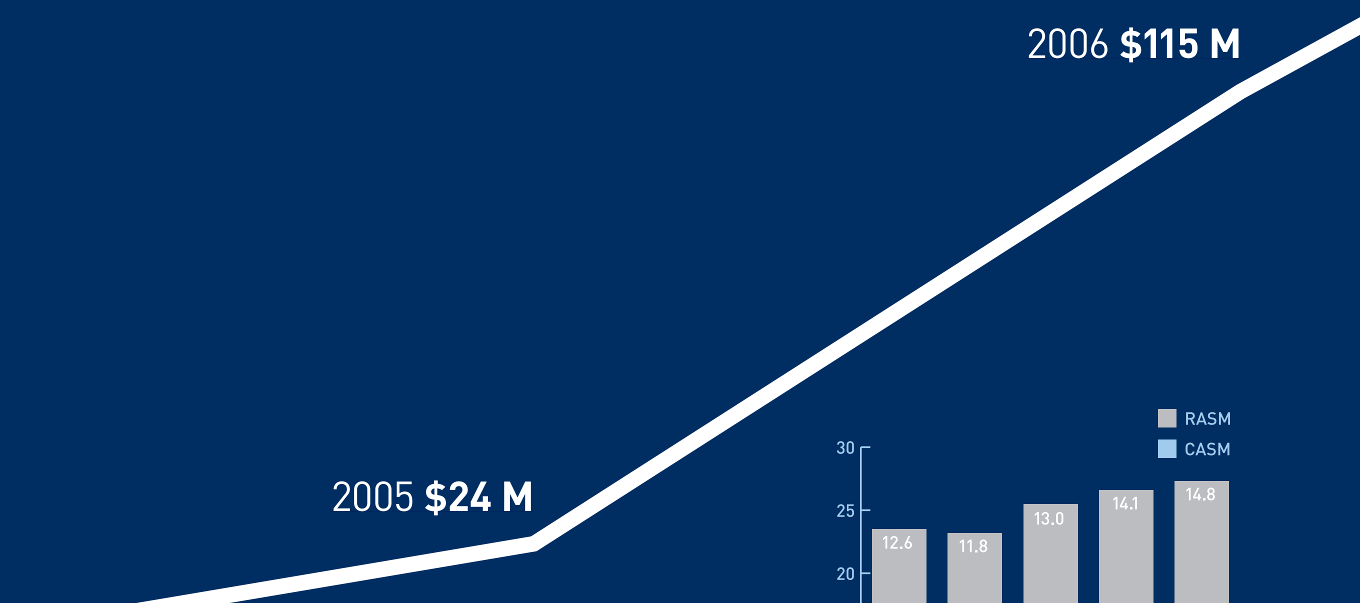
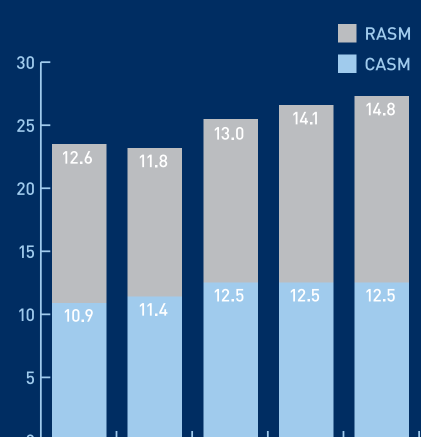
WESTJET
"
OUR
BIGGEST
YEAR
YET
"
ANNUAL REPORT 2007

A YEAR OF STR

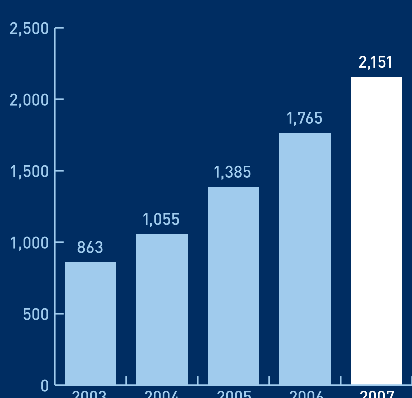
SINCE 2005, NET EAR



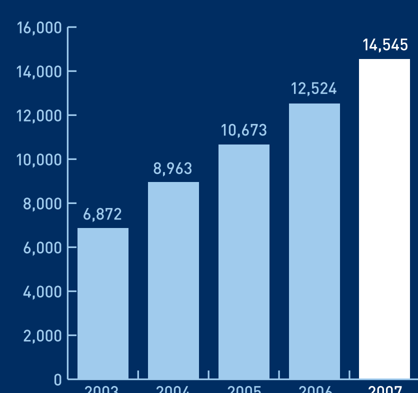


RASM vs. CASM
(cents)

RONG RESULTS
RNINGS ARE UP 183%



Revenue
(millions of dollars)



Available Seat Miles
(millions)

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FINANCIAL OVERVIEW

WESTJET AIRLINES LTD.

Selected consolidated financial data (Stated in thousands of Canadian dollars, except per share amounts)

	2007	2006	2005	2004	2003
CONSOLIDATED OPERATING RESULTS					
Revenue	$ 2,151,457	$ 1,765,084	$ 1,385,102	$ 1,055,260	$ 863,323
Earnings before income taxes	$ 238,970	$ 164,481	$ 51,975	$ (15,976)	$ 97,395
Net earnings (loss)	$ 192,833	$ 114,676	$ 24,001	$ (17,168)	$ 60,539
Earnings (loss) per share					
Basic	$ 1.49	$ 0.88	$ 0.19	$ (0.14)	$ 0.52
Diluted	$ 1.47	$ 0.88	$ 0.19	$ (0.14)	$ 0.52
CONSOLIDATED OPERATING STATISTICS					
Revenue Passenger Miles (RPM)	11,739,063,003	9,791,878,403	7,957,738,384	6,277,332,668	4,852,506,652
Available Seat Miles (ASM)	14,544,737,340	12,524,379,943	10,672,983,797	8,963,103,389	6,871,715,636
Load Factor	80.7%	78.2%	74.6%	70.0%	70.6%
Yield (cents)	18.33	18.03	17.41	16.81	17.79
Revenue per ASM (cents)	14.79	14.09	12.98	11.77	12.56
Operating cost per ASM (cents)	12.51	12.50	12.48	11.37	10.89

OPERATIONAL TERMS EXPLAINED:

REVENUE PASSENGER MILES: A measure of passenger traffic, calculated as the number of revenue passengers, multiplied by the total distance flown.

AVAILABLE SEAT MILES: A measure of total passenger capacity, calculated by multiplying the total number of seats available for sale by the total distance flown.

LOAD FACTOR: A measure of total capacity utilization, calculated as the proportion of total available seat miles occupied by revenue passengers.

YIELD (REVENUE PER REVENUE PASSENGER MILE): A measure of unit revenue, calculated as the gross revenue generated per revenue passenger mile.

CASM (COST PER AVAILABLE SEAT MILE): Operating expenses divided by available seat miles.

RASM (REVENUE PER AVAILABLE SEAT MILE): Total revenue divided by available seat miles.

WestJet is pleased to share with you our biggest year to date. From our results, activities and financials to our record-breaking profits, we really took to the skies in 2007. As always, the main reason for our success this year was our people. Behind every great number and every success we celebrated this year was the passion, dedication and smile of a friendly WestJetter. Please read on. And thank you for investing, or considering investment, in our airline. We look forward to the years ahead.

Welcome to

WESTJET

A YEAR TO

PRESIDENT'S MESSAGE TO SHAREHOLDERS

ANOTHER GREAT YEAR

When WestJet first took to the sky on February 29, 1996, it was destined to play an important role in the Canadian airline industry. Seizing the opportunity to do things differently and challenging conventional practices, WestJet invented low-cost, high-value travel for the Canadian public. As we celebrate our 12th anniversary, we look back at a tremendously successful 2007 and many accomplishments. This has been a great year and I am proud to highlight some of our biggest moments.

Throughout the year, our family grew to over 6,700 WestJetters who flew over 13 million guests across our network. Fuelled by the strong demand for our great guest experience, our revenue in 2007 exceeded $2.1 billion, while net earnings were a record $192.8 million. We recorded one of the best earnings-before-tax margins in the North American airline industry at 11 per cent and generated cash flow from operations of $541.1 million. With 2007's strong financial performance to add to our accomplishments, we have established ourselves as a consistently high performer. After 12 years in business, our people have an unrelenting commitment to the success of our airline.

SEAN DURFY
President and CEO

REMEMBER

DELIVERING ON OUR STRATEGY

During 2007, we achieved our operating success by delivering on our key strategic objectives built around our four pillars: People and Culture, Guest Experience and Performance, Revenue and Growth, and Cost and Margins.

PEOPLE AND CULTURE

We know for certain that care, dedication and passion are what truly stand out at WestJet, and this comes from our people. The cornerstone of our success continues to be our ability to attract and retain the most talented people. Throughout 2007, we announced important changes, including updating our WestJetters' compensation, to help ensure that we are one of the world's best places to work.

Our ability to create a workplace where WestJetters are positive, empowered and accountable is our biggest advantage. Our people are inspired to solve problems, work as a team and seize new opportunities; this is what translates into our unrivalled guest experience. The commitment to our guests and the success of our airline earned WestJetters $48.6 million in profit share in 2007. This is our largest profit share payout to date, bringing the total profit share amount shared by WestJetters in our 12-year history to over $142 million.

It is not a surprise that the sense of pride our people feel for our airline carries over into the communities where we work and live. In 2007, we launched our flagship community investment program, WestJet Cares for Kids. This is a national program that focuses on children's health and well-being. Since the launch this past March, we have donated over 3,000 flights. Our partners, in turn, use our flights to help children and their families who need to access medical assistance outside their community, support fundraising efforts, reunite missing children with their families or fulfil the wishes of a terminally ill child.

We spent the year investing in our over 300 leaders, who will continue to innovate and grow our company. During 2007, we dedicated time to creating programs aimed at developing the leaders in our organization. Thanks to this investment, our leadership team is strong and our people are aligned to execute our plans for continued success. We know that great leadership, at all levels of the organization, is essential to our future.

The focus and commitment of our people throughout 2007 won us the honour of Canada's most admired corporate culture for the third year in a row, as recognized by over 180 top executives across Canada.

GUEST EXPERIENCE AND PERFORMANCE

The most important element in our pursuit of growth is our relationship with our guests. Throughout the year, our commitment to listening to our guests translated into new destinations, new routes, increased frequencies, new products and efficiencies – all aimed at improving our guest experience. We launched new technology including mobile check-in, flow-through check-in, transborder and international web check-in and we were the first airline in North America to introduce the innovative and environmentally friendly electronic boarding pass.

Our commitment to achieving strong operational results continued with 2007 on-time performance (OTP), completion of flights and delivered-baggage rates that ranked among the top five in the North American airline industry, based on the Department of Transportation's standards. In 2007, we achieved an OTP of 82.6 per cent, completed 99.2 per cent of our scheduled domestic flights and reported 4.26 claims of delayed or lost baggage per 1,000 guests.

The success of our guest-focused initiatives throughout 2007 were reflected in our guest loyalty metrics that showed over 90 per cent of guests who fly WestJet will recommend us to others. We have established a clear and defined brand across Canada, one that our people are proud to represent and one that is bringing more guests onboard. At the end of 2007, we had 34 per cent of the domestic market share with 45 per cent of our guests flying for business travel. We believe we can deliver a world-class guest experience and we will continue this drive in 2008.

FOUR PILLARS

PEOPLE & CULTURE

GUEST EXPERIENCE & PERFORMANCE

REVENUE & GROWTH

COST & MARGINS

In 2007, we measured our success against our four pillars. These pillars will continue to guide our initiatives in 2008 and beyond.

PEOPLE AND CULTURE

At WestJet we've always been about people. Our emphasis on a culture of caring has created a workplace where our WestJetters feel empowered to make the best decisions for both WestJet and our guests. After all, we are all owners.

GUEST EXPERIENCE AND PERFORMANCE

There's nothing our people care more about than the guest. We consistently and continuously achieve an amazing guest experience that delivers on our service promises at every point of contact from the time guests book until they pick up their luggage.

REVENUE AND GROWTH

With our incredible people and amazing guest experience we will work to achieve an average annual compound growth rate in available seat miles of 10 per cent.

COST AND MARGINS

It's simple really. We will have the lowest sustainable cost per available seat mile in North America.

REVENUE AND GROWTH

With 2007's strong financial performance, the revenue and growth highlights were many. We added capacity on a monthly basis, for a total increased capacity of over 16 per cent for the entire year. This capacity was readily absorbed by new and existing WestJet guests, as we reported 12 consecutive months of record load factor.

We expanded our domestic market to include Kitchener-Waterloo (Ontario), Saint John (New Brunswick) and Deer Lake (Newfoundland). We announced our third Hawaiian destination, Kona, positioning us as the preferred airline for Canadians flying to Hawaii. This past year saw big progress for our international expansion strategy, with the launch of Montego Bay (Jamaica), Puerto Plata and Punta Cana (Dominican Republic), Mazatlan and Cabo San Lucas (Mexico) and St. Lucia. As we pursue new opportunities, we are in a great position to increase our market share domestically as well as in the U.S., Mexico and the Caribbean.

Our expansion internationally is benefitting WestJet Vacations. Throughout 2007, our Vacations business added over 400 partners across our network, ensuring our ability to deliver customized travel packages that fit the budgets and needs of all our guests.

In 2007, we took delivery of seven aircraft, one 800-series and six 700-series, bringing our total registered fleet size to 70 aircraft at year-end. We signed an agreement with Boeing for 20 additional aircraft in 2012 and 2013. This is a clear commitment to, and confidence in, our growth strategy that has us committed to a fleet size of 116 aircraft by 2013.

COST AND MARGINS

Our ongoing commitment to containing costs was reflected in our strong 2007 results that weathered increasing oil prices – driving our fuel costs. Through a sustained focus on cost control, cost reduction and increased fleet utilization, we effectively managed our costs per available seat mile in 2007, achieving a 0.1 per cent increase year over year. Excluding fuel, we had a 0.5 per cent decline in cost per available seat mile. Fuel continues to be our biggest expense. Appreciation of the Canadian dollar, our fuel-efficient fleet, Blended Winglet Technology on our 700- and 800-series aircraft and other fuel-saving initiatives help us mitigate costs.

When we originally launched WestJet in 1996, we created a cost structure that allowed us to offer airfares below what had ever been seen in the Canadian airline industry. We continue to maintain this cost advantage and will continue to drive down costs in 2008.

RESPONSIBLE GROWTH

We have a vision that includes continued, measured growth. Our commitment to our people and our guests is to ensure that we are growing responsibly. Since 2001, we have spent over $2 billion upgrading our fleet to be more fuel efficient, reducing carbon emissions. We retired our 200-series aircraft, updating our fleet to the far more fuel-efficient Boeing Next-Generation 737 aircraft. As a result of this investment, we have one of the youngest and most fuel-efficient fleets in North America, with an average age of just over three years. We are also a leader in the adoption of Blended Winglet Technology, which significantly reduces fuel burn and emissions, as well as new onboard navigational technology and procedures designed to reduce flight times and emissions.

OPPORTUNITIES AHEAD

Our confidence in the future is supported by the strength of our balance sheet and our demonstrated ability to grow revenue and net income. The creation of value for our shareholders flows directly from the value we create for our people and the value they, in turn, deliver to our guests. As exciting as the last 12 years have been, the years ahead promise to be even more so. We believe that everything our airline has accomplished to date is the foundation for the successes we will see en route to our vision – to be a top five airline in the world by 2016. We feel that being low cost and high value is more important than ever, and we believe no airline is better positioned than WestJet to thrive in the coming years. This was indeed our biggest year – so far.

THE CREATION OF VALUE FOR OUR SHAREHOLDERS FLOWS DIRECTLY FROM THE VALUE WE CREATE FOR OUR PEOPLE AND THE VALUE THEY, IN TURN, DELIVER TO OUR GUESTS.

Construction of our new Calgary campus facility is underway. This build is being constructed following the new LEED (Leadership in Energy and Environmental Design) program which promotes buildings that are environmentally responsible, profitable and healthy places to live, work and play. Currently, only 10 per cent of buildings in North America strive for a LEED rating. Once built, this will be home to our Calgary WestJetters, benefitting us culturally and financially by having everyone under one roof.

On behalf of the Executive team, the Board of Directors and 6,700 WestJetters, thank you for your continued support of our airline.

Sean Durfy

WestJet President and CEO

March 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS 2007

FORWARD-LOOKING INFORMATION Certain information set forth in this document, including management's assessment of WestJet's future plans and operations, contains forward-looking statements. These forward-looking statements typically contain the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should" or other similar terms. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond WestJet's control, including the impact of general economic conditions, changing domestic and international industry conditions, volatility of fuel prices, terrorism, currency fluctuations, interest rates, competition from other industry participants (including new entrants, and generally as to capacity fluctuations and pricing environment), labour matters, government regulation, stock-market volatility and the ability to access sufficient capital from internal and external sources. Readers are cautioned that management's expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. WestJet's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Additional information relating to WestJet Airlines Ltd. ("WestJet" or the "Company"), including Annual Information Forms and financial statements, is located on SEDAR at www.sedar.com.

NON-GAAP MEASURES To supplement its consolidated financial statements presented in accordance with Canadian generally accepted accounting principles (GAAP), the Company uses various non-GAAP performance measures, including available seat miles (ASM), cost per available seat mile (CASM) defined as operating expenses divided by available seat miles, revenue per available seat mile (RASM) defined as total revenue divided by available seat miles, revenue per revenue passenger mile ("yield") defined as total revenue divided by revenue passenger miles (RPM), operating revenues defined as the total of guest revenues, charter and other revenues and interest income, operating margin defined as earnings from operations divided by total revenues, and load factor defined as revenue passenger miles divided by available seat miles. These measures are provided to enhance the reader's overall understanding of the Company's current financial performance and are included to provide investors and management with an alternative method for assessing the Company's operating results in a manner that is focused on the performance of the Company's ongoing operations and to provide a more consistent basis for comparison between quarters. These measures are not in accordance with or an alternative for GAAP and may be different from measures used by other companies.

OVERVIEW

2007 was a record-breaking year for WestJet with improved margins, net earnings and earnings per share, which can be attributed to an increased RASM performance, our commitment to cost control, increased fleet utilization as well as the passion, perseverance and commitment of all WestJetters.

2007 Financial Highlights

- Surpassed the $2 billion mark in annual revenues, increasing total revenues by 21.9 per cent, which was more than our capacity growth of 16.1 per cent.
- Exceeded $12 million in bookings in a single day, setting a Company record.
- RASM growth to 14.79 cents, up 5.0 per cent from 2006.
- Increased load factor by 2.5 points to an all-time high of 80.7 per cent.
- Maintained strong cost controls, with CASM remaining constant at 12.51 cents.
- Recorded the best margins before tax of any large North American airline at 11.1 per cent.
- Net earnings reached $192.8 million, an increase of 68.2 per cent compared to 2006.
- Diluted earnings per share of $1.47, an increase of 67.0 per cent from 2006.
- Adjusting for the fourth quarter favourable income tax adjustment and the second quarter aiRES impairment, net income was $181.3 million and earnings per share was $1.39.
- Increased committed fleet by 31 aircraft to 116 by 2013.
- Generated cash flows from operations of $541.1 million.

Once again in 2007, WestJet was named Canada's Most Admired Corporate Culture for the third consecutive year. Our strong culture drives our success, which is attributable to our 6,700 dedicated WestJetters who exemplify the best in airline guest service.

	Three months ended Dec. 31			Twelve months ended Dec. 31		
	2007	2006	increase / (decrease)	2007	2006	increase / (decrease)
ASMs	3,818,613,107	3,314,759,901	15.2%	14,544,737,340	12,524,379,943	16.1%
RPMs	2,967,645,307	2,502,375,293	18.6%	11,739,063,003	9,791,878,403	19.9%
Load factor	77.7%	75.5%	2.2 pts	80.7%	78.2%	2.5 pts
Yield (cents)	18.65	18.07	3.2%	18.33	18.03	1.7%
RASM (cents)	14.49	13.64	6.2%	14.79	14.09	5.0%
Cost per passenger mile (cents)	16.17	16.28	(0.7%)	15.50	15.99	(3.1%)
CASM (cents)	12.57	12.29	2.3%	12.51	12.50	0.1%
Fuel consumption (litres)	189,434,295	165,605,465	14.4%	723,104,203	617,963,429	17.0%
Fuel costs/litre (cents)	75.15	64.19	17.1%	69.69	68.86	1.2%
Segment guests	3,280,342	2,889,435	13.5%	13,004,726	11,168,027	16.4%
Average stage length (miles)	869	827	5.1%	856	833	2.8%
Number of full-time equivalent employees at period end	5,682	4,974	14.2%	5,682	4,974	14.2%
Fleet size at period end	70	63	11.1%	70	63	11.1%
Aircraft available for use	70	63	11.1%	70	63	11.1%

The momentum we created in 2006 continued throughout 2007 as we achieved record-breaking net earnings in each quarter of 2007. We have now delivered eight consecutive quarters of record net earnings and have only had two unprofitable quarters in our 12-year history. We completed 2007 with net earnings of $192.8 million and diluted earnings per share of $1.47.

For the full-year 2007, RASM was 14.79 cents up from 14.09 cents in 2006. Our 2007 RASM is most impressive when looked at in conjunction with our full-year capacity increase and improved load factors. Year-end capacity increased to 14.5 billion ASMs compared to 12.5 billion in 2006.

With 12 consecutive months of increasing seat capacity in our network, the demand for our product remained strong. Our annual load factor was 80.7 per cent, up 2.5 points from 78.2 per cent in 2006. Demand for our product was further illustrated by improvements in yield for the full-year 2007 as it increased to 18.33 cents, 1.7 per cent over the 18.03 cents in 2006 due to a strong Canadian economy, commercialization of our routes and increased business travel.

During 2007, we flew a record 13.0 million segment guests to destinations within Canada and beyond our borders, a 16.4 per cent increase over 2006. These numbers are proof of our growing guest base and the market's ability to absorb the additional supply of seats.

Our focus on cost control is fundamental to our success and is a company-wide initiative. We continuously look for ways to keep WestJet's low-cost competitive advantage. For the full-year 2007, CASM remained relatively unchanged at 12.51 cents in 2007 compared to 12.50 cents in 2006. For the whole of 2007, our CASM, excluding fuel, decreased by 0.5 per cent from 2006, to 9.05 cents.

We maintained a healthy balance sheet throughout 2007 due to our strong financial performance. We increased our cash balance to $653.6 million, improved our current ratio to 1.2 and reduced our debt-equity ratio to 1.94.

We ended the year with 70 aircraft, adding six 737-700s and one 737-800. As a result, we have one of the youngest fleets operated by any large North American commercial airline, with an average age of 3.2 years.

In 2007, WestJet increased its total aircraft commitment by 31 planes, bringing the total committed fleet to 116 by 2013. The additional capacity is in line with our strategic deliverables of increasing capacity by at least 10 per cent per annum until 2013, the continued commercialization of our domestic schedule, an increase in scheduled routes into the U.S. and the introduction of new routes into the Caribbean and Mexican markets.

A YEAR OF SH

IN 2007 PROFIT SHARING DOUBLED TO $48.6 MILLION.

The commitment of our owners translates into a caring experience that makes guests want to fly with us. That's why over the last 12 years we've shared over $142 million dollars in profit with our WestJetters. After all, they're the reason 2007 was our best year yet.

L to R: CAM BERTSCH Intermediate Accountant II, **ROSANNA GARDNER** Guest Service Agent, **RAJ AGGARWAL** Financial Applications Support Manager, **SANDY METZ** Team Services Manager

HARING

SELECTED ANNUAL AND QUARTERLY INFORMATION

The tables below ("Annual audited financial information" and "Quarterly unaudited financial information") set forth selected data derived from our consolidated financial statements for the three years ended and the eight previous quarters ended December 31, 2007. These tables have been prepared in accordance with Canadian generally accepted accounting principles and are reported in Canadian dollars. This information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2007, and related notes thereto.

Annual audited financial information (in millions except per share data)

	2007	2006	2005
Total revenues	$ 2,151	$ 1,765	$ 1,385
Net earnings	$ 193	$ 115	$ 24
Basic earnings per share	$ 1.49	$ 0.88	$ 0.19
Diluted earnings per share	$ 1.47	$ 0.88	$ 0.19
Total assets	$ 2,984	$ 2,727	$ 2,213
Total long-term liabilities[1]	$ 1,442	$ 1,461	$ 1,180
Shareholders' equity	$ 950	$ 806	$ 670

(1)Long-term liabilities include current and long-term portions of long-term debt and obligations under capital leases and other liabilities.

Quarterly unaudited financial information (in millions except per share data)

	Three months ended			
	Dec. 31, 2007	Sept. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
Total revenues	$ 553	$ 614	$ 505	$ 479
Net earnings	$ 75	$ 76	$ 12	$ 30
Basic earnings per share	$ 0.58	$ 0.59	$ 0.09	$ 0.23
Diluted earnings per share	$ 0.57	$ 0.58	$ 0.09	$ 0.23

	Three months ended			
	Dec. 31, 2006	Sept. 30, 2006	Jun. 30, 2006	Mar. 31, 2006
Total revenues	$ 452	$ 502	$ 424	$ 387
Net earnings	$ 27	$ 53	$ 22	$ 13
Basic earnings per share	$ 0.21	$ 0.41	$ 0.17	$ 0.10
Diluted earnings per share	$ 0.21	$ 0.41	$ 0.17	$ 0.10

Our business is seasonal in nature with varying levels of activity throughout the year. We experience increased domestic travel in the summer months (second and third quarters) and more demand for transborder and charter sun destinations over the winter period (fourth and first quarters). With the introduction of transborder and international destinations, we have been able to alleviate the effects of seasonality on our net earnings.

In the quarter ended December 31, 2007, the reported net earnings of $75.4 million were positively impacted by a non-cash adjustment in the amount of $33.7 million, or 25 cents per share, to future income tax expense as a result of the enactment of income tax rate reductions.

In the quarter ended June 30, 2007, the reported net earnings of $11.5 million were negatively impacted by a non-cash write-down of $31.9 million ($22.2 million after tax or 17 cents per share) for the capitalized costs associated with WestJet's aiRES reservation system project.

Fourth quarter

In the fourth quarter, we demonstrated our ability to effectively manage our growth and match our capacity increases with the market's demands. We increased capacity and load factor while at the same time improving yield. We are particularly pleased to have ended the quarter with improvements in RASM, which is a key financial indicator for an airline.

Our 2007 fourth quarter net income was $75.4 million, which included a one-time favourable adjustment due to lower future income tax rates, compared to $26.7 million in the same period last year. Diluted earnings per share for the fourth quarter was 57 cents compared to 21 cents in the same period last year. Excluding the one-time tax adjustment, fourth quarter net earnings were $41.7 million, an increase of 56.3 per cent and diluted earnings per share was $0.32, an increase of 52.3 per cent from 2006.

Revenue per ASM for the fourth quarter of 2007 increased to 14.49 cents, a significant increase over 2006's 13.64 cent RASM.

We increased our network capacity by 15.2 per cent to 3.8 billion ASMs in the three months ended December 31, 2007, compared to 3.3 billion ASMs in the same period in 2006.

Our fourth quarter load factor increased to 77.7 per cent from 75.5 per cent in the same period of 2006, and the fourth quarter yield showed a marked improvement of 3.2 per cent, increasing to 18.65 cents.

The fourth quarter was particularly challenging due to unpredictably high fuel prices and harsh winter conditions. As a result, our CASM increased by 2.3 per cent from the same quarter in 2006 to 12.57 cents from 12.29 cents, due to a 17.1 per cent increase in our fuel costs per litre. Excluding fuel, our CASM in the last quarter of 2007 decreased by 2.6 per cent to 8.84 cents compared to 9.08 cents in the fourth quarter of 2006.

RESULTS OF OPERATIONS

Revenue

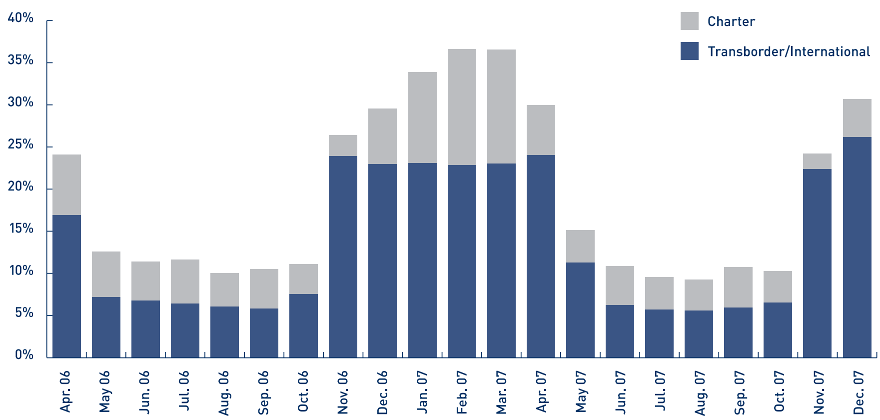
($ in thousands)	Three months ended Dec. 31 2007	2006	increase / (decrease)	Twelve months ended Dec. 31 2007	2006	increase / (decrease)
Guest revenues	$ 502,379	$ 410,172	22.5%	$ 1,899,159	$ 1,556,400	22.0%
Charter and other	43,055	37,666	14.3%	227,997	194,869	17.0%
Interest income	7,943	4,279	85.6%	24,301	13,815	75.9%
	$ 553,377	$ 452,117	22.4%	$ 2,151,457	$ 1,765,084	21.9%
RASM (cents)	14.49	13.64	6.2%	14.79	14.09	5.0%

In 2007, we saw total guest revenues increase by 22.0 per cent, from $1.6 billion to $1.9 billion, on capacity growth of 16.1 per cent when compared to 2006. One of our key indicators of revenue growth is RASM, as it takes into consideration load factor and yield. For 2007, RASM increased by 5.0 per cent to 14.79 cents, from 14.09 cents in 2006, as a result of growth in both load factor and yield.

During the year, we continued our strategy of seasonal capacity adjustments, shifting capacity to higher-demand markets based on the seasonal needs of our guests. During the winter months, we capitalized on the ability of our sunny transborder destinations to attract leisure travellers who want to escape the Canadian winters. We did this while also maintaining an attractive schedule, frequent flights and sufficient capacity for our domestic guests. Our ability to maximize fleet efficiency through diligent network management has directly contributed to our operating margin performance throughout 2007.

In 2007, WestJet introduced new domestic routes into Kitchener-Waterloo, Saint John and Deer Lake, as well as new international routes into Montego Bay, Puerto Plata, Punta Cana, St. Lucia, Mazatlan and Cabo San Lucas. As evidenced by our load factors for 2007, the capacity was absorbed by the market during this period, and we were also able to grow yield from 18.03 cents to 18.33 cents, or 1.7 per cent. The following graph demonstrates our seasonal deployment strategy by showing the historical and projected pattern using ASM mix percentages.

Charter and scheduled transborder and international as a percentage of total ASMs



Our charter and other revenues were up 17.0 per cent to $228.0 million in 2007 from $194.9 million in 2006. This was mainly due to an increase in ancillary revenues, which grew by 30 per cent compared to 2006 to $95.7 million. Ancillary revenues provide an opportunity to maximize our profits through the sale of higher-margin goods and services, while also enhancing our overall guest experience. We generate ancillary revenues from fees associated with guest itinerary changes and excess baggage, as well as through sales of buy-on-board food products, pay-per-view movies and headsets. In 2007, ancillary revenues per guest averaged $7.65, an increase of 10.7 per cent from $6.91 in 2006.

The increase in charter and other revenues was also attributable to growth of incremental WestJet Vacations non-air revenue, which was partially offset by declining cargo revenue as a result of increasing load factors.

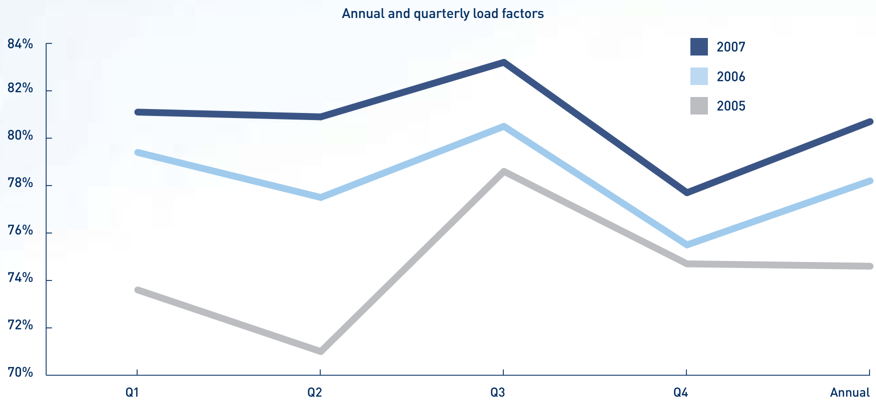
A YEAR OF CA

WE WERE NAMED CANADA'S MOST ADMIRED CORPORATE CULTURE.

Of all the things we've built in 12 years, a strong culture is our finest achievement. Any company can say they have values; it is another thing altogether to live by them. Our 6,700 WestJetters "just doing their jobs" made winning this award for three years in a row possible.

L to R: TOBY SOLAK Revenue Analyst, Loyalty Redemption, **GAIL SCHULER** Commercial Operations Administrator, **RENÉE FRANCIS** Culture Coordinator, **NAVI GIDDA** Operations Duty Manager, **VANESSA ACOSTA** Inflight Trainer


ARING
PEOPLE
MATTER



For 2007, our load factor averaged 80.7 per cent, 2.5 points higher than the 78.2 per cent recorded for 2006. As previously mentioned, the load factor for 2007 represents our highest annual load factor in our 12-year history, demonstrating that our on-time performance and exceptional guest service continue to build brand loyalty and repeat business. Results of our satisfaction surveys indicate that 90 per cent of our guests say they will fly with us again and will recommend our airline to others.

Expenses

CASM (cents)	2007	2006	2005	2004	2003
Aircraft fuel	3.46	3.40	3.32	2.69	2.27
Airport operations	1.99	1.96	2.04	1.94	1.78
Flight operations and navigational charges	1.78	1.83	1.72	1.66	1.53
Sales and marketing	1.30	1.30	1.16	0.95	0.84
Depreciation and amortization	0.87	0.89	1.00	0.88	0.92
General and administration	0.72	0.66	0.67	0.70	0.70
Inflight	0.59	0.54	0.50	0.49	0.47
Interest	0.52	0.56	0.52	0.49	0.36
Aircraft leasing	0.52	0.57	0.62	0.46	0.64
Maintenance	0.51	0.54	0.67	0.85	1.06
Guest services	0.25	0.25	0.26	0.26	0.32
	12.51	12.50	12.48	11.37	10.89
CASM, excluding fuel	9.05	9.10	9.16	8.68	8.62

Note 1: For comparative purposes, the impairment loss of $47,577,000 related to the retirement of 200-series aircraft included in depreciation and amortization expense has been excluded from unit cost calculations for 2004.
Note 2: For comparative purposes, the impairment loss of $31,881,000 related to the aiRES reservation system has been excluded from unit cost calculations for 2007.

	Three months ended Dec. 31			Twelve months ended Dec. 31		
CASM (cents)	2007	2006	increase / (decrease)	2007	2006	increase / (decrease)
Aircraft fuel	3.73	3.21	16.2%	3.46	3.40	1.8%
Airport operations	1.81	1.87	(3.2%)	1.99	1.96	1.5%
Flight operations and navigational charges	1.73	1.88	(8.0%)	1.78	1.83	(2.7%)
Sales and marketing	1.38	1.30	6.2%	1.30	1.30	—
Depreciation and amortization	0.86	0.91	(5.5%)	0.87	0.89	(2.2%)
General and administration	0.70	0.68	2.9%	0.72	0.66	9.1%
Inflight	0.62	0.56	10.7%	0.59	0.54	9.3%
Interest	0.51	0.58	(12.1%)	0.52	0.56	(7.1%)
Aircraft leasing	0.48	0.53	(9.4%)	0.52	0.57	(8.8%)
Maintenance	0.48	0.51	(5.9%)	0.51	0.54	(5.6%)
Guest services	0.27	0.26	3.8%	0.25	0.25	—
	12.57	12.29	2.3%	12.51	12.50	0.1%
CASM, excluding fuel	8.84	9.08	(2.6%)	9.05	9.10	(0.5%)

Keeping costs low is a key component of our business model and has played an important role in our ability to generate industry-leading operating margins during 2007. Part of our competitive advantage is our ability to operate with costs below that of our competitors. We have achieved strong bottom-line performance by continually striving for efficiencies in our operations.

Fleet optimization was a continued focus in 2007, and contributed to the overall productivity of our airline. During the year, we increased our aircraft utilization by 1.7 per cent to 12.1 operating block hours per day, compared to 11.9 operating block hours per day in 2006. Increasing the utilization of our aircraft allowed us to gain cost efficiencies.

Our longer average stage length, which increased 2.8 per cent in 2007 to 856 miles from 833 miles in 2006, has played a role in creating cost efficiencies. Average stage length, defined as the average distance of a flight between take-off and landing, has a significant impact on our unit costs. As average stage length increases, cost efficiencies are gained, and we achieve a lower average cost per mile because our fixed costs of operations are allocated over an increasing number of miles flown. Likewise, longer-haul routes typically achieve higher fuel economy, as we are able to absorb the higher costs of fuel for take-offs and landings over a longer trip length.

Aircraft fuel

Fuel is the most significant cost to WestJet, representing approximately 27 per cent of total operating expenses. For 2007, our fuel cost per ASM increased from 3.40 cents to 3.46 cents, or 1.8 per cent when compared to 2006. Our fuel cost per ASM did not increase significantly for 2007 when compared to 2006 because of lower crude oil prices in the early part of 2007 that more than offset the rapid increase of crude oil in the latter half of the year, as well as the strengthening Canadian dollar. For the fourth quarter and full-year 2007, we saw the strengthening Canadian dollar offset approximately 50 per cent of the higher crude oil prices. In the fourth quarter of 2007, specifically December, crude oil prices per barrel surged to break US $100. In the fourth quarter, we saw crude oil prices increase approximately 50 per cent compared to the fourth quarter of 2006 and, as a result, our 2007 fourth quarter fuel cost per ASM increased dramatically to 3.73 cents or 16.2 per cent when compared to the same period in 2006. For the month of December, our fuel costs per ASM were 3.96 cents, an increase of 23 per cent from 2006.

In addition to the rising market price of crude oil, our fuel cost per ASM increased due to higher fuel burn associated with our record load factors. However, this increase was tempered by our 2.8 per cent longer average stage length in 2007, which contributed to fuel efficiency.

We mitigate high fuel costs through operating efficiencies inherent in our infrastructure. One of our most significant cost advantages is that we operate one of the youngest fleets of any large North American commercial airline, comprised of fuel-efficient Boeing aircraft. Furthermore, we have implemented fuel conservation programs throughout our operations to minimize the impact of increasing energy costs. Our 700-series and 800-series aircraft are all equipped with Blended Winglet Technology to help reduce drag and provide more lift. Along with increasing the efficiency of our productive assets, our pilots and ground handlers are proactive in seeking ways to contribute to daily fuel cost savings.

To help lessen our exposure to fluctuations in aircraft fuel prices, we periodically use short-term and long-term financial and physical derivatives and account for these derivatives as cash flow hedges. As at, and for the year ended, December 31, 2007, we had no outstanding fuel hedge contracts.

Airport operations

Airport operations expense consists primarily of airport landing and terminal fees, as well as ground handling and charter costs. These expenditures typically fluctuate depending on the destinations, aircraft weights, inclement weather conditions and the number of guests. In general, transborder flights are more expensive than domestic flights due to increased charges from domestic airports for higher terminal and pre-clearance fees from inbound transborder flights.

For 2007, our cost per ASM for airport operations was relatively flat, increasing by 1.5 per cent to 1.99 cents from 1.96 cents in 2006. This was due mainly to an increase in airport rates and fees, as well as ground handling fees across our destination network.

In 2007, costs per departure increased 1.4 per cent over 2006's costs. This increase was primarily due to the increased number of transborder flights, the utilization of larger aircraft resulting in higher fees and the increased de-icing costs from poor weather conditions in 2007.

Fee increases imposed by our airport and ground handling partners impacted us on average by approximately 2 per cent and 9 per cent, respectively. These costs were further magnified by our expanding international charter and transborder operations, where the number of departures grew by approximately 12 per cent in 2007 over 2006. Our cost per departure for transborder and charter operations was approximately 40 per cent higher than that of our domestic flights.

Despite higher fees and costs per departure, our airport CASM grew at a lesser rate primarily as a result of the increase in our average stage length.

Airport operations make up one of our largest costs, representing approximately 16 per cent of our total operating expenditures. As we work to expand our transborder and international network, these expenses will continue to be significant to our operations. In order to properly manage these costs, which are generally controlled by airport authorities, we continually look for ways to improve productivity and reduce operational costs while also increasing convenience for our guests. We seek opportunities to automate our airport operations by offering our guests convenient online check-in services, equipping most of our airports with self-serve kiosks, and by introducing the flow-through check-in process at five domestic airports in 2007. In a flow-through check-in layout, our guests keep their baggage with them after it is tagged and place it on the baggage belt themselves. WestJet's research shows that the flow-through process model can reduce check-in time by up to one minute per guest when compared to a traditional linear check-in counter process. We were also the first airline in North America to introduce electronic boarding passes at all Canadian airports. In 2008, we plan to introduce a self-tag baggage process which is expected to further increase productivity and reduce airport costs.

Flight operations and navigational charges

For 2007, our flight operations and navigational charge per ASM was 1.78 cents, a decrease of 2.7 per cent, from 1.83 cents in 2006, due mainly to lower NAV CANADA fees and increased capacity.

Our flight operations expenses are largely driven by the cost to compensate our pilots, including salaries, training and stock-based compensation. Our 2007 CASM for flight operations was constant at 0.95 cents due to a lower stock-based compensation expense offset by higher salary costs as a result of a new pilot agreement in 2006. The agreement allows our pilots to elect to receive a certain amount of cash in lieu of a selected portion of their stock options. In 2007, we recognized $16.4 million in stock-based compensation expense related to pilots' stock options, a decrease of 15.0 per cent as compared to $19.3 million in 2006, as our pilots are receiving cash in lieu of stock options.

Air navigational charges are predominantly driven by the size of aircraft and distance flown, and are administered on a per-flight basis. On a cost per ASM basis, our year-over-year navigational charges have declined by approximately 5.7 per cent to 0.83 cents in 2007. This decrease is due to lower NAV CANADA fees and the growth in capacity outpacing the increase in the number of departures as a result of a longer stage length. Decreases in NAV CANADA rates in August 2007 and September 2006, as well as increased transborder traffic, resulted in a 3.7 per cent decrease in navigational charges on a per-departure basis in 2007.

Sales and marketing

Sales and marketing encompasses a wide variety of expenses, including advertising and promotions, travel agency commissions, corporate incentive programs, credit card fees, global distribution system costs, the AIR MILES® Reward Miles program costs and live satellite television licensing fees.

Cost per ASM for sales and marketing remained constant from 2006 at 1.30 cents in 2007. The WestJet brand recognition and awareness remained strong in 2007, allowing us to strategically lower our advertising expense. This cost reduction coupled with increased capacity were the main drivers in maintaining a flat CASM year over year.

Commissions paid to travel agents comprise a significant portion of our sales and marketing expense. Bookings can be made one of three ways: through the Internet, the WestJet call centre or a Global Distribution System (GDS). One way we try to minimize our commission expense is to encourage bookings through the Internet, our lowest-cost booking channel. In the fourth quarter of 2007, we saw our Internet bookings reach an all-time high of approximately 71 per cent of total bookings, a 3.6 per cent increase over 2006. For 2007, Internet bookings were approximately 68 per cent of total bookings, which was relatively flat compared to 2006. In addition, we recently announced a modification to our travel agent commission program. Under the current system, travel agent bookings made online through Agent Link at westjet.com or through a GDS earn a 9 per cent commission, while bookings made through the Sales Super Centre earn a 5 per cent commission. Effective January 1, 2008, bookings made through the Sales Super Centre will not be eligible for commission.

Depreciation and amortization

In 2007, our depreciation and amortization expense per ASM decreased 2.2 per cent to 0.87 cents, compared to 0.89 cents in 2006. This decrease was mainly due to $5.0 million of transaction cost amortization in 2006 being eliminated for 2007, as well as the dilutive impact of our ASM growth.

As of January 1, 2007, per the new CICA handbook Section 3855, "Financial Instruments – Recognition and Measurement," we elected to expense transaction costs related to the acquisition of aircraft immediately as general and administration expense. In previous years, these costs were capitalized as other assets and amortized over the life of the related long-term debt as depreciation and amortization expense. In addition, there was a one-time adjustment recorded in the first quarter of 2006 related to the disposals of the 737-200 aircraft capital leases. This represented the final transition of our aircraft to a modernized, higher-efficiency Next-Generation fleet.

Our new accounting policy of expensing transaction costs to general and administration expense, combined with the growth in ASMs, more than offset the depreciation and amortization expense increase of 14.2 per cent in dollars when compared to 2006. The dollar increase was due to an additional four owned aircraft in 2007, as well as 12 additional owned aircraft delivered in 2006 that now have a full year of depreciation in 2007.

General and administration

General and administration costs consist of our corporate office departments, professional fees, insurance costs and transaction costs related to aircraft acquisitions.

In 2007, general and administration costs per ASM increased 9.1 per cent over 2006. Approximately half of this increase was due to $5.6 million in transaction costs related to four new aircraft purchased during the year. The remaining increase was attributable to higher salaries from a market wage adjustment in May 2007, salaries expensed in 2007 with the termination of the aiRES project that had been capitalized in 2006, and increased rent expense resulting from our growth. These increases were partially offset by lower insurance costs and professional fees.

Inflight

Our inflight expense consists mainly of flight attendant salaries, benefits, travel costs and training. Our inflight cost per ASM increased by 9.3 per cent to 0.59 cents compared to the prior year cost per ASM of 0.54 cents. These increases were mainly due to increased salary and benefit costs from a market wage adjustment on May 1, 2007, increased employee share purchase plan expense due to more flight attendants, and a change in the training reimbursement policy resulting in the Company absorbing a greater proportion of training costs. In addition, the expansion of our route network and increase in transborder and international destinations resulted in higher hotel costs.

Interest

On a per ASM basis, our interest expense decreased by 7.1 per cent in 2007 to 0.52 cents for the year, compared to 0.56 cents per ASM in 2006. This decrease was primarily due to the lower costs of purchased aircraft related to the strengthening Canadian dollar, lower debt levels, as well as the dilutive impact of our ASM growth which more than offset the additional $141.2 million in debt that we incurred in 2007 to support the acquisition of four new aircraft. All long-term debt related to the financing of our aircraft, which accounted for 97 per cent of our total long-term debt, was financed on a fixed-rate basis in Canadian dollars with an average rate of 5.3 per cent. The fixed-rate nature of our financing eliminates the risk of interest rate fluctuations over the life of the debt. In addition, the ability to finance the US-dollar purchase price of these aircraft with Canadian dollar debt eliminates our foreign currency exposure over the term of the debt.

Aircraft leasing

Our most significant infrastructure cost is our aircraft. To support our growth initiatives, we investigate various alternatives for financing, with the intention of achieving optimal balance sheet flexibility while realizing the benefits of low-cost financing. Leasing is often an attractive alternative to debt-financed aircraft for reasons such as alleviation of obsolescence risk and the significantly reduced upfront cash outlay required for deposits on purchased aircraft.

Aircraft leasing costs, on a CASM basis, decreased 8.8 per cent in 2007 compared to 2006. The decline in our aircraft leasing costs was driven primarily by the dilution of these costs over a greater number of available seat miles, as well as the strengthening Canadian dollar. This decrease was partially offset by incremental lease costs on three new leased 737-700 aircraft delivered in 2007. We ended 2007 with 21 aircraft financed under operating lease arrangements, comprised of 16 737-700s and five 737-800s.

Maintenance

Maintenance costs per ASM decreased 5.6 per cent to 0.51 cents in 2007, from 0.54 cents in 2006. This decrease was mainly due to $4.6 million in incremental maintenance costs incurred in early 2006 related to the purchase and sale of the remaining 737-200 aircraft, the strengthening Canadian dollar (approximately 40 per cent of our maintenance costs were denominated in US dollars), and the dilutive effect of our 16.1 per cent capacity growth year over year.

These decreases were partially offset by increased structural maintenance visits as a result of our growing fleet, as well as the increased number of aircraft out of warranty. At December 31, 2007, 25 out of 70 aircraft or 35.7 per cent were out of warranty compared to 14 out of 63 aircraft or 22.2 per cent at December 31, 2006. We anticipate our unit maintenance costs will increase as more aircraft come off warranty.

Guest services

Our commitment to guest service encompasses a strong focus on enhancing the overall experience of our guests at every point of contact, from the time of booking their flights to reaching their final destination. Guest service expenditures include the costs of our Sales Super Centre and our Guest Relations team.

Our total 2007 CASM relating to guest service remained consistent with 2006 at 0.25 cents. Operating on time is a critical component to our guest experience. During 2007, we continued our focus on implementing processes to improve our on-time performance in efforts to control costs while enhancing our guests' experience. However, some delays are out of our control due to inclement weather. 2007 was a very difficult year with respect to weather, particularly in the first and fourth quarters of the year. We saw costs for compensating our guests for re-accommodations and meal costs related to flight delays increase by approximately $1 million when compared to 2006, but this was offset by the dilutive impact of ASM growth.

In 2007, 82.4 per cent of all our flights arrived within 15 minutes of their scheduled time, compared to 81.7 per cent in 2006. While our operational team maintains a high commitment to ensuring our guests reach their destinations on time, we never allow this objective to compromise our safety standards.

Our Sales Super Centre agents also strive to provide the highest standard of customer service to our guests. To support guest-focused service, we grade our agents based on friendliness, knowledge and the ability to take control of the call. We reward our agents on the quality of guest service they provide to our guests through a performance-based pay system which not only encourages excellent customer service standards but also improves productivity. This was accomplished through our "front line empowerment" initiative, improvements to our website to allow itinerary changes, as well as a revamped quality and incentive program to increase call centre productivity.

OUR COMMITMENT TO GUEST SERVICE ENCOMPASSES A STRONG FOCUS ON ENHANCING THE OVERALL EXPERIENCE OF OUR GUESTS AT EVERY POINT OF CONTACT, FROM THE TIME OF BOOKING THEIR FLIGHTS TO REACHING THEIR FINAL DESTINATION.

A YEAR OF GI

VING

THIS YEAR WE LAUNCHED WESTJET CARES FOR KIDS.

While caring for our guests is part of who we are, we wanted to do more. That's why we started WestJet Cares for Kids. The first WestJet program of its kind, it focuses on children's health and well-being. This year we gave over 3,000 flights to our partners including Make-A-Wish® Canada. It's just another way our owners care.

L to R: **BRENDA DUFF** Flight Attendant, **DEAN LEONZIO** First Officer, **MELISSA LILLY AND HER FAMILY**

Loss on impairment of property and equipment

During 2007, we came to an agreement with the vendor of the aiRES reservation system to discontinue the aiRES contract and, as a result, recognized an impairment loss of $31.9 million. Our current reservation system was upgraded several times during 2007 and is fully capable of meeting our strategic plan for 2008. In January 2008, we completed the deployment of the most up-to-date version of our reservation system and all of the key functionalities we require to achieve our objectives are available to us. We will continue to review our options for a new reservation system from a variety of companies.

Compensation

Our compensation philosophy is designed to align corporate and personal success. We have designed a compensation plan whereby a portion of our expenses are variable and are tied to our financial results. Our compensation strategy encourages employees to become owners in our Company, which inherently creates a personal vested interest for our WestJetters in our accomplishments. Consequently, our people have the opportunity to improve their compensation through our profit sharing and employee share purchase plan.

A significant component of our compensation structure is the Employee Share Purchase Plan (ESPP), which allows employees to participate in the Company's success. Our ESPP is embraced by our people, as evidenced by 83 per cent of our eligible employees participating in this program at the end of 2007. WestJetters can contribute up to 20 per cent of their base salaries in the ESPP and, on average, contribute 14 per cent. To encourage WestJetters to participate, we match every dollar contributed by employees. Our matching expense in 2007 was $35.4 million, a 25.5 per cent increase from 2006's $28.2 million.

The profit share system is a variable cost that is reduced and adjusted in less profitable times. Conversely, in good years, profit share will generously reward employees. Our average WestJetter received approximately 16.9 per cent of their base pay as profit share for 2007. The profit share provision amounted to $48.6 million in 2007, a 139.4 per cent increase over the $20.3 million in the previous year, which was directly attributable to our increased pre-tax margin.

In the first half of 2007, WestJet introduced a Restricted Share Unit (RSU) plan, whereby up to a maximum of 2,000,000 RSUs may be issued to our executive officers. Each RSU entitles a participant to receive cash equal to the market value of the equivalent number of our common shares. Each RSU will vest on a fixed vesting date no later than three years from the date of grant and is to be paid out based on the market value for the five trading days prior to the vesting date. Payments under the RSU plan are made in cash. No WestJet shares will be issued in connection with the RSU plan. For the year ended December 31, 2007, we granted 68,058 RSUs and incurred compensation expense of $736,000, which has been included in general and administration expense, and accrued liabilities and other liabilities.

During 2007, a Deferred Share Unit (DSU) plan was approved as an alternative form of compensation for independent Directors. Under this plan, eligible Directors may elect to receive all or part of their remuneration in DSUs. Directors who have not yet met minimum required share ownership must take a minimum of 25 per cent of their compensation in DSUs. Each DSU entitles a participant to receive cash equal to the market value of the equivalent number of WestJet shares. The compensation expense for the DSUs is based on the market value at each reporting period. For the year ended December 31, 2007, 2,299 DSUs were granted with $49,000 of expense included in general and administration expense and accrued liabilities. DSUs are redeemable upon the Directors' retirement from the Board.

OUR COMPENSATION PHILOSOPHY IS DESIGNED TO ALIGN CORPORATE AND PERSONAL SUCCESS … WHICH INHERENTLY CREATES A PERSONAL VESTED INTEREST FOR OUR WESTJETTERS IN OUR ACCOMPLISHMENTS.

Foreign exchange

During 2007, the Canadian dollar strengthened significantly compared to 2006, particularly in the second half of the year. The Canadian dollar ended the year at $0.99 relative to the US dollar, a 15 per cent appreciation compared to the closing rate at the end of 2006. Operationally, we benefit from the strengthening Canadian dollar on our expenditures, which are either denominated in US dollars or linked to US indices. WestJet's exposure to the US dollar primarily relates to aircraft lease payments, aircraft fuel purchases, airport operations at our U.S. destinations and certain maintenance costs, and represents approximately one third of our total spend.

The foreign exchange gains and losses that we realize are largely attributable to the effect of the changes in the value of the Canadian dollar, relative to the US dollar, on our US-dollar denominated net monetary assets over the respective periods. These assets, totalling approximately US $110.2 million at December 31, 2007 (December 31, 2006 – $62.5 million), consist of US-dollar denominated cash and cash equivalents and security deposits on various leased and financed aircraft. We hold US-dollar denominated cash and short-term investments to reduce the foreign currency risk inherent in our US-dollar expenditures. We reported an unrealized foreign exchange loss of $12.8 million in 2007 compared to a small gain in 2006 on the revaluation of our US-dollar monetary assets.

For 2007, we estimated that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate $6 million impact on our annual costs (approximately $4 million for fuel and $2 million for remaining costs). During 2007, we entered into foreign currency forward contracts to offset our US-dollar denominated aircraft lease payments. As at December 31, 2007, we entered into forward contracts to purchase US $5.9 million per month for five months for a total US $29.5 million at an average forward rate of 0.9871 per US dollar. Maturity dates for all contracts are within 2008. For the year ended December 31, 2007, we realized a loss on the contracts of $18,000 included in aircraft leasing costs. As at December 31, 2007, the estimated fair market value of the remaining contracts recorded in prepaid expenses, deposits and other, and accumulated other comprehensive income was a gain of $106,000.

Income taxes

Our operations span several tax jurisdictions, which subjects our income to various rates of taxation. As such, the computation of the provision for income taxes involves judgments based on the analysis of several different pieces of legislation and regulation.

Our effective consolidated income tax rate for 2007 was approximately 19.3 per cent, as compared to 30.2 per cent in 2006. The 2007 rate was significantly lower primarily due to corporate income tax rate reductions enacted by the federal government. In addition, we realized a beneficial impact to our future effective tax rate for the year based on revised expectations of when certain temporary differences are anticipated to reverse. These changes resulted in a $33.7 million favourable adjustment of future income tax expense recognized in the fourth quarter of 2007, which was in addition to a $2.3 million recovery recorded in the second quarter. The 2007 income tax expense was $3.7 million lower than 2006's due to the changes in future income tax rates partially offset by higher earnings before income tax.

LIQUIDITY AND CAPITAL RESOURCES

Our record financial performance in 2007 resulted from our ongoing efforts to build infrastructure, manage risk, prepare for opportunities, and secure our competitive advantage and reputation in our industry's rapidly changing environment.

In an industry highly sensitive to unpredictable circumstances, such as increasing energy prices, maintaining a strong financial position is imperative to our long-term success. Through our cautious financial management, we have maintained one of the most favourable balance sheets in the airline industry.

We realized a significant growth in our cash position by the end of 2007, completing the year with total cash and cash equivalents of $653.6 million compared to $377.5 million at December 31, 2006. Part of this cash balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2007, was $194.9 million. Our financial position remained strong as we were able to achieve an increase in our working capital ratio to 1.2, from 1.0 at December 31, 2006. As at December 31, 2007, WestJet did not have any investments in asset-backed commercial paper.

Our debt-to-equity ratio at December 31, 2007, was 1.94 to 1.0, including $410.8 million which represented the present value of our aircraft operating lease obligations. This compared favourably to our debt-to-equity ratio at December 31, 2006, of 2.3 to 1. Our debt-to-equity ratio was impacted negatively by an adjustment to our opening retained earnings during the period as a result of the adoption of the new accounting policies for Financial Instruments. Effective January 1, 2007, we adjusted our opening retained earnings balance by $36.6 million (net of future income tax of $16.3 million) related to transaction costs on long-term debt we previously included in other assets. Without this adjustment, our debt-to-equity ratio at December 31, 2007, would have been 1.87 to 1.0.

Operating cash flow

Cash from operations in 2007 increased 59.9 per cent to $541.1 million from $338.3 million for the same period in 2006 due to growth in earnings from operations and improved working capital.

Financing cash flow

In 2007, our total cash flow used in financing activities was $59.3 million, consisting mainly of $141.2 million in long-term debt issued related to the financing of four new purchased aircraft, offset by $156.5 million in long-term debt repayments. During 2007, we repurchased 1,263,500 shares under the normal course issuer bid for a total of $21.3 million and made deposits on future leased aircraft of $18.3 million. In 2006, cash flow from financing activities was $256.6 million, which was made up of an increase of $418.6 million in long-term debt to finance 12 aircraft, offset by $132.6 million in long-term debt repayments, $16.0 million in transaction costs and $10.9 million in deposits on future leased aircraft.

One of the major challenges that airlines face is the high cost of capital. Having sufficient access to capital is critical in order to facilitate our planned growth. At the same time, we require the flexibility and resources to take advantage of unforeseen opportunities as they arise. In addition to having strong cash liquidity, we have been successful in financing our growth through aircraft acquisitions financed by low interest rate debt supported by the Export-Import Bank of the United States (Ex-Im Bank) commitments. During 2007, we converted a preliminary commitment into a final commitment from Ex-Im Bank for a total of US $249.1 million. As at December 31, 2007, we have taken delivery of the first four aircraft under this facility and have drawn a total of $141.2 million (US $136.9 million). As at December 31, 2007, the unutilized and uncancelled balance of the final commitment from Ex-Im Bank was US $108.0 million for three aircraft to be delivered between January and July of 2008.

A YEAR OF PE

OUR OPERATIONAL PERFORMANCE WAS AMONG THE BEST IN THE INDUSTRY.

In 2007, we finished in the top five in North America for on-time performance, flight completion and baggage – the three categories that measure operational performance.

BRAD RIVALIN TAC Team

These loan guarantees from the U.S. government represent approximately 85 per cent of the purchase price of these aircraft. This financing activity brings the cumulative number of aircraft financed with loan guarantees to 49, with an outstanding debt balance of $1.4 billion associated with those aircraft. All of this debt has been financed in Canadian dollars at fixed rates ranging from 4.6 per cent to 6.0 per cent, thus eliminating all future foreign exchange and interest rate exposure on these US-dollar aircraft purchases.

To facilitate the financing of our Ex-Im Bank supported aircraft, we utilize five special-purpose entities. We have no equity ownership in the special-purpose entities, however, we are the beneficiary of the special-purpose entities' operations. The accounts of the special-purpose entities have been consolidated in the financial statements.

Investing cash flow

Cash used in investing activities for 2007 totalled $200.3 million compared to $477.1 million in the previous year. In the current year, our investing activities included the addition of four new aircraft totalling $191.4 million, as well as $26.8 million in Boeing deposits on 23 future-owned aircraft deliveries partially offset by $13.7 million received in the first quarter related to the sale of two engines. In 2006, cash used in investing activities related to 12 new aircraft acquisitions of $438.9 million, as well as $43.6 million of additions to property and equipment primarily related to the development of the aiRES project.

Capital resources

WestJet increased its aircraft commitment by 31 aircraft, bringing the total committed fleet to 116 by 2013. On July 12, 2007, we signed a Letter of Intent to lease three aircraft in 2010 with options to lease three more aircraft in 2011, which were exercised on October 26, 2007. On July 31, 2007, we announced an agreement to purchase 20 Boeing 737-700 aircraft with 14 scheduled for delivery in 2012 and six in 2013. On August 7, 2007, we signed another Letter of Intent to lease three aircraft with two scheduled for delivery in 2010 and one in 2011, and on November 6, 2007, we signed a Letter of Intent for two more 737-800 aircraft to be delivered in November 2008 and January 2009. As at December 31, 2007, total aircraft commitment was $947.5 million, or US $968.9 million.

At December 31, 2007, we had existing commitments to take delivery of an additional 46 aircraft as summarized below:

At December 31, 2007

	Series											
	600s			700s			800s			Total Fleet		
	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total
Fleet at December 31, 2006	—	13	13	13	32	45	5	—	5	18	45	63
Fleet at December 31, 2007	—	13	13	16	35	51	5	1	6	21	49	70
Commitments:												
2008	—	—	—	2	3	5	2	—	2	4	3	7
2009	—	—	—	7	—	7	3	—	3	10	—	10
2010	—	—	—	4	—	4	1	—	1	5	—	5
2011	—	—	—	4	—	4	—	—	—	4	—	4
2012	—	—	—	—	14*	14	—	—	—	—	14	14
2013	—	—	—	—	6*	6	—	—	—	—	6	6
Total commitments	—	—	—	17	23	40	6	—	6	23	23	46
Committed fleet as of 2013	—	13	13	33	58	91	11	1	12	44	72	116

*We have an option to convert any of these future aircraft to 737-800s.

To accommodate our current and future growth and to ensure our people have an efficient work environment, we are building new offices adjacent to our existing hangar near the Calgary airport. The "Campus" will centralize our corporate office departments and will have the ability to accommodate at least 1,250 WestJetters in addition to the 450 currently at the Calgary hangar. The Campus is expected to cost $96.5 million and will be financed from operating cash flow. During 2007, we incurred a total of $11.8 million relating to the Campus.

Contractual obligations, off-balance-sheet arrangements and commitments

Our contractual obligations for each of the next five years, which do not include commitments for goods and services required in the ordinary course of business, are indicated in the table below:

Contractual obligations (thousands)	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt repayments	$ 1,429,518	$ 172,992	$ 157,173	$ 156,504	$ 169,228	$ 154,797	$ 618,824
Capital lease obligations(1)	1,624	444	444	698	38	—	—
Operating leases(2)	1,487, 676	107,143	130,315	154,692	169,906	176,691	748,929
Purchase obligations(3)	947,513	101,157	7,446	36,367	79,027	509,650	213,866
	$ 3,866,331	$ 381,736	$ 295,378	$ 348,261	$ 418,199	$ 841,138	$ 1,581,619

(1) Includes weighted average imputed interest at 5.29% totalling $141.
(2) Included in operating leases are US-dollar operating leases primarily related to aircraft. The obligations of these operating leases in US dollars are: 2008 – $94,885; 2009 – $125,394; 2010 – $152,720; 2011 – $171,180; 2012 – $178,151; 2013 and thereafter – $743,404.
(3) Relates to purchases of aircraft, live satellite television systems, and winglets. These purchase obligations in US dollars are: 2008 – $103,443; 2009 – $7,614; 2010 – $37,189; 2011 – $80,813; 2012 – $521,168; 2013 and thereafter – $218,699.

We currently have 21 aircraft under operating leases. We have entered into agreements with independent third parties to lease 17 additional 737-700 aircraft over eight- and 10-year terms in US dollars and six 737-800 aircraft over a 10-year term in US dollars, to be delivered throughout 2008 to 2011. These amounts have been included at their Canadian dollar equivalents in the table on the previous page. Although the current obligations related to our aircraft operating lease agreements are not recognized on our balance sheet, we include these commitments in assessing our overall leverage. Our debt-to-equity ratio, including off-balance-sheet debt of $410.8 million, was 1.94 to 1 at the end of 2007 compared to 2.3 to 1 at the end of 2006, well within our self-imposed range of acceptable debt-to-equity ratios. Although we have increasing debt obligations from new aircraft purchases, we have successfully maintained a debt-to-equity ratio that reflects our ability to effectively manage our balance sheet.

Contingencies

On May 29, 2006, as a full settlement to the Air Canada lawsuit, we agreed to pay Air Canada's costs incurred of $5.6 million and make a donation in the amount of $10 million in the name of Air Canada and the Company to children's charities across the country. All legal proceedings between the parties have been terminated. These amounts have been included in non-recurring expenses for 2006.

A Statement of Claim was filed by Jetsgo Corporation (Jetsgo) in the Ontario Superior Court on October 15, 2004, against WestJet, an officer, and a former officer (the Defendants). Jetsgo was seeking damages in an unspecified amount to be determined prior to trial plus $50 million for spoliation, punitive and exemplary damages. On May 13, 2005, Jetsgo sought bankruptcy protection. Based on an Order of the Ontario Supreme Court of Justice dated April 25, 2007, this action has been formally dismissed.

We are party to other legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material effect upon our financial position, results of operations or cash flows.

On January 10, 2008, the Canadian Transportation Agency rendered Decision No. 6-AT-A-2008 under the Canada Transportation Act, S.C. 1996, c. 10, as amended, as a result of an application pursuant to subsection 172(1) of the Act. The decision against WestJet, and other Canadian air carriers and parties concerns the fares to be paid by persons with disabilities who require additional seating to accommodate their disabilities when travelling domestically by air. We are appealing the decision and it is not possible at the present time to predict with any degree of certainty the outcome of the appeal of the decision or the final effects thereof.

Normal course issuer bid

On February 26, 2007, WestJet filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, WestJet is authorized to purchase up to 2,000,000 shares during the period of February 28, 2007, to February 27, 2008, or until such earlier time as the bid is completed or terminated at the option of WestJet. Any shares WestJet purchased under this bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid will be cancelled. During the year ended December 31, 2007, we purchased 1,263,500 shares under the bid for total consideration of $21.3 million. The average book value for the shares repurchased of $4.3 million was charged to share capital with the $17.0 million excess of the market price over the average book value charged to retained earnings.

Share capital

As at January 31, 2008, the number of common voting shares and variable voting shares amounted to 123,034,777 and 6,627,608, respectively.

WE HAVE SUCCESSFULLY MAINTAINED A DEBT-TO-EQUITY RATIO THAT REFLECTS OUR ABILITY TO EFFECTIVELY MANAGE OUR BALANCE SHEET.

RISKS AND UNCERTAINTIES

The airline industry has inherent risk associated with it. WestJet is subject to those risks, including, but not necessarily limited to, the risk factors listed below. Management performs a risk assessment on a continual basis to ensure that significant risks related to our Company have been reviewed and assessed by management.

Any major safety incident involving our aircraft or similar aircraft of other airlines could materially and adversely affect our service, reputation and profitability.

A major safety incident involving our aircraft during operations would require us to incur substantial repair or replacement costs to the damaged aircraft and a disruption in service. We could also incur potentially significant claims relating to injured guests and others along with a negative impact to our reputation for safety, adversely affecting our ability to attract and retain guests. We have an Emergency Response Plan (ERP) in the event of an incident occurring.

On November 4, 2003, the Montreal Convention came into force in Canada with an amendment to the Carriage by Air Act (Canada). The Montreal Convention introduced updates and modernized the Warsaw Convention of 1929, a set of international rules governing liability of an air carrier. The Montreal Convention has expanded an air carrier's liability exposure. Under the Warsaw system, an air carrier's liability was limited to approximately US $75,000 (unless the air carrier acted with intent or recklessly). The Montreal Convention established a two tier system for determining an air carrier's liability for the death or injury of guests in the event of an accident. Under the first tier of the system, an air

A YEAR OF G

AT THE END OF 2007, WE HAD 70 AIRCRAFT.

But we're not stopping there. 2007 saw us ink a deal with Boeing for an additional 20 Next-Generation 737s, bringing us to 116 aircraft by 2013.

L to R: DON KOHLMAN Power Plant Lead, **GISELE KRIWOKON** Aircraft Appearance Lead

ROWTH

carrier is strictly liable for death or injury to guests up to approximately US $145,000, but may be subject to additional damages unless the air carrier can show that it did not act negligently. Under the second tier, a carrier can defend against any claim above that amount.

We carry adequate insurance similar to other scheduled airlines operating in the North American market. While we believe our insurance is adequate, there can be no assurance that such coverage will fully protect us against all losses that we might sustain. There is no assurance that we will be able to obtain insurance on the same terms as we have in the past.

There is a risk that the Government of Canada may not continue to provide indemnity for third party war risk coverage, which it currently provides to certain scheduled carriers, including WestJet. In the event that the Government of Canada does not continue to provide such coverage, such coverage may or may not be available to us in the commercial markets, and the costs and impact of such costs is as yet undetermined.

The London aviation insurance market has announced its intention to introduce a new standard war and terrorism exclusion clause to apply to aircraft hull, spares, guest and third party liability policies that will exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device or biochemical materials.

We are dependent on the price and availability of aircraft fuel. Continued periods of high fuel costs and/or significant disruptions in the supply of fuel, could adversely affect our results of operations.

Our business is inherently dependent upon aircraft fuel to operate, and therefore, we are impacted by changes in aircraft fuel prices. Our fuel costs constitute the largest single expense category, representing 27 per cent of operating costs in 2007 and 2006. A significant change in the price of aircraft fuel will materially affect our operating results. We monitor hedging opportunities to mitigate the effects of increasing fuel prices.

Fuel prices will continue to be susceptible to political events, weather conditions, refinery capacity and other factors that can affect the supply of fuel and we cannot predict near or long term fuel prices. In the event of a fuel supply shortage or significantly higher fuel prices, a curtailment of scheduled service could result. There can be no assurance that increases in the price of fuel can be offset by higher fares or fuel surcharges. The higher costs to travellers may discourage air travel.

A significant increase in the price of aircraft fuel could result in a disproportionately higher increase in our average total costs in comparison to our competitors if they are using more effective hedging programs.

Our failure to achieve our growth strategy could have a material adverse effect on our financial condition and results of operations.

Our growth strategy involves increasing the number of markets served and increasing the frequency of flights to the markets we already serve. During the initial phases of implementing service in a new market, we are more vulnerable to the effects of fare discounting in that market by competitors already operating in that market or by new entrants. There can be no assurance that we will be able to identify and successfully establish new markets.

The airline industry is intensely competitive. Reduced market growth rates can create heightened competitive pressures, impacting the ability to increase fares and increasing competition for market share.

Conventional airline profits are sensitive to the general level of economic activity, taxes, interest rates, demographic changes, price levels, telecommunications usage, special circumstances or events occurring in the locations served, and to external factors such as foreign exchange rates and international political events. Notwithstanding our variable profit share plan, a portion of an airline's costs such as labour, aircraft ownership and facilities charges cannot be easily adjusted in the short term to respond to market changes.

The airline industry is highly competitive and particularly susceptible to price discounting, because airlines incur only nominal costs to provide services to guests occupying otherwise unsold seats. We primarily compete with the major Canadian airline and its subsidiaries in our domestic market and the major Canadian airline and numerous U.S. carriers in the transborder market. We face significant competition from other airlines that are serving most of our existing and potential markets. Other airlines regularly meet or price their fares below our fares, potentially preventing us from attaining a share of the guest traffic necessary to maintain profitable operations. Our ability to meet price competition depends on our ability to operate at costs lower than that of our competitors or potential competitors over the medium to long term.

In addition, consumers are able to more effectively shop for travel services through Internet websites and, particularly, wholesale travel sellers to more effectively compare pricing information. The growth and competitiveness in Internet distribution channels have pushed air carriers to more aggressively price their products, which, in effect, reduces yield and may have an impact on our revenue and profitability as more and more consumers focus on this distribution network.

With the aggressive and competitive nature of our industry, we turn inwards to realize cost efficiencies and competitive advantages. Our culture remains a competitive advantage in the face of increased competition. In addition, we continually monitor our cost structure and seek opportunities to reduce costs further where possible.

The failure of critical systems which we rely on could harm our business.

We depend on automated systems to operate our business, including our computerized airline reservation system, telecommunication systems, aircraft maintenance system and website. Our website and reservation system must be able to accommodate a high volume of traffic and deliver important and accurate flight information. Any disruption in these systems could result in the loss of important data and increased expenses, and could generally harm our business. We have secondary systems which will mitigate to varying degrees any primary system failures.

As a company that processes, transmits and stores credit card data, we are subject to compliance with certain requirements established by credit card companies. Non-compliance with these requirements, whether through system breaches or limitations, may result in substantial fines or temporary or permanent exclusion from one or more credit card acceptance programs. The inability to process one or more credit cards could have a material impact on our guest bookings, revenue and profitability.

Government intervention, regulations, rulings or decisions rendered that impose additional requirements and restrictions on operations could increase operating costs and disrupt our operations.

The airline industry is subject to extensive laws relating to, among other things, airline safety and security, provision of services, competition, environment and labour concerns. Government entities such as Transport Canada, Competition Bureau, the Canadian Transportation Agency, and other domestic or foreign government entities may implement new or different laws, regulatory schemes or render decisions or rulings, or changes in tax policy, that could have an adverse impact on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, or reducing the demand for air travel, and could have a material adverse effect on our business, operational results and financial condition.

Laws relating to data collection on guests and employees for security purposes and counterbalancing privacy legislation have increased costs of operation. Any material changes that add additional requirements on collecting data, processing data and filing with, or otherwise reporting to, government agencies may materially impact our business as to time and costs, and therefore our operating results.

The increase in security measures and clearance times required for guest travel could have a material adverse effect on guest travel demand and the number of guests carried by WestJet. Reduction in guest numbers will impact negatively on WestJet's revenues and results of operations.

Interruption in the provision of goods and services from significant third party suppliers could have a material adverse affect on our business, operating results and financial condition.

We secure goods and services from a number of third party suppliers. Any significant interruption in the provision of goods and services from such suppliers, some of which would be beyond our control, could have a material adverse affect on our business, operating results and financial condition.

Our reliance on Boeing for aircraft or General Electric for engines makes us susceptible to any problems connected with Boeing aircraft or General Electric engines or components, respectively, including defective materials, mechanical problems or negative perception in the travelling community. In addition, labour action at Boeing, General Electric or key suppliers could delay delivery of new aircraft or parts, impacting negatively on our operating and expansion plans.

If Boeing was unable to adhere to its contractual obligations in meeting scheduled delivery dates for our owned and leased aircraft, we would be required to find another supplier for aircraft or engines to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs. In addition, aircraft and engines may not be available at similar prices or received during the same scheduled delivery dates, which could adversely affect our business, operating results and financial condition.

We derive significant operations and utilization efficiencies through our charter operations. In particular, the charter relationship with Transat may be considered to be material. Any disruption in the relationship with Transat or Transat's failure or inability to fulfill its contractual obligations with us, pursuant to the Transat Charter Agreement, could have a material adverse effect on our business, results from operations and financial condition.

Inability to retain key personnel could harm our business.

Our success will depend, in part, on members of our management and key personnel. If any of these individuals become unable to continue in his or her present role, we may have difficulty replacing these individuals, which could adversely affect us.

Our business is labour intensive and requires large numbers of pilots, flight attendants, mechanics and other personnel. Our growth and general turnover requires us to locate, hire, train and retain a significant number of new employees each year. There can be no assurance that we will be able to locate, hire, train and retain the qualified employees that we need to meet our growth plans or replace departing employees. If we are unable to hire and retain qualified employees at a reasonable cost, our business, operating results and financial condition could be adversely affected.

Our financial results are affected by foreign currency and interest rate fluctuations.

We are exposed to US-dollar currency fluctuations due to US-dollar payment obligations associated with aircraft lease payments, aircraft fuel purchases and maintenance expenditures such as spare parts, and repair and overhaul of engines and rotable components. Since our revenues are received primarily in Canadian dollars, we are exposed to fluctuations in the Canadian/U.S. exchange rate with respect to these payment obligations.

A YEAR OF IN

NOVATION

TECHNOLOGY IS CHANGING THE WAY WE FLY.

This year we introduced mobile check-in, flow-through check-in, plus international and transborder web check-in. We were also the first airline in North America to offer the paperless electronic boarding pass. Heading forward, it's innovations like these that will allow us to continue to make flying WestJet an even bigger pleasure, while keeping an eye on the bottom line.

BLAIR LAING Intermediate Systems Analyst

We are exposed to fluctuations in the Canadian/U.S. exchange rate relating to the purchases of the remaining 23 737 aircraft. The purchase of the three aircraft to be delivered in 2008 are financed by funds drawn in Canadian dollars, however, the aircraft are paid for in US funds at the date of each aircraft delivery. As a result, we are exposed to foreign currency fluctuations prior to each delivery date. This exposure is mitigated by fixing rates in advance of delivery at appropriate times and where rates are not yet locked in, or aircraft deliveries are spread out over time, effectively achieving an average rate of exchange as the US-dollar exchange rate is locked in at each separate delivery point. Additionally, the ability to draw these funds in Canadian dollars significantly reduces our risk to foreign currency fluctuations, as the majority of our revenue is in Canadian dollars. There is no guarantee we will be able to secure similar financing arrangements for the remaining 20 aircraft to be delivered in 2012 and 2013.

We are also exposed to fluctuations in the Canadian/U.S. exchange rate related to US dollar aircraft lease payments.

We are also exposed to general market fluctuations of interest rates, as we have future aircraft purchase commitments which will be financed at prevailing market rates. This exposure is mitigated by fixing rates.

Terrorist attacks or military involvement in unstable regions may harm the airline industry.

After the terrorist attacks of September 11, 2001, the airline industry experienced a substantial decline in guest traffic and revenue, and increased security and insurance costs. The heightened concern of potential terrorist attacks and additional terrorist attacks could cause a further decrease in guest traffic and yields, and increase security measures and related costs. These events could adversely impact the airline industry and our operations, and should such an attack occur in Canada, the adverse impact could be very significant.

Our operations are affected by a number of external factors that are beyond our control such as weather conditions, and special circumstances or events occurring in the locations we serve.

Delays or cancellations due to weather conditions and work stoppages or strikes by airport workers, baggage handlers, air traffic controllers and other workers not employed by us could have a material adverse impact on our financial condition and operating results. Delays contribute to increased costs and decreased aircraft utilization, which negatively affect profitability.

Our business is dependent upon its ability to operate without interruption at a number of key airports, including Toronto Pearson International Airport and Calgary International Airport. An interruption or stoppage in service at a key airport could have a material adverse impact on our business, results from operations and financial condition.

A health epidemic may decrease the demand for air travel.

A health epidemic occurring in the U.S. or Canada, or a World Health Organization travel advisory primarily relating to North American cities or regions, could have a significant adverse effect on the number of guests travelling on WestJet and, therefore, our financial results and our business.

Governmental fee increases de-stimulate air travel.

Air navigation fees in Canada have been increasing significantly in recent years, and if they continue to increase at similar rates, they could have a negative impact on the business and our financial results.

Airport authorities continue to implement or increase various user fees which impact travel costs for guests, including landing fees for airlines and airport improvement fees. Airport authorities generally have the unilateral discretion to implement and adjust such fees. The combined increased fees, and increases in rents under various lease agreements between airport authorities and the Government of Canada, which in many instances are passed through to air carriers and/or air travellers but ultimately to air travellers, may negatively impact travel of all sorts, and most particularly discretionary travel.

Our maintenance costs will increase as our fleet ages.

The average age of our fleet as at December 31, 2007, is 3.2 years. These aircraft require less maintenance now than they will in the future. We have incurred lower maintenance expenses on these aircraft because most of the parts on these aircraft are under multi year warranties. Our maintenance costs will increase as our fleet ages and warranties expire. At December 31, 2007, 25 owned aircraft have come off warranty, with an additional 11 coming off warranty in 2008.

A significant change in our unique corporate culture or guest experience could have adverse operational and financial consequences.

Our strong corporate culture is one of our fundamental competitive advantages. We strive to maintain an innovative culture where all employees are committed to, and passionately pursue, our goals, mission and vision. We also foster a unique culture of caring and compassion for our guests and fellow employees that sets us apart from our competitors.

We aim to ensure our people are satisfied, skilled, committed and motivated; this, in turn, creates a more favourable working environment and an above average guest experience. This is accomplished, in part, through the implementation of compensation policies intended to align the interests of our employees with those of our Company and our shareholders. The failure to maintain our unique corporate culture or guest experience could adversely affect our business and financial results.

We have significant financial obligations and will incur significantly more fixed obligations, which could harm our ability to meet our growth strategy.

Our debt and other fixed obligations could impact our ability to obtain additional financing to support capital expansion plans and working capital on suitable terms. Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cash flow. The failure to generate sufficient operating cash flow to meet our fixed obligations could harm our business.

A limited number of our current financing agreements require us to comply with specific financial covenants. There is no assurance that we can comply with these covenants in the future. These covenants may limit our ability to finance future operations or capital needs. If we were to default on these covenants and were unsuccessful in obtaining a waiver of the default, all amounts owing under the defaulted agreement could be required to be immediately due and payable. In this event, we would require sufficient cash to meet the repayment obligation or require additional debt or equity financing, which may not be available. If unable to repay the debt, we would be required to liquidate certain assets in order to obtain the necessary funds or be subject to the risk of having our aircraft repossessed, which could adversely impact our business.

ACCOUNTING

Financial instruments

At December 31, 2007, our financial instruments consist primarily of cash and cash equivalents including US-dollar security deposits, accounts receivable, accounts payable and accrued liabilities, long-term debt and cash flow hedges.

We do not hold or use any derivative instruments for trading or speculative purposes. We will, from time to time, use various financial instruments to reduce exposure to changes in foreign currency exchange rates, interest rates and aircraft fuel prices.

Fuel price risk

Our business is inherently dependent upon aircraft fuel to operate, and therefore impacted by changes in aircraft fuel prices. To mitigate exposure to fluctuations in aircraft fuel prices, we periodically use short-term and long-term financial and physical derivatives and accounts for these derivatives as cash flow hedges. As at, and for the year ended December 31, 2007, we had no outstanding aircraft fuel hedges. For the year ended December 31, 2006, we recognized a net loss of $2.2 million in aircraft fuel resulting from hedging transactions.

Foreign currency exchange risk

We are exposed to foreign currency exchange risks arising from fluctuations in the foreign exchange rate on our US-dollar denominated operating expenditures. To manage our exposure, we periodically use financial instruments, including US-dollar forward contracts. Upon proper qualification, the forward contracts are designated as cash flow hedges and qualify for hedge accounting. Under hedge accounting, all periodic changes in fair value of the forward contracts that are considered to be effective are recorded in other comprehensive income until the forecasted expenditure impacts earnings. Any ineffective portion is recorded in current earnings.

Interest rate risk

We are exposed to interest rate fluctuations on variable interest rate debt which, at December 31, 2007, only made up 2.1 per cent (2006 – 2.8 per cent) of our total debt. The fixed-rate nature of our financing eliminates the risk of interest rate fluctuations over the term of the outstanding debt.

Credit risk

We do not believe that we are subject to any significant concentration of credit risk. Generally, our receivables result from tickets sold to individual guests through the use of major credit cards and travel agents. These receivables are short-term, generally being settled shortly after the sale. We manage the credit exposure related to financial instruments by selecting counterparties based on credit ratings, limiting our exposure to any single counterparty, and monitoring the market position of the program and its relative market position with each counterparty.

Fair value of financial instruments

Fair value represents a point-in-time estimate. The carrying value of financial instruments included in the balance sheet, other than long-term debt, approximate their fair values due to the relatively short-term maturities of these instruments.

At December 31, 2007, the fair value of long-term debt was approximately $1.47 billion (2006 – $1.5 billion). The fair value of long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates, which represent borrowing rates presently available to us for loans with similar terms and maturity.

Critical accounting estimates

Our significant accounting policies are described in Note 1 to our audited Consolidated Financial Statements. The preparation of financial statements in conformity with Canadian GAAP requires estimates and assumptions that affect our results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and actual results could differ materially from those estimates.

A YEAR OF EX

WE'RE TAKING OUR GUEST EXPERIENCE INTERNATIONAL.

It's amazing how far caring can take you. This year, WestJet added seven amazing sun destinations. They were Mazatlan, Cabo San Lucas, Montego Bay, Puerto Plata, Punta Cana, St. Lucia and Kona. As well, WestJet Vacations established itself as a premier choice for vacation seekers. Looking forward, the forecast looks just as sunny as we keep spreading our wings.

L to R: KAYTLYN BRYCE Flight Attendant, **KIM BRYCE** Flight Attendant, **KARLY BRYCE** Flight Attendant


XPANSION
7 NEW
SUN SPOTS

We have identified the following areas that contain critical accounting estimates utilized in the preparation of our financial statements:

Property and equipment

We make estimates about the expected useful lives, projected residual values, lease-return conditions, and the potential for impairment of our property and equipment. In estimating the lives and expected residual values of our fleet, we rely upon annual independent appraisals, recommendations from Boeing and actual experience with the same aircraft types. Revisions to the estimates for our fleet can be caused by changes in the utilization of the aircraft or changing market prices of used aircraft of the same type. We evaluate our estimates and potential impairment on all property and equipment annually and when events and circumstances indicate that the assets may be impaired.

Non-refundable guest credits

We also make estimates in accounting for our liability related to certain types of non-refundable guest credits. We issue future travel credits to guests for flight changes and cancellations, as well as for gift certificates. Where appropriate, future travel credits are also issued for flight delays, missing baggage and other inconveniences. All credits are non-refundable and expiry dates vary depending on the nature of the credit. We record a liability in the period the credit is issued. The utilization of guest credits is recorded as revenue when the guest has flown or upon expiry.

Deferred sales and marketing costs

We defer sales and marketing costs related to advanced ticket sales. We estimate the amount to defer based on the proportion of advanced ticket sales to total bookings on an annualized basis. This amount is included on our balance sheet in prepaid expenses.

Future income taxes

We use the liability method of accounting for future income taxes, which requires a significant amount of judgment regarding assumptions and the use of estimates. This can create significant variances between actual results and estimates, including the scheduling of our effective tax rate and the potential realization of future tax assets and liabilities.

Stock-based compensation expense

We use the fair value method for valuing stock options. Under this method, as new options are granted, the fair value of these options will be expensed on a straight-line basis over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of somewhat subjective assumptions including expected stock price volatility.

Financial derivative instruments

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to their short term to maturity.

Changes in accounting policies

On January 1, 2007, we adopted the new Canadian accounting standards for financial instruments: Section 3861, "Financial Instruments – Disclosure and Presentation," Section 3855, "Financial Instruments – Recognition and Measurement," Section 3865, "Hedges" and Section 1530, "Comprehensive Income". Prior periods have not been restated. Under adoption of these new standards, we designated our cash and cash equivalents, including US-dollar deposits, as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

Effective January 1, 2007, and as provided for on transition, we selected a policy of immediately expensing transaction costs incurred related to the acquisition of financial assets and liabilities. Previously, transaction costs had been deferred and included on the balance sheet as other assets or liabilities and amortized over the term of the related asset or liability. Under the transitional provisions, we retrospectively adopted this change in accounting policy without the restatement of prior-period financial statements and incurred a charge to retained earnings of $36.6 million (net of future tax of $16.3 million) related to legal and financing fees on long-term debt.

Effective January 1, 2007, we transferred $13.4 million of unamortized hedging losses related to certain leased aircraft to accumulated other comprehensive income. We will continue to amortize the hedging losses to net earnings over the remaining term of the previously related hedged item.

Future accounting policy changes

Effective January 1, 2008, we will adopt the following accounting standards recently issued by the Canadian Institute of Chartered Accountants (CICA):

Inventory

In June 2007, the CICA issued Section 3031, "Inventories," which replaces Section 3030, "Inventories," and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). Effective for interim and annual financial statements beginning on or after January 1, 2008, this section provides changes to the measurement and more extensive guidance on the determination of cost, narrows the permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency. Entities can choose to apply the standard either to opening inventory for the period, adjusting opening retained earnings by the difference in the measurement of opening inventory, or retrospectively, by restating prior periods. We do not anticipate that the adoption of this standard will significantly impact our financial results.

Financial instruments – disclosure and presentation

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation" to replace the existing Section 3861, "Financial Instruments – Disclosure and Presentation." Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Company.

Capital disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures," which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

CONTROLS AND PROCEDURES

Management is responsible for the establishment and maintenance of a system of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2007, as defined under the rules of the Canadian Securities Administrators, and have concluded that our disclosure controls and procedures are effective. Management is also responsible for the establishment and maintenance of a system of internal controls over financial reporting. Management has designed internal controls over financial reporting effectively to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with Canadian GAAP. There were no changes in our internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Corporate governance

During 2007, the Board of Directors ("Board") and its committees, most notably the Corporate Governance and Nominating Committee, continued to take steps to ensure that good corporate governance practices were employed by WestJet and the Board for the benefit of all stakeholders. These changes were largely related to the ongoing monitoring of "best practices," compliance with regulatory changes, and the continued reviewing and updating of the existing governance materials.

The Board has established three standing committees: an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. The charters of these committees are reviewed annually by the Board. Each committee reports to the Board with their recommendations for final approval.

In 2007, the Board approved and implemented a majority voting policy for election of directors. Our Disclosure, Confidentiality and Trading Policy and our Code of Conduct were also updated based on management and committee recommendations. In addition, the Board reviewed and approved updates to various senior executive position descriptions and committee mandates based on recommendations of management and committees and their respective consultation with external advisors.

The WestJet Business Code of Conduct requires all employees, directors, executives and members of the Board of Directors of WestJet to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. To help achieve this objective we have established a confidential and anonymous hotline to provide an avenue for the confidential, anonymous receipt and treatment of complaints regarding accounting, internal accounting controls and auditing matters.

OUTLOOK

Our financial achievements during 2007 are a direct result of the hard work and commitment of our exceptional WestJetters. The dedication, motivation and strong vision of our people have carried us through over a decade of successful operations. As we move forward into 2008, we will continue to focus on our four strategic pillars: People and Culture, Guest Experience, Revenue and Growth, and Margin and Costs. In 2008, we will take delivery of seven new aircraft bringing our total fleet to 77 and allowing us to increase capacity by 16 per cent. We will continue to commercialize our domestic schedule, introduce new routes as we did with the Quebec City/Toronto route, and increase frequencies of our scheduled transborder routes. As 2008 started out with economic uncertainty and high fuel prices, our focus will remain on cost containment, particularly CASM excluding fuel. The strength of our balance sheet, the success of our seasonal deployment strategy, and our low-cost model will continue to be the basis for our future profitable growth.

In the first quarter of 2008, we expect to see strong revenue growth with improvements in RASM, and capacity growth of 18 per cent on the delivery of three aircraft. The continued cost pressure from high fuel prices are expected to increase our fuel cost per litre by approximately 24 per cent from the same quarter in 2007. For 2008, we estimate the sensitivity to changes in crude oil and aircraft fuel pricing to be approximately $5 million annually to our fuel costs for every US-dollar change per barrel of crude oil, and $8 million for every one-cent change per litre of aircraft fuel. We also estimate that every one-cent change in the value of the Canadian dollar versus the US dollar to have, approximately, a $4 million impact on our annual fuel costs.

February 22, 2008

REPORTS TO SHAREHOLDERS & FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When a choice between accounting methods exists, management has chosen those it deems conservative and appropriate in the circumstances. Financial statements will by necessity include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly in all material respects. Financial information contained in the annual report is consistent, where appropriate, with the information and data contained in the consolidated financial statements. All information in the annual report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard the Corporation's assets. The systems of internal control are monitored by management, and further supported by an internal audit department whose functions include reviewing internal controls and their application.

The Board of Directors is responsible for the overall stewardship and governance of the Corporation, including ensuring management fulfills its responsibility for financial reporting and internal control, and reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, comprised of independent Directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and management's discussion and analysis. The Audit Committee reports its findings to the Board of Directors prior to the approval of such statements for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the reappointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

The consolidated financial statements have been audited by KPMG LLP, the independent external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The auditors' report outlines the scope of their examination and sets forth their opinion.

SEAN DURFY
President and
Chief Executive Officer

VITO CULMONE
Executive Vice-President, Finance
and Chief Financial Officer

Calgary, Canada
February 11, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of WestJet Airlines Ltd. as at December 31, 2007 and 2006 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 11, 2008

CONSOLIDATED STATEMENT OF EARNINGS

WestJet Airlines Ltd.

Years ended December 31
(Stated in thousands of Canadian dollars, except per share amounts)

	2007	2006
Revenues:		
Guest revenues	$ 1,899,159	$ 1,556,400
Charter and other revenues	227,997	194,869
Interest income	24,301	13,815
	2,151,457	1,765,084
Expenses:		
Aircraft fuel	503,931	425,506
Airport operations	289,695	245,131
Flight operations and navigational charges	259,389	229,821
Sales and marketing	187,929	162,577
Depreciation and amortization	127,223	111,442
General and administration	104,263	83,025
Inflight	85,499	67,220
Interest	75,749	70,196
Aircraft leasing (note 11(b))	75,201	71,432
Maintenance	74,653	67,501
Guest services	35,810	31,739
Loss on impairment of property and equipment (note 3)	31,881	—
	1,851,223	1,565,590
Earnings from operations	300,234	199,494
Non-operating income (expense):		
Gain (loss) on foreign exchange	(12,750)	32
Gain on disposal of property and equipment	54	839
Non-recurring expenses (note 11(d))	—	(15,600)
	(12,696)	(14,729)
Employee profit share	48,568	20,284
Earnings before income taxes	238,970	164,481
Income tax expense (note 8):		
Current	4,362	3,170
Future	41,775	46,635
	46,137	49,805
Net earnings	$ 192,833	$ 114,676
Earnings per share (note 9(c)):		
Basic	$ 1.49	$ 0.88
Diluted	$ 1.47	$ 0.88

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

CONSOLIDATED BALANCE SHEET

WestJet Airlines Ltd.

As at December 31
(Stated in thousands of Canadian dollars)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents (note 10)	$ 653,558	$ 377,517
Accounts receivable	15,009	12,645
Income taxes recoverable	—	13,820
Assets held for sale (note 3)	—	13,157
Prepaid expenses, deposits and other	39,019	30,727
Inventory	10,202	8,200
	717,788	456,066
Property and equipment (note 3)	2,213,063	2,158,746
Other assets (note 4)	53,371	111,715
	$ 2,984,222	$ 2,726,527
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 168,171	$ 121,157
Advance ticket sales	194,929	148,743
Non-refundable guest credits	54,139	40,508
Current portion of long-term debt (note 5)	172,992	153,720
Current portion of obligations under capital lease (note 6)	375	356
	590,606	464,484
Long-term debt (note 5)	1,256,526	1,291,136
Obligations under capital lease (note 6)	1,108	1,483
Other liabilities (note 7)	11,337	14,114
Future income tax (note 8)	174,737	149,283
	2,034,314	1,920,500
Shareholders' equity:		
Share capital (note 9(b))	448,568	431,248
Contributed surplus	57,889	58,656
Accumulated other comprehensive loss	(11,914)	—
Retained earnings	455,365	316,123
	443,451	316,123
	949,908	806,027
Commitments and contingencies (note 11)		
	$ 2,984,222	$ 2,726,527

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

On behalf of the Board:

Sean Durfy, Director

Wilmot Matthews, Director

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

WestJet Airlines Ltd.

Years ended December 31
(Stated in thousands of Canadian dollars)

	2007	2006
Share capital:		
Balance, beginning of year	$ 431,248	$ 429,613
Issuance of shares pursuant to stock option plans (note 9(b))	1,551	—
Stock-based compensation on stock options exercised (note 9(b))	20,040	1,642
Shares repurchased (note 9(b))	(4,271)	—
Share issuance costs, net of tax (note 9(b))	—	(7)
	448,568	431,248
Contributed surplus:		
Balance, beginning of year	58,656	39,093
Stock-based compensation expense (note 9(e))	19,273	21,205
Stock-based compensation on stock options exercised (note 9(b))	(20,040)	(1,642)
	57,889	58,656
Accumulated other comprehensive loss:		
Balance, beginning of year	—	—
Change in accounting policy (note 2(a))	(13,420)	—
Other comprehensive income	1,506	—
	(11,914)	—
Retained earnings:		
Balance, beginning of year	316,123	201,447
Change in accounting policy (note 2(a))	(36,612)	—
Net earnings	192,833	114,676
Shares repurchased (note 9(b))	(16,979)	—
	455,365	316,123
Total shareholders' equity	$ 949,908	$ 806,027

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

WestJet Airlines Ltd.

Years ended December 31
(Stated in thousands of Canadian dollars)

	2007	2006
Net earnings	$ 192,833	$ 114,676
Other comprehensive income:		
Amortization of hedge settlements to aircraft leasing	1,400	—
Unrealized period change in fair value on cash flow hedges	88	—
Reclassification of net realized losses on cash flow hedges to net earnings	18	—
	1,506	—
Total comprehensive income	$ 194,339	$ 114,676

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

CONSOLIDATED STATEMENT OF CASH FLOWS

WestJet Airlines Ltd.

Years ended December 31
(Stated in thousands of Canadian dollars)

	2007	2006
Cash flows from (used in):		
Operating activities:		
Net earnings	$ 192,833	$ 114,676
Items not involving cash:		
Depreciation and amortization	127,223	111,442
Amortization of other liabilities	(897)	(868)
Amortization of hedge settlements	1,400	1,427
Net realized loss on cash flow hedge	18	—
Loss on disposal of property and equipment and aircraft parts (note 3)	32,773	394
Stock-based compensation expense (notes 9(e), (g) and (h))	20,058	21,205
Future income tax expense	41,775	46,635
Unrealized foreign exchange loss (gain)	13,813	(346)
Decrease in non-cash working capital (note 10(a))	112,069	43,707
	541,065	338,272
Financing activities:		
Increase in long-term debt	141,178	418,581
Repayment of long-term debt	(156,516)	(132,559)
Decrease in obligations under capital lease	(356)	(480)
Share issuance costs (note 9(b))	—	(10)
Shares repurchased (note 9(b))	(21,250)	—
Issuance of common shares (note 9(b))	1,551	—
Increase in other assets	(20,897)	(27,830)
Increase in non-cash working capital	(3,000)	(1,071)
	(59,290)	256,631
Investing activities:		
Aircraft additions	(191,437)	(438,906)
Aircraft disposals	1,975	3,822
Other property and equipment additions	(24,639)	(43,590)
Other property and equipment disposals	13,819	1,611
	(200,282)	(477,063)
Cash flow from operating, financing and investing activities	281,493	117,840
Effect of exchange rate on cash	(5,452)	37
Net change in cash	276,041	117,877
Cash, beginning of year	377,517	259,640
Cash, end of year	$ 653,558	$ 377,517

Cash is defined as cash and cash equivalents. See note 10 for additional cash information.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WestJet Airlines Ltd.

Years ended December 31, 2007 and 2006
(Tabular amounts are stated in thousands of dollars, except share and per share data)

1. **Significant accounting policies:**

(a) Basis of presentation:

These consolidated financial statements include the accounts of WestJet Airlines Ltd. (the "Corporation") and its wholly owned subsidiaries, as well as the accounts of five special-purpose entities, which are utilized to facilitate the financing of aircraft. The Corporation has no equity ownership in the special-purpose entities; however, the Corporation is the primary beneficiary of the special-purpose entities' operations. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions regarding significant items such as amounts relating to depreciation and amortization, non-refundable guest credits, lease return conditions, future income taxes, stock-based compensation expense, deferred sales and marketing costs, impairment assessments of property and equipment, and the valuation of derivative financial instruments that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Amounts presented in the Corporation's consolidated financial statements and the notes thereto are in Canadian dollars unless otherwise stated.

(b) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a maturity date of three months or less.

(c) Revenue recognition:

Guest and charter revenue is recognized when air transportation is provided. Tickets sold but not yet used are reported in the consolidated balance sheets as advance ticket sales.

The Corporation earns revenue from package holiday sales. Revenue from the air content is recognized when air transportation is provided. Revenue from the land content is deferred and recognized on completion of the holiday. Revenue from the land content is generated from providing agency services equal to the amount paid by the guest for products and services less payment to the travel supplier and are reported at the net amounts received, without any associated cost of revenue.

Cargo revenue is recognized when air transportation services are provided.

Other revenue includes ancillary revenue from fees associated with guest itinerary changes, excess baggage fees, buy-on-board food sales and headset sales. Ancillary revenues are recognized as the services and products are provided to the guests.

The Corporation earns revenue under the tri-branded credit card agreement, which is also included in other revenue. Net retail sales revenue is recognized at the time the transaction occurs. Revenue related to account activations is recognized immediately upon activation.

(d) Non-refundable guest credits:

The Corporation issues future travel credits to guests for flight changes and cancellations, as well as for gift certificates. Where appropriate, future travel credits are also issued for flight delays, missing baggage and other inconveniences. All credits are non-refundable and expire based on the nature of the credit. The Corporation records a liability depending on the nature of the credit at either the full value or at the incremental cost of a one-way flight in the period the credit is issued. The utilization of guest credits is recorded as revenue when the guest has flown or upon expiry.

(e) Foreign currency:

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets and revenue and expense items are translated at rates prevailing when they were acquired or incurred. Foreign exchange gains and losses are included in earnings.

(f) Inventory:

Fuel and supplies are valued at the lower of cost, determined on a first-in-first-out basis, and replacement value. Aircraft expendables and consumables are expensed as acquired.

(g) Deferred costs:

Sales and marketing expenses attributed to advance ticket sales are deferred and expensed in the period the related revenue is recognized.

(h) Property and equipment:

Property and equipment are recorded at cost and depreciated to their estimated residual values. Assets under capital lease are initially recorded at the present value of minimum lease payments at the inception of the lease.

1. **Significant accounting policies (continued):**

(h) Property and equipment (continued):

Asset	Basis	Rate
Aircraft net of estimated residual value	Cycles	Cycles flown
Live satellite television included in aircraft	Straight-line	10 years/lease term
Ground property and equipment	Straight-line	5 to 25 years
Spare engines and parts net of estimated residual value	Straight-line	20 years
Assets under capital lease	Straight-line	Term of lease
Buildings	Straight-line	40 years
Leasehold improvements	Straight-line	Term of lease

Aircraft are amortized over a range of 30,000 to 50,000 cycles. Residual values of the Corporation's aircraft range between US $4,000,000 and US $6,000,000.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(i) Maintenance costs:

Maintenance and repairs, including major overhauls, are charged to maintenance expense as they are incurred.

Aircraft parts that are deemed to be beyond economic repair are disposed of and the remaining net book values of these parts are included in maintenance expense.

Recovery of costs associated with parts and labour covered under warranty are recognized as an offset to maintenance expense.

(j) Capitalized costs:

Costs associated with assets under development, which have probable future economic benefit and can be clearly defined and measured, and are costs incurred for the development of new products or technologies, are capitalized. These costs are not amortized until the assets are substantially complete and ready for its intended use, at which time, they are amortized over the life of the underlying asset.

Interest attributable to funds used to finance property and equipment is capitalized to the related asset until the point of commercial use.

The Corporation immediately expenses transaction costs incurred related to the acquisition of financial assets and liabilities.

Costs of new route development are expensed as incurred.

(k) Future income tax:

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse.

(l) Stock-based compensation plans:

The Corporation uses the fair value method for valuing stock options. Under this method, as new options are granted, the fair value of these options will be expensed on a straight-line basis over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Upon the exercise of stock options, consideration received, together with amounts previously recorded in contributed surplus, is recorded as an increase in share capital.

The Corporation determines compensation expense on restricted share units and deferred share units based on the intrinsic value, considered to be the market value, at each reporting period which is recognized in earnings over the vesting period.

(m) Financial instruments:

Derivative financial instruments are utilized by the Corporation from time to time in the management of its foreign currency, interest rate and fuel price exposures. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation designates its cash and cash equivalents, including US-dollar deposits, as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

The Corporation uses trade-date accounting for its held-for-trading financial assets. Due to the short term nature of the assets, settlement-date accounting would produce similar results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WestJet Airlines Ltd.

Years ended December 31, 2007 and 2006
(Tabular amounts are stated in thousands of dollars, except share and per share data)

1. **Significant accounting policies (continued):**

   (m) Financial instruments (continued):

   The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items. All derivative instruments, including embedded derivatives, are recorded on the balance sheet and in the statement of earnings at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in earnings. If cash flow hedge accounting is used, the fair value of derivative instruments is included in accumulated other comprehensive income with any ineffectiveness recorded in earnings. Any changes in the fair value to the extent effective are recorded through other comprehensive income. See note 12 – Financial instruments and risk management for additional details.

   (n) Per share amounts:

   Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that the total proceeds obtained on the exercise of options and the unamortized portion of stock-based compensation would be used to purchase shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

   (o) Comparative figures:

   Certain prior-period balances have been reclassified to conform to current period's presentation.

2. **Recent accounting pronouncements:**

   (a) Change in accounting policies:

   On January 1, 2007, the Corporation adopted the following new Canadian accounting standards: Section 3855, "Financial Instruments – Recognition and Measurement," Section 3865, "Hedging" and Section 1530, "Comprehensive Income." Prior periods have not been restated.

   Comprehensive income consists of changes in gains and losses on hedge settlements. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings.

   The new standard on Financial Instruments prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings. There were no changes to the measurement or presentation of the Corporation's financial assets or liabilities at the date of adoption.

   The Corporation selected January 1, 2003, as its transition date for embedded derivatives; as such only contracts or financial instruments entered into or substantively modified after the transition date were examined for embedded derivatives.

   Effective January 1, 2007, and as provided for on transition, the Corporation selected a policy of immediately expensing transaction costs incurred related to the acquisition of financial assets and liabilities. Under the transitional provisions, the Corporation retrospectively adopted this change in accounting policy without the restatement of prior-period financial statements and incurred a charge to retained earnings of $36,612,000 (net of future tax of $16,321,000) related to legal and financing fees on long-term debt.

   Effective January 1, 2007, the Corporation transferred $13,420,000 of unamortized hedging losses related to certain leased aircraft to accumulated other comprehensive income. The Corporation will continue to amortize the hedging losses to net earnings over the remaining term of the previously related hedged item.

2. Recent accounting pronouncements (continued):

(b) Future accounting policies:

Effective January 1, 2008, the Corporation will adopt the following accounting standards recently issued by the Canadian Institute of Chartered Accountants (CICA):

Inventory

In June 2007, the CICA issued Section 3031, "Inventories," which replaces Section 3030, "Inventories" and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. Effective for interim and annual financial statements beginning on or after January 1, 2008, this section provides more extensive guidance on the determination of cost, narrows the permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency. The Corporation does not anticipate that the adoption of this standard will significantly impact its financial results.

Capital Disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures," which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Corporation.

Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation" to replace the existing Section 3861, "Financial Instruments – Disclosure and Presentation." Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Corporation.

3. Property and equipment:

2007	Cost	Accumulated depreciation	Net book value
Aircraft	$ 2,273,509	$ 288,909	$ 1,984,600
Ground property and equipment	158,477	81,345	77,132
Spare engines and parts	76,862	13,610	63,252
Buildings	40,028	5,825	34,203
Leasehold improvements	7,039	5,112	1,927
Assets under capital lease	2,481	1,191	1,290
	2,558,396	395,992	2,162,404
Deposits on aircraft	38,795	—	38,795
Assets under development	11,864	—	11,864
	$ 2,609,055	$ 395,992	$ 2,213,063

2006	Cost	Accumulated depreciation	Net book value
Aircraft	$ 2,086,301	$ 185,526	$ 1,900,775
Ground property and equipment	153,896	65,854	88,042
Spare engines and parts	70,459	10,145	60,314
Buildings	40,028	4,825	35,203
Leasehold improvements	6,914	4,579	2,335
Assets under capital lease	2,481	694	1,787
	2,360,079	271,623	2,088,456
Deposits on aircraft	38,011	—	38,011
Assets under development	32,279	—	32,279
	$ 2,430,369	$ 271,623	$ 2,158,746

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WestJet Airlines Ltd.

Years ended December 31, 2007 and 2006
(Tabular amounts are stated in thousands of dollars, except share and per share data)

3. **Property and equipment (continued):**

During the year, the Corporation capitalized $3,499,000 (2006 – $6,849,000) of interest related to aircraft financing.

Included in aircraft costs are estimated lease return costs for aircraft under operating leases totalling $1,292,000 (2006 – $1,107,000) and associated accumulated amortization of $439,000 (2006 – $329,000). These amounts are being amortized on a straight-line basis over the term of each lease.

During 2007, the Corporation and the vendor of the aiRES reservation system agreed to discontinue the aiRES contract and as a result, the Corporation recognized an impairment loss of $31,881,000.

At December 31, 2006, spare engines and parts had been taken out of revenue-generating service and were included at their net book value in current assets, as assets held for sale. These transactions were completed in 2007.

4. **Other assets:**

	2007	2006
Security deposits and other leaseholds	$ 52,187	$ 43,263
Other	1,184	2,097
Financing fees	—	65,892
Hedge settlements	—	19,479
Accumulated amortization	—	(19,016)
	$ 53,371	$ 111,715

Due to the adoption of the new accounting policies as described in note 2(a), the January 1, 2007 balances of financing fees and hedge settlements, each net of its respective amortization, were charged to retained earnings and transferred to accumulated other comprehensive income, respectively.

5. **Long-term debt:**

	2007	2006
$1,850,646,000 in 49 individual term loans, amortized on a straight-line basis over a 12-year term, repayable in quarterly principal instalments ranging from $674,000 to $955,000, including fixed interest at a weighted average rate of 5.34%, maturing between 2014 and 2019. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by one 800-series aircraft, 35 700-series aircraft and 13 600-series aircraft.	$ 1,389,888	$ 1,393,439
$35,000,000 in three individual term loans, repayable in monthly instalments ranging from $104,000 to $168,000, including floating interest at the bank's prime rate plus 0.88% with an effective interest rate of 6.88% at December 31, 2007, maturing between 2008 and 2011, secured by three flight simulators.	23,325	26,223
$9,410,000 in 14 individual term loans, amortized on a straight-line basis over a five-year term, repayable in quarterly principal instalments ranging from $29,000 to $42,000, including floating interest at the Canadian LIBOR rate plus 0.08%, with a weighted average effective interest rate of 5.07% at December 31, 2007, maturing between 2009 and 2011. These facilities are for the purchase of live satellite television equipment and are guaranteed by the Ex-Im Bank and secured by certain 700-series and 600-series aircraft.	3,621	11,699
$12,000,000 term loan, repayable in monthly instalments of $108,000 including interest at 9.03%, maturing April 2011, secured by the Calgary hangar facility.	10,054	10,426
$4,550,000 term loan, repayable in monthly instalments of $50,000, including floating interest at the bank's prime rate plus 0.50%, with an effective interest rate of 6.50% as at December 31, 2007, maturing April 2013, secured by the Calgary hangar facility.	2,630	3,069
	1,429,518	1,444,856
Less current portion	172,992	153,720
	$ 1,256,526	$ 1,291,136

5. **Long-term debt (continued):**

The net book value of the property and equipment pledged as collateral for the Corporation's secured borrowings was $2,028,548,000 as at December 31, 2007 (2006 – $1,964,139,000).

Held within the special-purpose entities, as described in note 1, are liabilities of $1,393,526,000 (2006 – $1,405,112,000) related to the acquisition of 49 aircraft, which are included in long-term debt on the consolidated financial statements.

Future scheduled repayments of long-term debt are as follows:

2008	$ 172,992
2009	157,173
2010	156,504
2011	169,228
2012	154,797
2013 and thereafter	618,824
	$ 1,429,518

At December 31, 2006, the Corporation had a total preliminary commitment from Ex-Im Bank for US $240.2 million for seven aircraft to be delivered in 2007 and 2008. During 2007, the Corporation converted the preliminary commitment into a final commitment from Ex-Im Bank for a total of US $249.1 million. As at December 31, 2007, the Corporation has taken delivery of the first four aircraft under this facility and has drawn a total of $141.2 million (US $136.9 million). As at December 31, 2007, the unutilized and uncancelled balance of the final commitment from Ex-Im Bank was US $108.0 million for three aircraft to be delivered between January and July of 2008. During 2006, the Corporation accepted 12 aircraft deliveries supported by loan guarantees of $409.6 million (US $360.6 million) from the Ex-Im Bank.

The Corporation is charged a commitment fee of 0.125% per annum on the unutilized and uncancelled balance of the Ex-Im Bank facility, payable at specified dates and upon delivery of an aircraft, and is charged a 3% exposure fee on the financed portion of the aircraft price, payable upon delivery of an aircraft. Upon final delivery of the aircraft, any unused portion of the final commitment will be cancelled.

6. **Obligations under capital lease:**

The Corporation has entered into capital leases relating to ground handling equipment. The obligations are as follows:

2008	$ 444
2009	444
2010	698
2011	38
Total lease payments	1,624
Less weighted average imputed interest at 5.29%	141
Net minimum lease payments	1,483
Less current portion of obligations under capital lease	375
Obligations under capital lease	$ 1,108

7. **Other liabilities:**

	2007	2006
Deferred gains (i)	$ 6,139	$ 7,007
Unearned revenue (ii)	3,000	6,000
Lease return costs (iii)	1,292	1,107
Other	906	—
	$ 11,337	$ 14,114

i) Included in other liabilities are deferred gains from the sale and leaseback of aircraft, net of amortization, which are being deferred and amortized over the lease term with the amortization included in aircraft leasing. During the year ended December 31, 2007, the Corporation recognized amortization of $868,000 (2006 – $868,000).

ii) Unearned revenue relates to the BMO Mosaik® AIR MILES® MasterCard® credit card for future net retail sales and for fees on newly activated credit cards. During the year ended December 31, 2007, the Corporation recognized $3,000,000 (2006 – $2,000,000) of this unearned revenue. The remaining unearned revenue balance will be recognized in 2008.

iii) The Corporation has included in other liabilities an estimate pertaining to lease return costs on its aircraft under operating leases. During the year ended December 31, 2007, the Corporation increased the liability by $185,000 (2006 – $NIL) due to the addition of further leased aircraft with $NIL (2006 – $NIL) incurred on the settlement of these obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WestJet Airlines Ltd.

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8. **Income taxes:**

The provision for income taxes differs from that which would be expected by applying the combined federal and provincial statutory rates.

A reconciliation of the difference is as follows:

	2007	2006
Earnings before income taxes	$ 238,970	$ 164,481
Income tax rate	33.97%	34.21%
Expected income tax provision	81,178	56,269
Add (deduct):		
Non-deductible expenses	1,728	1,440
Non-deductible stock-based compensation	6,542	7,249
Non-taxable portion of capital gains	—	(128)
Effect of tax rate changes	(44,811)	(16,901)
Provincial capital taxes	3,956	3,192
Other	(2,456)	(1,316)
	$ 46,137	$ 49,805

The Corporation has included in its reconciliation an amount of $44,811,000 (2006 - $16,901,000) for the effect of tax rate changes. This amount reflects the impact of federal corporate income tax rate reductions enacted in 2007 and the impact of changes to the timing around when the Corporation expects certain temporary differences to reverse.

The components of the net future tax liability are as follows:

	2007	2006
Future income tax liability:		
Property and equipment	$ 261,879	$ 251,347
Deferred partnership income	17,420	—
Future income tax asset:		
Share issue costs	(79)	(581)
Non-capital losses	(104,483)	(89,017)
Deferred partnership loss	—	(12,466)
	$ 174,737	$ 149,283

The Corporation has recognized a benefit on $352.3 million (2006 – $291.7 million) of non-capital losses which are available for carry forward to reduce taxable income in future years. These losses will begin to expire in the year 2014.

9. **Share capital:**

(a) Authorized:

Unlimited number of common voting shares:

The common voting shares may be owned and controlled only by Canadians and shall confer the right to one vote per common voting share at all meetings of shareholders of the Corporation.

Each issued and outstanding common voting share shall be converted into one variable voting share automatically and without any further act of the Corporation or the holder, if such common voting share becomes owned or controlled by a person who is not a Canadian.

Unlimited number of variable voting shares:

The variable voting shares may be owned and controlled only by persons who are not Canadians and are entitled to one vote per variable voting share unless (i) the number of issued and outstanding variable voting shares exceed 25% of the total number of all issued and outstanding variable voting shares and common voting shares (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act), or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting on any matter on which a vote is to be taken exceeds 25% (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act) of the total number of votes cast at such meeting. If either of the above-noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act of formality. Under the circumstances described above, the variable voting shares as a class cannot carry more than 25% (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act) of the total voting rights attached to the aggregate number of issued and outstanding variable voting shares and common voting shares of the Corporation.

Under the circumstances described above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act) of the total number of votes that may be cast at the meeting.

Each issued and outstanding variable voting share shall be automatically converted into one common voting share without any further intervention on the part of the Corporation or of the holder if (i) the variable voting share is or becomes owned and controlled by a Canadian, or if (ii) the provisions contained in the Canada Transportation Act relating to foreign ownership restrictions are repealed and not replaced with other similar provisions in applicable legislation.

Unlimited number of non-voting shares and unlimited number of non-voting first, second and third preferred shares:

The non-voting shares and non-voting preferred shares may be issued, from time to time, on one or more series, with each series consisting of such number of non-voting shares and non-voting preferred shares as determined by our Board of Directors who may also fix the designations, rights, privileges, restrictions and conditions attached to the shares of each series of non-voting shares and non-voting preferred shares. There are no non-voting shares and non-voting preferred shares issued and outstanding.

(b) Issued and outstanding:

		2007		2006
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	129,648,688	$ 431,248	129,575,099	$ 429,613
Issuance of shares pursuant to stock option plans	1,186,382	1,551	73,589	—
Stock-based compensation on stock options exercised	—	20,040	—	1,642
Shares repurchased	(1,263,500)	(4,271)	—	—
Share issuance costs	—	—	—	(10)
Tax benefit of issue costs	—	—	—	3
Balance, end of year	129,571,570	$ 448,568	129,648,688	$ 431,248

As at December 31, 2007, the number of common voting shares and variable voting shares amounted to 122,884,662 (2006 – 124,495,951) and 6,686,908 (2006 – 5,152,737) respectively.

On February 26, 2007, WestJet filed a notice with the Toronto Stock Exchange (the TSX) to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, WestJet is authorized to purchase up to 2,000,000 shares during the period of February 28, 2007, to February 27, 2008, or until such earlier time as the bid is completed or terminated at the option of WestJet. Any shares WestJet purchases under this bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid will be cancelled. During the year ended December 31, 2007, the Corporation purchased 1,263,500 shares under the bid for total consideration of $21,250,000. The average book value for the shares repurchased of $4,271,000 was charged to share capital with the $16,979,000 excess of the market price over the average book value charged to retained earnings.

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WestJet Airlines Ltd.

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9. Share capital (continued):

(c) Per share amounts:

The following table summarizes the shares used in calculating earnings per share:

	2007	2006
Weighted average number of shares outstanding – basic	129,709,329	129,585,403
Effect of dilutive employee stock options	1,900,850	124,321
Weighted average number of shares outstanding – diluted	131,610,179	129,709,724

For the year ended December 31, 2007, a total of 1,584,520 (2006 – 12,823,662) options were not included in the calculation of dilutive potential shares as the result would be anti-dilutive.

(d) Stock option plans:

The Corporation has Stock Option Plans, whereby up to a maximum of 12,016,887 (2006 – 12,957,831) common and variable voting shares may be issued to officers and employees of the Corporation subject to the following limitations:

(i) the number of common voting shares reserved for issuance to any one optionee will not exceed 5% of the issued and outstanding common and variable voting shares at any time;

(ii) the number of common voting shares reserved for issuance to insiders shall not exceed 10% of the issued and outstanding common and variable voting shares; and

(iii) the number of common voting shares issuable under the Stock Option Plans, which may be issued within a one-year period, shall not exceed 10% of the issued and outstanding common and variable voting shares at any time.

Stock options are granted at a price that equals the market value, have a term of between four and five years, and vest on either the first, second or third anniversary from the date of grant.

Changes in the number of options, with their weighted average exercise prices, are summarized below:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	15,046,201	$ 13.21	11,428,718	$ 13.94
Granted	1,689,773	16.45	5,980,660	11.82
Exercised	(4,276,574)	13.19	(433,129)	11.21
Forfeited	(226,909)	13.24	(332,711)	13.19
Expired	(6,259)	15.97	(1,597,337)	13.78
Stock options outstanding, end of year	12,226,232	13.66	15,046,201	13.21
Exercisable, end of year	4,425,763	$ 14.93	4,846,236	$ 13.63

Under the terms of the Corporation's Stock Option Plans, a cashless settlement alternative is available whereby option holders can either (a) elect to receive shares by delivering cash to the Corporation, or (b) elect to receive a number of shares equivalent to the difference between the market value of the options and the aggregate exercise price. For the year ended December 31, 2007, option holders exercised 4,139,944 (2006 – 433,129) options on a cashless settlement basis and received 1,049,752 (2006 – 73,589) shares. During 2007, 136,630 (2006 – NIL) options were exercised on a cash basis for a total of $1,551,000 (2006 – $NIL).

9. **Share capital (continued):**

(d) Stock option plans (continued):

The following table summarizes the options outstanding and exercisable at December 31, 2007:

	Outstanding Options				Exercisable Options
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 9.74 – \$11.99	5,740,442	2.31	\$ 11.81	79,328	\$ 11.77
\$12.02 – \$14.75	3,393,071	1.38	14.53	2,896,897	14.60
\$15.50 – \$16.26	1,477,640	0.41	15.78	1,443,452	15.78
\$16.43 – \$19.95	1,615,079	3.37	16.47	6,086	16.43
	12,226,232	1.96	\$ 13.66	4,425,763	\$ 14.93

(e) Stock-based compensation:

As new options are granted, the fair value of these options will be expensed over the vesting period, with an offsetting entry to contributed surplus. Upon the exercise of stock options, consideration received, together with amounts previously recorded in contributed surplus, is recorded as an increase in share capital.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used to determine the fair market value of options granted during the years ended December 31:

	2007	2006
Weighted average fair market value per option	\$ 5.66	\$ 4.29
Average risk-free interest rate	4.2%	4.2%
Average volatility	38%	42%
Expected life (years)	3.7	3.6
Dividend per share	\$ 0.00	\$ 0.00

The Corporation has not incorporated an estimated forfeiture rate for stock options that will not vest. Rather, the Corporation accounts for actual forfeitures as they occur.

Stock-based compensation expense related to stock options included in flight operations and general and administration expenses totalled \$19,273,000 for the year ended December 31, 2007 (2006 – \$21,205,000).

(f) Employee share purchase plan:

The Corporation has an Employee Share Purchase Plan (ESPP) whereby the Corporation matches every dollar contributed by each employee. Under the terms of the ESPP, employees may contribute up to a maximum of 20% of their gross pay and acquire voting shares of the Corporation at the current fair market value of such shares.

The Corporation has the option to acquire voting shares on behalf of employees through open market purchases or to issue new shares from treasury at the current market price. For the years ended December 31, 2007 and 2006, the Corporation elected to purchase these shares through the open market and will continue to review this option in the future. Current market price for voting shares issued from treasury is determined based on weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days preceding the issuance.

Shares acquired for the ESPP are held in trust for one year. Employees may offer to sell voting shares, which have not been held for at least one year, on January 1 and July 1 of each year, to the Corporation for 50% of the then current market price.

The Corporation's share of the contributions in 2007 amounted to \$35,449,000 (2006 – \$28,209,000) and is recorded as compensation expense within the related business unit.

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WestJet Airlines Ltd.

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9. Share capital (continued):

(g) Restricted share units:

During 2007, the Corporation introduced a Restricted Share Unit (RSU) plan, whereby up to a maximum of 2,000,000 RSUs may be issued to executive officers of the Corporation. Each RSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. For the year ended December 31, 2007, 68,058 RSUs were granted and outstanding, with $736,000 of compensation expense included in general and administration expense, accounts payable and accrued liabilities and other liabilities. RSUs granted in 2007 will vest in January 2010.

(h) Deferred share units:

During 2007, a Deferred Share Unit (DSU) plan was approved as an alternative form of compensation for independent members of the Board of Directors. Each DSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. For the year ended December 31, 2007, 2,299 DSUs were granted and outstanding, with $49,000 of expense included in general and administration expense and accounts payable and accrued liabilities. DSUs are redeemable upon the Director's retirement from the Board.

10. Cash flow information:

(a) Supplemental cash flow information:

As at December 31, 2007, cash and cash equivalents included bank balances of $37,395,000 (2006 – $60,566,000) and short-term investments of $616,163,000 (2006 – $316,951,000).

As at December 31, 2007, the Corporation had US-dollar cash and cash equivalents totalling US $59,843,000 (2006 – US $32,019,000).

As at December 31, 2007, cash and cash equivalents included restricted cash of $2,069,000 for security on the Corporation's facilities for letters of guarantee (2006 – $1,858,000 and US $5,279,000).

In accordance with regulatory requirements, the Corporation has recorded US $295,000 (2006 – US $186,000) in restricted cash representing cash not yet remitted for passenger facility charges.

Cash interest paid during the year was $75,712,000 (2006 – $67,077,000).

Cash taxes received during the year were $10,623,000 (2006 – cash taxes paid $3,081,000).

(b) Change in non-cash working capital from operations:

	2007	2006
Increase in accounts receivable	$ (2,364)	$ (4,623)
Decrease in income taxes recoverable	13,820	89
Decrease (increase) in prepaid expenses and deposits	(8,292)	1,019
Increase in inventory	(2,002)	(1,941)
Increase in accounts payable and accrued liabilities	47,014	21,105
Increase in advance ticket sales	46,186	21,293
Increase in non-refundable guest credits	13,631	7,694
Other non-cash items	4,076	(929)
	$ 112,069	$ 43,707

11. Commitments and contingencies:

(a) Aircraft:

At December 31, 2007, the Corporation has committed to purchase 23 737-700 aircraft for delivery between 2008 and 2013.

The Corporation has an agreement with Live TV to install, maintain and operate live satellite television on all aircraft with the ability to cancel installing the system on future aircraft deliveries, subject to certain applicable penalties. This agreement contains an exclusivity clause which expires on July 1, 2009.

The Corporation has signed an agreement with Bell ExpressVu for a seven-year term to provide satellite programming. The agreement commenced in 2004 and can be renewed for an additional five years.

The remaining estimated amounts to be paid in deposits and purchase prices in the equivalent US dollars and Canadian dollars relating to the purchases of the remaining aircraft and live satellite television systems are as follows:

	US dollar	CAD dollar
2008	$ 103,443	$ 101,157
2009	7,614	7,446
2010	37,189	36,367
2011	80,813	79,027
2012	521,168	509,650
2013	218,699	213,866
	$ 968,926	$ 947,513

(b) Operating leases:

The Corporation has entered into operating leases and agreements for aircraft, buildings, computer hardware, software licences and satellite programming. As at December 31, 2007, the future payments, in Canadian dollars and when applicable the US-dollar equivalent, under operating leases are as follows:

	US dollar	CAD dollar
2008	$ 94,885	$ 107,143
2009	125,394	130,315
2010	152,720	154,692
2011	171,180	169,906
2012	178,151	176,691
2013 and thereafter	743,404	748,929
	$ 1,465,734	$ 1,487,676

At December 31, 2007, the Corporation has committed to lease an additional 17 737-700 aircraft and six 737-800 aircraft to be delivered between 2008 and 2011 for terms ranging between eight and 10 years in US dollars. These aircraft have been included in the above totals.

(c) Letters of guarantee:

The Corporation has available two facilities with a Canadian chartered bank for a total of $15,000,000 (2006 – $15,000,000) for letters of guarantee. At December 31, 2007, letters of guarantee totalling $9,950,000 (2006 – $9,858,000) have been issued. These facilities are secured by a general security agreement, an assignment of insurance proceeds and $2,069,000 (2006 – $1,858,000) of restricted cash.

(d) Contingencies:

On May 29, 2006, as a full settlement to the Air Canada lawsuit, the Corporation agreed to pay Air Canada's costs incurred of $5.6 million and make a donation in the amount of $10 million in the name of Air Canada and the Corporation to children's charities across the country. All legal proceedings between the parties have been terminated. These amounts have been included in non-recurring expenses for 2006.

A Statement of Claim was also filed by Jetsgo Corporation (Jetsgo) in the Ontario Superior Court on October 15, 2004 against WestJet, an officer, and a former officer. Jetsgo was seeking damages in an unspecified amount to be determined prior to trial plus $50 million for spoliation, punitive and exemplary damages. On May 13, 2005, Jetsgo sought bankruptcy protection. Based on an Order of the Ontario Supreme Court of Justice dated April 25, 2007, this action has been formally dismissed.

The Corporation is party to other legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that the ultimate outcome of these and any outstanding matters will not have a material effect upon the Corporation's financial position, results of operations or cash flows.

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12. Financial instruments and risk management:

At December 31, 2007, the Corporation's financial instruments consist primarily of cash and cash equivalents including US-dollar security deposits, accounts receivable, accounts payable and accrued liabilities, long-term debt and cash flow hedges.

The Corporation will from time to time use various financial instruments to reduce exposure to changes in foreign currency exchange rates, interest rates and jet fuel prices. The Corporation does not hold or use any derivative instruments for trading or speculative purposes.

(a) Fuel risk management:

The airline industry is inherently dependent upon fuel to operate, and therefore impacted by changes in aircraft fuel prices. Aircraft fuel consumed during 2007 represented approximately 27% (2006 – 27%) of the Corporation's operating expenses. To mitigate exposure to fluctuations in aircraft fuel prices, the Corporation periodically uses short-term and long-term financial and physical derivatives and accounts for these derivatives as cash flow hedges. As at, and for the year ended December 31, 2007, the Corporation had no outstanding aircraft fuel hedges. For the year ended December 31, 2006, the Corporation recognized a net loss of $2,223,000 in aircraft fuel resulting from hedging transactions.

(b) Foreign currency exchange risk:

The Corporation is exposed to foreign currency exchange risks arising from fluctuations in foreign exchange rates on its US-dollar denominated operating expenditures, mainly aircraft leasing, aircraft fuel, maintenance and other airport operation costs. To manage its exposure, the Corporation periodically uses financial instruments, including US-dollar forward contracts. Upon proper qualification, the forward contracts are designated as cash flow hedges and qualify for hedge accounting. Under hedge accounting, all periodic changes in fair value of the forward contracts that are considered to be effective are recorded in other comprehensive income until the forecasted expenditure impacts earnings. Any ineffective portion is recorded in current earnings.

During 2007, the Corporation entered into foreign currency forward contracts to offset its US-dollar denominated aircraft lease payments. As at December 31, 2007, the Corporation entered into forward contracts to purchase US $5.9 million per month for five months for a total of US $29.5 million at an average forward rate of 0.9871 per US dollar. Maturity dates for all contracts are within 2008. For the year ended December 31, 2007, the Corporation realized a loss on the contracts of $18,000 included in aircraft leasing costs. As at December 31, 2007, the estimated fair market value of the remaining contracts recorded in prepaid expenses, deposits and other and accumulated other comprehensive income is a gain of $106,000 to be realized in 2008. No portion of the hedge was ineffective.

(c) Interest rate risk:

The Corporation is exposed to interest rate fluctuations on variable interest rate debt, which at December 31, 2007, only made up 2.1% (2006 – 2.8%) of the Corporation's total debt. The fixed-rate nature of the Corporation's financing eliminates the risk of interest rate fluctuations over the term of the outstanding debt.

(d) Credit risk:

The Corporation does not believe it is subject to significant concentration of credit risk. Generally the Corporation's receivables result from tickets sold to individual guests through the use of major credit cards and travel agents. These receivables are short-term, generally being settled shortly after the sale. The Corporation manages the credit exposure related to financial instruments by selecting counterparties based on credit ratings, limiting its exposure to any single counterparty, and monitoring the market position of the program and its relative market position with each counterparty.

(e) Fair value of financial instruments:

Fair value represents a point-in-time estimate. The carrying value of financial instruments included in the balance sheet, other than long-term debt, approximate their fair values due to the relatively short-term maturities of these instruments.

At December 31, 2007, the carrying value of long-term debt was $1,430 million (2006 – $1,445 million) with the fair value being approximately $1,474 million (2006 – $1,495 million). The fair value of long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates which represent borrowing rates presently available to the Corporation for loans with similar terms and maturity.

WE'RE FLYING TO MORE PLACES.

46 DESTINATIONS ACROSS NORTH AMERICA AND THE CARIBBEAN

THE EXECUTIVE TEAM

L to R: **Vito Culmone,** Executive Vice-President, Finance and CFO; **Fred Ring,** Executive Vice-President, Corporate Projects; **Dr. Hugh Dunleavy,** Executive Vice-President, Commercial Distribution; **Sean Durfy,** President and CEO; **Ken McKenzie,** Executive Vice-President, Operations; **Ferio Pugliese,** Executive Vice-President, People; **Bob Cummings,** Executive Vice-President, Guest Experience and Marketing.

THE BOARD OF DIRECTORS

CLIVE BEDDOE
Executive Chairman
WestJet Airlines Ltd.

HUGH BOLTON
Non-Executive Chairman
EPCOR Utilities Inc.

SEAN DURFY
President and CEO
WestJet Airlines Ltd.

BRETT GODFREY
CEO
Virgin Blue Airlines

RONALD GREENE
Lead Director
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Tortuga Investment Corp.

MURPH HANNON
President
Murcon Development Ltd.

DON HOUGAN
Captain
P.A.C.T. Chairman
President
WestJet Pilot Association

ALLAN JACKSON
President and CEO
Arci Ltd.

WILMOT MATTHEWS
President
Marjad Inc.

LARRY POLLOCK
President and CEO
Canadian Western Bank
and Canadian Western Trust

ARTHUR SCACE
Non-Executive Chairman
The Bank of Nova Scotia

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Outside North America: 1-416-643-5500
Website: www.cibcmellon.com

Auditors:
KPMG LLP, Calgary, AB
Legal Counsel:
Burnet, Duckworth and
Palmer LLP, Calgary, AB

Stock Exchange Listing:
Shares in WestJet stock are publicly traded on the Toronto Stock Exchange under the symbols WJA and WJA.A.
Investor Relations Contact Information:
Phone: 1-877-493-7853 or 1-403-444-2252 in Calgary
E-mail: investor_relations@westjet.com

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