2009 $	2010 $	2011 $	2012 $	2013 $	After 5 years $
Term facility	115,000	-	115,000	-	-	-	-
Capital leases	24,172	1,056	4,224	4,195	3,842	3,816	7,039
Operating leases Air Canada and its subsidiaries (1)	1,061,738	30,788	113,358	93,620	87,590	85,666	650,716
Operating leases Other third parties	64,836	3,274	11,695	8,663	5,101	4,536	31,567
	1,265,746	35,118	244,277	106,478	96,533	94,018	689,322

(1) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Jazz. These leases are included in the above table under the heading "Air Canada and its subsidiaries". For further discussion, refer to Section 10 – Economic Dependence.

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

Long-term debt

The following provides a breakdown of Jazz's authorized and outstanding Credit Facilities:

(expressed in thousands of Canadian dollars) (unaudited)	Authorized $	Drawn at September 30, 2009 $	Drawn at December 31, 2008 $
Revolving term facility (a)	35,000	-	-
Term facility (b)	115,000	115,000	115,000
Prepaid interest (c)	-	(305)	(213)
Unamortized commitment fee (c)	-	-	(58)
	150,000	114,695	114,729
Less: Current portion	-	114,695	-
Total	150,000	-	114,729

(a) The revolving term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at

September 30, 2009, there were no borrowings under the revolving term facility. Available credit under the revolving term facility, after deducting letters of credit, bears interest at 0.50%.

Letters of credit

Jazz has issued irrevocable letters of credit in the aggregate amount of $3.6 million. This amount reduces the available credit under the revolving term facility and bears interest at 2.875%.

(b) The term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at September 30, 2009, of borrowings under the term facility, $114.4 million was in the form of bankers' acceptances with a 90 day term and an effective interest rate of 3.20%. A further $0.6 million was in the form of prime rate advances bearing interest at 4.0%. As at September 30, 2009 Jazz had entered into interest rate swap agreements with a third party in respect of $115.0 million of debt which has effectively resulted in a fixed interest rate of 5.98% until February 2, 2010.

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

The continued availability of the Credit Facilities is subject to Jazz's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants.

The Credit Facilities of Jazz 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. The terms of the Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz to unitholders during any twelve-month period to the aggregate distributable cash of Jazz during such period. Distributions by Jazz are also prohibited upon the occurrence and continuance of an event of default under the Credit Facilities. As at September 30, 2009, Jazz is in compliance with all conditions of the Credit Facilities.

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

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

Jazz has entered into a common terms agreement for an aircraft lease which will also apply to any future leases with the same company. The agreement contains the following financial covenants:

Covenant	Result
Minimum cash balance	In compliance
Tangible asset disposal	In compliance

Credit facilities are in place until February 2, 2010 and are provided by a syndicate that consists of seven institutional lenders, including two US financial institutions which are currently subject to US government relief under the Troubled Assets Relief Program. Jazz will be required to refinance such credit facilities by February 2, 2010. Given current market conditions, it is anticipated that such financing may occur at terms, and amounts, that are less favorable than current terms and capacity, and may cause Jazz to reduce or suspend cash distributions, or reduce cash available for planned capital expenditures.

On October 22, 2009, Jazz announced that it had entered into an agreement to sell to a group of underwriters $75.0 million principal amount of 9.50% convertible unsecured subordinated debentures (the "Debentures") (refer to Section 18 - Subsequent Event).

Jazz continues to evaluate refinancing options which include, but are not limited to, establishing a replacement bank credit facility, sale and leaseback of owned aircraft which have current market value in excess of carrying value, issue of secured debt obligations and application of current cash balances.

Units

As at September 30, 2009, and as at the date of this report, November 12, 2009, Jazz had 122,864,012 Units issued and outstanding, compared to 122,864,037 Units issued and outstanding at September 30, 2008.

Jazz's basic and diluted earnings per Unit, before future income tax, amounted to $0.19 for the three months ended September 30, 2009 ($0.26 for the three months ended September 30, 2008) and $0.55 for the nine months ended September 30, 2009 ($0.56 for the nine months ended September 30, 2008).

Jazz's basic and diluted earnings per Unit, after future income tax, amounted to $0.21 for the three months ended September 30, 2009 ($0.26 for the three months ended September 30, 2008) and $0.59 for the nine months ended September 30, 2009 ($0.63 for the nine months ended September 30, 2008).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Interest rate risk

Investments included in Jazz's cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Jazz's objective is to maintain these balances in highly liquid investments. As at September 30, 2009, Jazz's investments consisted of a fully cashable GIC issued by a Schedule 1 bank. Jazz is exposed to interest rate fluctuation risk as a result of variable interest rates on its long-term debt. Jazz uses interest rate swaps to hedge its exposure to changes in interest rates, swapping its credit facility variable interest rate payments for fixed interest rate payments. Jazz has elected to designate its interest rate swaps as cash flow hedges and currently has no intention of settling these contracts early. Jazz entered into interest rate swap agreements with a third party in respect of $115.0 million of debt which has effectively resulted in a fixed interest rate of 5.98% until February 2, 2010. If Jazz had settled these contracts at September 30, 2009, a payment of $1.6 million by Jazz would have resulted.

Credit risk

In accordance with its investment policy, Jazz invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high. Jazz manages the credit risk on cash and cash equivalents by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. Given the disruption in the third party sponsored ABCP market, Jazz amended its investment policy during the third quarter of 2007 to prohibit investment in all third party and bank sponsored ABCP. With respect to investments in ABCP, refer to discussion below.

The amount of accounts receivable disclosed in the balance sheet of $53.4 million is net of allowances for bad debts, estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. Approximately $47.4 million of receivables are with one company, Air Canada. Accordingly, Jazz is directly affected by the financial and operational strength of Air Canada (see Section 17 - Risk Factors). Jazz does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Jazz's objective is to maintain sufficient liquidity to meet liabilities when due, as well as to demonstrate compliance with liquidity covenants included in financing contracts. Jazz monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. As at September 30, 2009, Jazz had available $31.4 million in unutilized balance of the credit facilities and cash and cash equivalents of $151.3 million. As at September 30, 2009, Jazz had authorized Credit Facilities of $150.0 million and drawings of $115.0 million, against the facilities. Letters of credit totalling approximately $3.6 million (September 30, 2008 - $3.2 million) have been issued as security for groundhandling and airport fee contracts, lease payments on rental space and certain employee benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

Currency risk

Jazz receives revenue and incurs expenses in US and Canadian currency, and as such, is subject to foreign currency exchange rate risk. Jazz manages its exposure to currency risk by billing for its services within the CPA in the underlying currency of the related expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under capital leases, which are long-term and therefore subject to larger unrealized gains or losses. Jazz seeks to minimize its currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US dollar denominated assets was $65.2 million and US denominated liabilities was $65.6 million at September 30, 2009.

Asset backed commercial paper

On January 21, 2009, the ABCP committee announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of the ABCP had their short-term commercial paper exchanged for longer-term notes with maturities to match those of the assets previously contained in the underlying conduits.

As a result of the restructuring, at September 30, 2009, included in other assets is US dollar denominated, Master Asset Vehicle 3 (MAV3) Ineligible Asset Tracking Notes (the “Notes”). Jazz holds two Notes which were converted from ABCP under the restructuring plan. Since conversion a principal repayment of $0.9 million US has been received and as a result the face value of the notes held is $4.6 million US. The notes, which track the performance of the underlying assets, have maturity dates of December 2021 and December 2027, and have been classified as held for trading.

The current carrying value of the Notes is $0.5 million, which includes a fair value loss of $3.9 million recorded in prior periods. All interest received on the Notes has been applied against the fair value. Since there is no active market for the Notes, Jazz calculated the fair value by discounting the expected future cash flows according to the probability of recovery of principal and interest based on maturity dates. Management also reviewed available portfolio reports from the asset manager, and found that the fair value of the Notes calculated based on available security market prices of the underlying assets is not materially different from the fair value calculated by Jazz. There is a significant amount of uncertainty associated with estimating the timing of cash flows and fair value of the Notes.

10. ECONOMIC DEPENDENCE

The CPA

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

Pursuant to the terms of the CPA, Jazz and Air Canada agreed to re-set detailed rates (subject to the terms of the contract, including the controllable target margin requirements specified above) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the first quarter of 2009, Jazz reached an agreement with Air Canada regarding the establishment of new rates for Controllable Costs that are payable by Air Canada under the CPA in the next three-year period (2009 to 2011, inclusive). The new rates which were retroactive to January 1, 2009, were established so as to achieve a controllable target margin of 14.32% for Jazz (for the years 2006 to 2008, the target margin was 14.09%), excluding incentive and pass-through revenue, and before the deduction of profit sharing expenses paid to employees as a result of performance achievements on the CPA services provided to Air Canada. The percentage mark-up on Jazz’s Controllable Costs for each of the years 2009 to 2011 was set at 16.72% (for the years 2006 to 2008 the percentage mark-up was 16.40%).

Amendments to the CPA

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

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

In addition to establishing the annual minimum number of Block Hours on which the MADUG is based, the CPA Amending Agreement provides Air Canada with the right to revise the MADUG effective in January 2016 in the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 has decreased by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009. In the event of such a decrease, the CPA Amending Agreement requires that Air Canada and Jazz agree upon a revised MADUG by November 17, 2015, failing which Air Canada shall have the right to unilaterally set a revised MADUG by sending Jazz notice by November 20, 2015. The CPA Amending Agreement provides Jazz with the right to send Air Canada notice by December 18, 2015 of Jazz's intention to either accept the revised MADUG or exercise its right to terminate the CPA as of December 31, 2016.

The CPA Amending Agreement also amended the Rates established for the rate period commencing January 1, 2009 and ending on December 31, 2011 (the "2009-2011 Rate Period"). The Rates negotiated and reflected in the Rate Amending Agreement were established to enable Jazz to achieve a Controllable Target Margin of 14.32%, corresponding to a Controllable Target Mark-Up of 16.72% on Jazz's Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective commencing August 1, 2009, an agreed set of revised Rates became effective, under which Jazz achieves a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Jazz's Controllable Costs.

Following the expiration of the 2009-2011 Rate Period, the CPA Amending Agreement established the following three remaining rate periods during the initial term of the CPA: (i) January 1, 2012 to December 31, 2014; (ii) January 1, 2015 to December 31, 2017 and; (iii) January 1, 2018 to December 31, 2020. Prior to the commencement of each rate period Jazz and Air Canada shall determine the Rates to be charged by Jazz during each period. Rates for each rate period are determined pursuant to a Rate reset process set out in the CPA. The CPA provides that Air Canada and Jazz will review and agree in writing on the Rates for the next rate period. The components of each Rate type to be considered in developing each new Rate are set out in the schedules to the CPA and are based on costs incurred by Jazz. The CPA also specifies that the Rates are to be established so as to enable Jazz to achieve the Controllable Target Margin which corresponds to the Controllable Mark-Up. If Jazz and Air Canada can not agree on new Rates, the matter is subject to the arbitration provisions in the CPA.

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

The Controllable Mark-Up may also be reduced as a result of benchmarking Jazz's Controllable Costs to those of a group of comparable operators (the "Comparator Group") in 2010 and 2016. Jazz and Air Canada had agreed to compare and benchmark Jazz's Controllable Costs to those of the Comparator Group in 2010 for the 2009 calendar year (the "2009 Benchmark"). Pursuant to the terms of the CPA Amending Agreement, Jazz and Air Canada have agreed to a second benchmarking in 2016 for the 2015 calendar year (the "2015 Benchmark").

If the 2009 Benchmark indicates that the percentage difference between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference for the twelve month period beginning July 1, 2006 and ending June 30, 2007, the Controllable Mark-Up will be reduced with effect as of January 1, 2010 until December 31, 2020, unless as a result of the 2015 Benchmark it is further reduced, to the lower of 12.50% or the percentage that is equal to 16.72% minus the amount of the increase described above.

If the 2015 Benchmark indicates that the percentage difference between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference determined during the 2009 benchmarking, the Controllable Mark-Up then in effect shall be reduced by the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020.

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

Jazz currently intends to acquire new, large turboprop aircraft with delivery of one aircraft per month commencing in May 2011. Jazz and Air Canada have agreed to use commercially reasonable efforts to agree to the Rates to be charged for the new turboprop aircraft prior to their delivery, failing which the matter shall be determined in accordance with the dispute resolution provisions in the CPA. Following the delivery of the second new turboprop aircraft in June 2011, the number of aircraft comprising the Covered Aircraft will return to the Guaranteed Minimum Number of Covered Aircraft and two of the CRJ 100 aircraft may be treated as unassigned aircraft for scheduling purposes.

Upon the arrival of each remaining turboprop aircraft, one CRJ 100 or CRJ 200 will be removed from the fleet of Covered Aircraft and replaced with one arriving turboprop aircraft, such that the number of aircraft shall remain at the Guaranteed Minimum Number of Covered Aircraft. Upon the removal of the twelfth CRJ 100 or CRJ 200 aircraft, Air Canada and Jazz shall use commercially reasonable efforts to agree to new Rates for this aircraft type. Pursuant to the terms of the CPA Amending Agreement, Air Canada has agreed to pay the costs associated with the removal of the CRJ 100 and CRJ 200 aircraft from the fleet of Covered Aircraft.

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz also agreed, effective as of August 1, 2009, to treat the rent charged to Jazz for five of the CRJ 100 aircraft as a Pass-Through Cost. Jazz and Air Canada have also agreed to use commercially reasonable efforts to agree by March 31, 2010 to terms and conditions relating to deploying up to eight CRJ 100 aircraft ("Swing Aircraft"). If an agreement is reached, Air Canada may commence the use of such Swing Aircraft to operate Scheduled Flights commencing in 2011, following the delivery of the third new turboprop aircraft. The rent to be charged for the Swing Aircraft shall also be treated as a Pass-Through Cost. All or some of these Swing Aircraft may be removed from Jazz's fleet by Air Canada. The Swing Aircraft in Jazz's fleet from time to time, if any, are in addition to the Guaranteed Minimum Number of Covered Aircraft.

Master Services Agreement

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

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

Other

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

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA. The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by Air Canada.

Jazz has a significant amount of transactions with Air Canada and its subsidiaries Air Canada Capital Ltd. and ACGHS Limited Partnership. Air Canada and its subsidiaries represented 99.0% and 99.0% of Jazz's operating revenues for the quarters ended September 30, 2009 and 2008, respectively. Approximately 13.1% and 12.0% of Jazz's operating expenses for the quarters ended September 30, 2009 and 2008, respectively, were incurred with Air Canada and its subsidiaries.

11. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Jazz's pension funding obligations from 2009 to 2013:

(expressed in thousands of Canadian dollars) (unaudited)	2009 $	2010 $	2011 $	2012 $	2013 $
Defined benefit pension plans, current service	8,600	8,900	9,200	9,400	9,600
Defined benefit pension plans, past service	7,600	6,600	4,000	3,600	2,600
Defined contribution pension plans	7,200	7,300	7,500	7,600	7,800
Projected pension funding obligations	23,400	22,800	20,700	20,600	20,000

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

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

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

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

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

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Caution regarding forward-looking information). The significant accounting policies of Jazz are described in note 2 of the September 30, 2009 unaudited interim consolidated financial statements of Jazz Air Income Fund.

13. ACCOUNTING POLICY CHANGES AND DEVELOPMENTS

Change in accounting policy

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

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

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

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

14. FLEET

As at September 30, 2009, Jazz's operating fleet was made up of 137 operating aircraft, of which 73 were regional jets and 64 turboprop aircraft.

Jazz's operating fleet, at September 30, 2009, was as described below:

	Number of Operating Aircraft	Average Age of Operating Aircraft	Owned	Capital Lease	Operating Lease	Number of Operating Aircraft September 30, 2008
Canadair Regional Jet CRJ100	24	13.9	-	-	24	24
Canadair Regional Jet CRJ200	33	7.4	-	-	33	33
Canadair Regional Jet CRJ705	16	4.2	-	-	16	16
De Havilland DHC-8-300	28	19.0	19	7	2	28
De Havilland DHC-8-100	36	21.5	29	-	7	36
Total Operating Aircraft	137	14.2	48	7	82	137

All aircraft in Jazz's operating fleet as of September 30, 2009 are Covered Aircraft under the CPA, except for two Dash 8-100 and two Dash 8-300 aircraft allocated for charter purposes.

15. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

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

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

Jazz's 2008 MD&A dated February 10, 2009, contains a statement that the President and Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO") have concluded that Jazz's disclosure controls and procedures, and internal control over financial reporting, are effective based upon an evaluation of these controls and procedures conducted at December 31, 2008.

Jazz filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of Jazz's 2008 annual filings. In those filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Jazz's disclosure controls and procedures and the design and effectiveness of internal control over financial reporting. The CEO and CFO also certify the appropriateness of the financial disclosures in Jazz's interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO also certify the design of Jazz's disclosure controls and procedures and the design of internal control over financial reporting.

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

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

There has been no change in Jazz's internal control over financial reporting that occurred during the third quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, Jazz's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of Trustees of Jazz and the board of directors of Jazz GP reviewed this MD&A, and the unaudited interim consolidated financial statements of Jazz for September 30, 2009, and Jazz's board of Trustees and Jazz GP's board of directors approved these documents prior to their release

16. OUTLOOK

The discussion that follows represents forward-looking information. Refer to Caution regarding forward-looking information.

As previously discussed, Jazz and Air Canada have amended the CPA. Based on the winter schedule received from Air Canada, plus the Block Hours billed for the nine months ended September 30, 2009 of 294,437, Jazz anticipates billing between 385,000 and 390,000 Block Hours for the year ending December 31, 2009.

Effective August 1, 2009, Jazz and Air Canada have agreed to reduce the current mark up on Controllable Costs from 16.72% to 12.50%, for the remainder of 2009. Based on this change and the tentative schedule delivered by Air Canada, Jazz projects the CPA Controllable Operating Margin for 2009 to be from 10.25% to 11.25%.

17. RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Jazz, the industry, the structure of Jazz and current legal proceedings, refer to the Section entitled "Risk Factors" in the Jazz Air Income Fund, 2008 MD&A dated February 10, 2009 and Jazz's Annual Information Form dated March 30, 2009. There have been no material changes to the risk factors disclosed in those documents, other than as described below:

Risks Relating to the Relationship with Air Canada

Dependence on Air Canada and liquidity issues

Jazz understands, based on public filings, that Air Canada has concluded labour agreements with its entire unionized workforce in Canada which specify that there will be no changes to wage rates and a pension funding moratorium on past service contributions for a period of 21 months. On July 24, 2009, the Minister of Finance advised Air Canada that a regulation had been approved that amends Air Canada's pension funding obligations to allow for a moratorium on past service contributions for a 21 month period. Jazz also understands that these agreements were subject to the securing of at least $600.0 million in new financing. On July 29, 2009, Air Canada announced that it has entered into arrangements to raise $1,002.0 million in new liquidity, which includes a term credit facility of up to $700.0 million.

There can be no assurance that these initiatives will provide Air Canada with sufficient liquidity to continue operations in the longer term.

Termination of the CPA

The CPA Amending Agreement extended the initial term of the CPA from December 31, 2015 to December 31, 2020. The CPA will be automatically renewed for two additional five year periods, unless either party gives notice to the other of its intention not to renew within one year prior to the expiry of the initial term or any renewal term.

The CPA Amending Agreement also provides Air Canada with the right to revise the MADUG in the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 has decreased by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009. In the event of such a decrease, the CPA Amending Agreement requires that Air Canada and Jazz agree upon a revised MADUG by November 17, 2015, failing which Air Canada shall have the right to unilaterally set a revised MADUG by sending Jazz notice by November 20, 2015. The CPA Amending Agreement provides Jazz with the right to send Air Canada notice by December 18, 2015, of Jazz's intention to either accept the revised MADUG or exercise its right to terminate the CPA as of December 31, 2016.

There can be no assurances that Jazz and Air Canada will, if required, agree to a revised MADUG or that, if the parties do not agree and Air Canada unilaterally sets a revised MADUG level, such revised MADUG level will be acceptable to Jazz. 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. Any such termination, or failure to enter into satisfactory substitute arrangements, would have a material adverse effect on Jazz's business, results from operations and financial condition.

Reduced utilization levels

Pursuant to the terms of the CPA, Air Canada and Jazz have agreed that the MADUG will not be less than 339,000 annual Block Hours, including after having taken into account the reduction in the number of Covered Aircraft described in "Recent Developments – Amendments to the Capacity Purchase Agreement with Air Canada", subject to Air Canada's one-time right to revise the MADUG in the circumstances described above.

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. Any such reduction or requirement would likely result in lower revenues earned by Jazz under the CPA, which could have a material adverse effect on Jazz's business, results from operations and financial condition.

Changes in costs and fees

The CPA Amending Agreement amended the Rates established for the 2009-2011 Rate Period. The Rates negotiated and reflected in the Rate Amending Agreement were established to enable Jazz to achieve a Controllable Target Margin of

14.32%, corresponding to a Controllable Target Mark-Up of 16.72% on Jazz's Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Jazz agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective commencing August 1, 2009, an agreed set of revised Rates will be effective, enabling Jazz to achieve a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Jazz's Controllable Costs. If 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.

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

The Controllable Mark-Up may also be reduced as a result of the 2009 Benchmark and the 2015 Benchmark. If the 2009 Benchmark indicates that the percentage difference between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference for the twelve month period beginning July 1, 2006 and ending June 30, 2007, the Controllable Mark-Up will be reduced with effect as of January 1, 2010 until December 31, 2020, unless as a result of the 2015 Benchmark it is further reduced, to the lower of 12.50% or the percentage that is equal to 16.72% minus the amount of the increase described above.

If the 2015 Benchmark indicates that the percentage difference between Jazz's Controllable Costs and those of the Comparable Group has increased compared to the percentage difference determined during the 2009 benchmarking, the Controllable Mark-Up then in effect shall be reduced by the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020.

Any such reduction in the Controllable Mark-Up could have a material adverse effect on Jazz's business, results from operations and financial conditions.

Risks Relating to Jazz

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 its collective bargaining agreements all expired at the end of June 2009. Jazz has pursued negotiations with each union.

On August 30, 2009, Jazz reached a tentative three year agreement with its maintenance and engineering employees who are represented by the CAW. That tentative agreement was subsequently ratified on September 12, 2009 by a union vote. On August 28, 2009, Jazz reached a tentative agreement with its customer service and airport services division, also represented by the CAW, which was narrowly rejected by a union vote on September 24, 2009. There were 337 votes in favour of and 341 votes against the tentative agreement. On October 27, 2009, Jazz announced a new tentative agreement has been reached with the customer service and airport services division which is subject to ratification. Jazz is currently in negotiations with all other unionized groups of employees.

There can be no assurance that the collective agreements will be renewed without labour conflict or action, or that there will not otherwise be a labour conflict or action that could lead to an interruption or stoppage in Jazz's service or otherwise adversely affect Jazz's ability to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition. There can be no assurance that these 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.

Bill C-310

On May 13, 2009, Bill C-310, *An Act to Provide Certain Rights to Air Passengers*, was tabled for second reading in the House of Commons. The Bill provides obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. If enacted in its current form, Bill C-310 could lead to significant costs for air carriers, including Jazz, which could have a material adverse effect on Jazz's business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-310 or otherwise.

Risks Relating to the Industry

Epidemic diseases

The spread of H1N1 could have a material adverse effect on passenger demand for air travel and the number of passengers traveling on Air Canada and Jazz flights. While any resulting reduction in passenger revenues is principally 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 or was unable to meet its obligations under the CPA.

Risks Related to the Structure of the Fund

Income tax matters

On May 15, 2009, a separate Quebec tax regime relating to SIFT entities (the "Quebec SIFT Regime") was enacted. Under the Quebec SIFT Regime, 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. The Quebec SIFT Regime cross-references the corporate allocation formula, which is based on gross income and salary and wages, in order to determine the tax payable by a SIFT that has an establishment both in Quebec and outside Quebec in a taxation year. The SIFT Rules have been amended to provide for harmonization between those rules and the Quebec SIFT Regime.

Risks Related to Current Legal Proceedings

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against the Toronto Port Authority ("TPA"). Porter Airlines Inc. ("Porter") and other defendants (collectively with Porter, the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, Porter counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850,000,000 in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the TPA before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking damages similar to those in the Ontario Superior Court counterclaim. On October 16, 2009, Jazz discontinued its action in the Ontario Superior Court against the Porter Defendants and the TPA. On the same date, the counterclaim filed by Porter in the Ontario Superior against Jazz and Air Canada was stayed pending the outcome of the proceeding in Federal Court. Jazz is continuing its proceeding in the Federal Court of Canada against the TPA, in which the Porter Defendants intervened and have been made parties. Jazz maintains that Porter's counterclaims in both jurisdictions are without merit. The counterclaims are currently being vigorously contested by Jazz in court. If Jazz is not successful in the Federal Court of Canada action, it will not have fair and equal access to the TCCA. If Jazz is not successful in defending the counter-claims, it could be subject to a material damages award.

18. SUBSEQUENT EVENT

On October 22, 2009, Jazz announced that it had entered into an agreement to sell to a group of underwriters $75.0 million principal amount of 9.50% convertible unsecured subordinated debentures (the "Debentures"). This transaction closed on November 12, 2009. Jazz granted the underwriters an option, exercisable in whole or in part at any time up until 30 days after the closing date, to purchase an additional $11.25 million principal amount of Debentures, at the same price. If the over-allotment option is exercised in full, the total gross proceeds of the financing will be $86.25 million. The net proceeds received by Jazz from the sale of Debentures are estimated to be approximately $71.51 million ($82.31 million if the over-allotment option is exercised in full) after deduction of the underwriters' fee and the estimated expenses of the offering. The underwriters' fee and the expenses of the offering will be paid out of the gross proceeds of the offering. Proceeds from the offering will be used for working capital requirements and for general purposes of Jazz. This may include, among other uses, funding deposit amounts in respect of Jazz's refleeting program, repaying outstanding indebtedness and funding possible future acquisitions. There are no agreements or understandings with respect to any of such possible uses of proceeds at this time. Jazz will retain broad discretion in allocating the net proceeds not applied in the manner set out above. Jazz's actual use of the net proceeds will vary depending on its operating and capital needs from time to time.

The Debentures bear interest at a rate of 9.50% per annum payable semi-annually in arrears on June 30 and December 31 in each year commencing on June 30, 2010, and will mature on December 31, 2014 (the "Maturity Date"). The Debentures are convertible at the holder's option into Units of Jazz at any time prior to the earlier of the Maturity Date and the date fixed for redemption at a conversion price of $5.25 per Unit (the "Conversion Price"). The Debentures are not redeemable on or before December 31, 2012. After December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed in whole or in part from time to time at Jazz's option at a price equal to their principal amount plus accrued interest, provided that the volume weighted average trading price for the Units is not less than 125% of the Conversion Price. On and after December 31, 2013 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at Jazz's option at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, Jazz may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of Units equal to the amount due divided by 95% of the market price for the units at that time, plus accrued interest in cash. The offering was made in all provinces and territories of Canada.

19. GLOSSARY OF TERMS

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

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

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

Controllable Actual Margin – Controllable Actual Margin means for any period, the actual Controllable Operating Income divided by the actual Scheduled Flights Revenue;

Controllable Adjusted Actual Margin – Controllable Adjusted Actual Margin means for any period, the Controllable Actual Margin less 50% of any margin exceeding 14.32% (14.09% for 2006 to 2008), at this level;

Controllable Cost per Available Seat Mile (Controllable CASM) – Controllable Cost per Available Seat Mile means Controllable Costs divided by Available Seat Mile;

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

Controllable Operating Income – Controllable Operating Income means for any period, Scheduled Flights Revenue less Controllable Costs;

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

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

CPA – CPA means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and the Partnership;

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

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

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

Fund – Fund means Jazz Air Income Fund;

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

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

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

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

Operating expenses – Operating expenses means operating expenses before amortization of CPA asset and other operating expenses incurred by Jazz;

Passenger Load Factor – Passenger Load Factor means a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles;

Productive capacity management strategy - represents capital expenditures required to sustain operations. Under the current operations, this is defined as supporting an operating fleet of 137 aircraft (133 Covered Aircraft and 4 aircraft committed to charter operations). Capital expenditures are made in support of ongoing fleet requirements, such as aircraft communication systems, cockpit standardization, regulatory compliance, maintenance information systems infrastructure, aircraft rotable parts and leasehold improvements.

Revenue Passenger Miles (RPMs) – Revenue Passenger Miles mean the total number of revenue passengers carried, including frequent flyer redemptions, multiplied by the number of miles flown by such passengers;

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

Scheduled Flights Revenue – Scheduled Flights Revenue means, for any period, all revenues generated by Jazz under the CPA from aircraft services and Scheduled Flights excluding revenues resulting from the reimbursement by Air Canada of Jazz's pass-through costs and from the payment by Air Canada of performance incentives;

The Partnership - The Partnership means Jazz Air LP;

Trust – Trust means Jazz Air Trust; and

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