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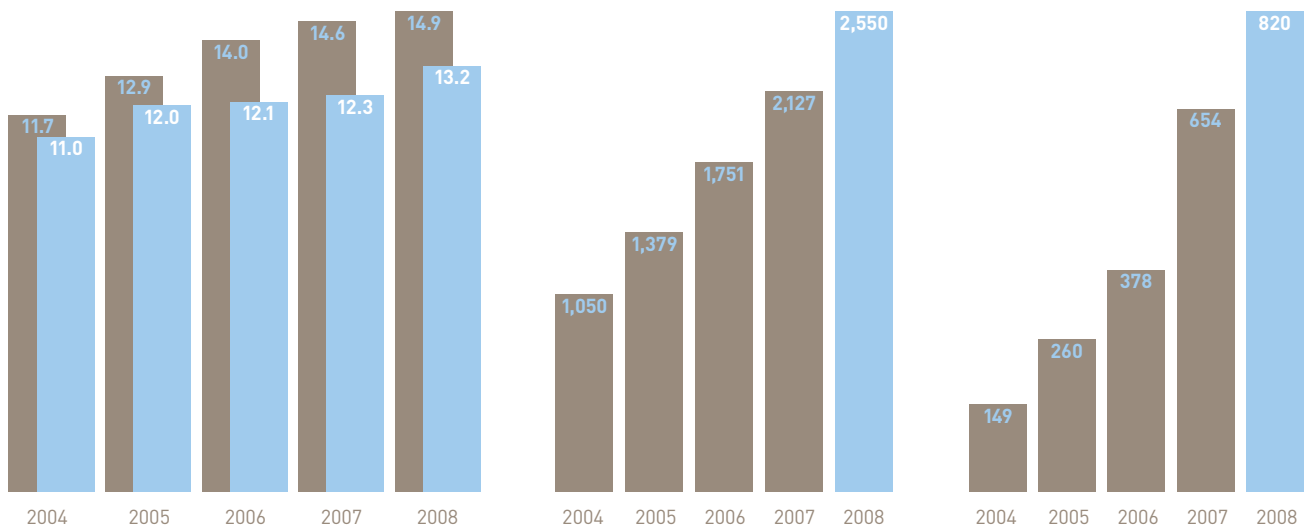
# aiming high

2008 Annual Report





# financial overview



## RASM vs. CASM

(cents)

- RASM (revenue per available seat mile)
- CASM (cost per available seat mile)

## Revenue

(millions of dollars)

## Cash and cash equivalents

(millions of dollars)

(\$ in thousands, except per share data)	2008	2007	2006	2005	2004
<b>Consolidated financial information</b>					
Revenue	\$ 2,549,506	\$ 2,127,156	\$ 1,751,269	\$ 1,378,794	\$ 1,050,009
Earnings (loss) before income taxes	\$ 254,837	\$ 236,757	\$ 162,424	\$ 46,786	\$ (20,383)
Net earnings (loss)	\$ 178,135	\$ 192,833	\$ 114,676	\$ 24,001	\$ (17,168)
Earnings (loss) per share					
Basic	1.38	1.49	0.88	0.19	(0.14)
Diluted	1.37	1.47	0.88	0.19	(0.14)
<b>Consolidated operational highlights</b>					
Available seat miles (ASM)	17,138,883,465	14,544,737,340	12,524,379,943	10,672,983,797	8,963,103,389
Revenue passenger miles (RPM)	13,730,960,234	11,739,063,003	9,791,878,403	7,957,738,384	6,277,332,668
Load factor	80.1%	80.7%	78.2%	74.6%	70.0%
Yield (cents)	18.57	18.12	17.88	17.33	16.73
Revenue per ASM (cents)	14.88	14.62	13.98	12.92	11.71
Operating cost per ASM (cents)	13.17	12.34*	12.12	11.99	10.95*
Operating cost per ASM, excluding fuel and employee profit share (cents)	8.28	8.55*	8.56	8.61	8.23*

\*Excludes reservation system impairment of \$31.9 million in 2007 and \$47.6 million impairment related to retirement of 200-series aircraft in 2004.

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# to be the best

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Our vision is to be one of the five most successful airlines in the world by 2016. With the right strategy and the best and brightest people, it looks like clear skies ahead.





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# to put our people first

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Amazing things happen when you empower people to do the right thing for our business, our guests and each other.



Jennifer Fothergill  
Financial Accountant – External Reporting  
Finance  
WestJet since 2001



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to deliver  
great guest  
value

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There are a million things that go into running an airline, but creating a superior guest experience is what makes ours truly successful.





Timothy Hamm  
Captain  
WestJet since 2001

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to grow  
strategically  
and profitably

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We already fly to lots of places, and we will continue growing strategically and profitably as we fly to many more.





Michelle DaSilva  
Manager  
Infliight Standards and Procedures  
WestJetter since 1996



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# to strengthen our low-cost advantage

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Our ongoing commitment to being cost conscious supports our goal of maximizing value for our guests and our shareholders.



Keith Sampson  
Senior Technical Support Analyst, IT  
WestJet since 1999

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our strategy





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# people and culture

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Putting our people first goes beyond fostering an environment of caring and commitment. We are all owners – empowered and accountable for making the right decisions for our guests and our business. At WestJet, our owners care.

In 2008 we:

- Welcomed over 600 new WestJetters to our family
- Accepted the award for one of Canada's most admired corporate cultures for the fourth year in a row
- Celebrated being named Canada's top company for managing human resources
- Shared \$34.6 million worth of profit share cheques with our WestJetters who earned every cent
- Had over 80 per cent of WestJetters participate in our employee share purchase plan
- Partnered with the CNIB and had approximately 50 WestJet volunteers help build an outdoor sensory classroom for children with vision loss
- Conducted airport tours for over 150 children in 14 cities through our partnership with Boys and Girls Clubs of Canada
- Donated over 3,500 toys to 31 children's hospitals and pediatric wards coast-to-coast through our WestJet Cares for Kids toy drive
- Expanded our WestJet Cares for Kids program to include Kids Help Phone, Ronald McDonald House Charities of Canada and KidSport Canada
- Donated approximately 400 flight vouchers to charities chosen by our WestJetters



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# guest experience and performance

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Delivering great guest value is the most important part of what we do. Looking forward, if there's one thing that will continue to separate us from the rest, it's how we treat our guests. From the time they book until they reach their final destination, it's all about providing them with the ultimate guest experience.

In 2008 we:

- Continued to deliver an unrivalled guest experience with 90 per cent of our guests recommending us to their friends and family
- Achieved on-time performance, completion rate and a baggage ratio that were top 10 among North American airlines
- Enhanced our current network with new non-stop routes and frequencies that helped meet the demands of our guests
- Enhanced the guest experience with new products and services such as pre-reserved seating and self-serve baggage tagging at select airports
- Partnered with Canada Connects, allowing guests to easily access connecting flight schedules
- Dispatched "Care Crews", as part of our Caring Comes Home promotion, to perform random acts of kindness in 11 cities across Canada
- Partnered with CanWest to create the successful Fly Free promotion
- Provided hotel rooms, meal vouchers, taxis, chartered buses and third-party aircraft charters to care for guests caught in severe coast-to-coast winter weather during the busy holiday travel season because it was the right thing to do





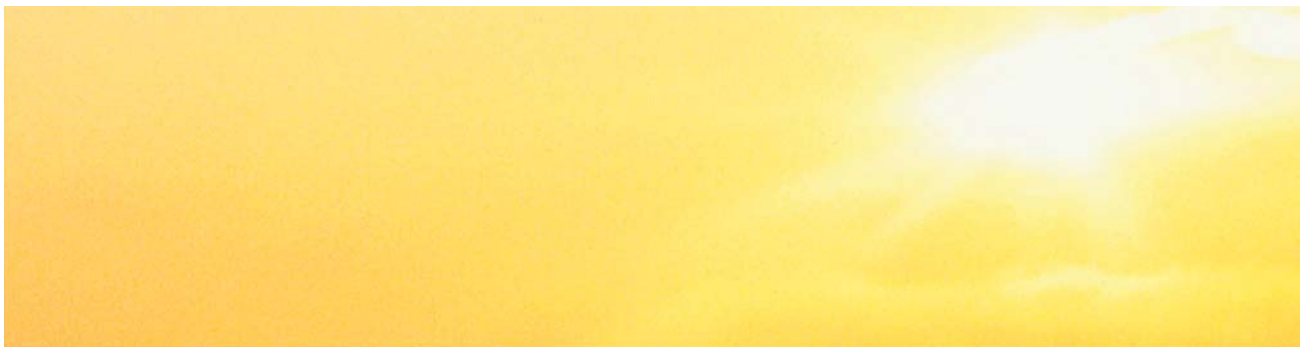
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# revenue and growth

Growing strategically and profitably means taking advantage of smart growth opportunities as they arise and understanding the wants and needs of travellers. After 13 years in business we have an established history of profitable growth. We will continue to add new destinations and gain market share one great guest experience at a time.

In 2008 we:

- Reported one of the best pre-tax margins in the North American airline industry
- Achieved revenue growth of 19.9 per cent
- Added six new aircraft
- Began service to eight new destinations: Kamloops; Quebec City; Kona; New York City (via Newark); Bridgetown, Barbados; La Romana, Dominican Republic; as well as the Mexican destinations of Cancun and Puerto Vallarta
- Announced Yellowknife, Northwest Territories; Sydney, Nova Scotia; and San Francisco and San Diego, California for spring 2009
- Reported record load factor in January, February, March, August and November - including our highest-ever load factor of 88.4 per cent in August
- Became the number one provider of flights from Canada to the Hawaiian Islands
- Became the largest Canadian travel provider of room nights to Las Vegas, and one of Canada's leading providers for Disney Resorts through WestJet Vacations
- Increased our accessibility to U.S. travellers by making flights available for sale on Expedia.com and Southwest.com
- Signed the commercial terms of the code-share agreement with Southwest Airlines



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# cost and margins

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Keeping our low-cost advantage is simple. We will continue to offer value to our guests and our shareholders by providing the best guest experience in the industry while achieving a targeted, sustainable profit margin that will be number one among North American airlines. We'll do it with a lot of hard work and smiles on our faces. It's the WestJet way.

In 2008 we:

- Continued focusing on the same low-cost philosophies we've always had, fostering a culture of owners who are focused on doing more for less
- Maintained our low-cost advantage thanks in part to our young, fuel-efficient fleet and a continued commitment to finding new ways to drive costs out of the system
- Continued to fly a single type of aircraft, saving on maintenance and training costs
- Improved utilization (operating hours) spreading costs over greater flying time
- Increased stage length allowing us to dilute fixed costs like takeoffs and landings over a greater distance
- Reported a 3.2 per cent decrease in full-year cost per available seat mile, excluding fuel and employee profit share
- Mitigated the risk associated with fluctuating fuel costs and currency exchange rates through hedging strategies



# president's message to shareholders

With the dust settled on a turbulent 2008, looking back on what we accomplished gives me both optimism and enthusiasm for what the future has in store. Despite challenging oil prices, economic uncertainty and a global credit crisis, we stayed committed to our strategic plan, which included providing our excellent guest experience, remaining focused on our people and ensuring that we remained financially strong. If 2008 was a test, we passed with flying colours and proved that our business model really works.

There were a number of challenges that defined 2008 for all industries. In the first half of the year, runaway oil prices, which reached \$145 a barrel in July, impacted all businesses that are dependent on the black gold. In the second half of the year, credit markets crashed, which led to bankruptcies and bailouts for a number of industries. Individuals fared no better, as credit card debt and over-leveraged mortgages destroyed confidence and set the world into a recession. Businesses were forced into a new economic reality where lending was tight and consumers became very discriminating in their spending. In the midst of such turbulence, WestJet truly prevailed thanks to our low-cost operating model, substantial cash balance, trusted brand name and team of WestJetters who were committed to delivering value and a great guest experience.

With revenues of \$2.5 billion, net earnings of \$178.1 million and one of the best pre-tax margins among our North American peers, we managed our way to our second-most profitable year ever – substantiating our position as a leader in the airline industry. We continued implementing our tried and trusted business model of keeping controllable costs down and taking care of our people who, in turn, take care of our guests. This simple strategy is how we keep producing results that we can be proud of.

Through our share purchase plan, our profit sharing program and, most importantly, the family environment we have created, our success as an airline is tied to the individual success of every WestJetter. Our philosophy around empowerment and accountability translates into a work atmosphere where our people continuously go above and beyond, and guests feel welcomed and appreciated. The skills and heart that each and every WestJetter brings to their job – regardless of the role – creates the personality and humanity of our airline. They are the reason I love this airline and why millions of guests choose to fly with us.

With our continued track record of success, even in the most challenging economic conditions, we feel comfortable with our long-term road map, our ability to deliver financial success and to keep reaching for our vision for 2016 – to be one of the five most successful airlines in the world by providing our guests with a friendly and caring experience that will change air travel forever.

While 2008 was a great success, despite a somewhat turbulent flight path, we are looking forward to what is in store for 2009. Although the shaken economy leads us to believe that the coming year will be no less turbulent, it will still be an exciting time for our airline and a year for investing in our future. I truly believe that companies that invest wisely, even in tough times, will lead the way when the good times return.

## In store for 2009

In 2009, we believe we will increase our market share by focusing on adding new destinations and non-stop routes to enhance our current network. In fact, we had a quick takeoff to the year, announcing the beginning of service to four new destinations: Sydney, Nova Scotia; Yellowknife, Northwest Territories; and San Francisco and San Diego, California. I believe that these new Canadian and U.S. destinations move us closer to our goals of having 40 to 50 per cent of the domestic market share and approximately 20 per cent of the transborder and Caribbean/Mexico market share by 2013.

To meet the needs of our expanding network, we have nine aircraft scheduled for delivery throughout the year, the first of which arrived in February and brought our fleet to 77. We anticipate ending the year with 85 aircraft and a five per cent year-over-year increase in capacity. This will play an important role in achieving our market share goals, while contributing to the capacity requirements necessary for our 2009 objectives, which include code-sharing and expanding WestJet Vacations.

Much of 2009 will be about developing our capabilities to partner with other airlines. We are investing in technology and resources to have code-sharing in place with Southwest Airlines in late 2009 and Air France and KLM by early 2010. Code-sharing with Southwest will give us better access to the transborder market, valued at over \$5 billion, while both arrangements will increase the network flow we have coming into Canada, potentially by hundreds of thousands of guests.

Details for our new rewards and credit card programs are still in the works. Our goal is to create a rewards program that is lucrative for flyers, easy to use and beneficial for both frequent flyers and those guests who are new to WestJet.

WestJet Vacations represents a great opportunity for our future growth and our ability to offer a more diversified product for our

guests. As we expand domestically and into more transborder and international sun destinations, WestJet Vacations will play an integral role in increasing revenue. We believe we can grow our vacation-business revenue to at least \$500 million over the next three- to four-year period. With WestJet's trusted brand and stability in a tough industry, we are seeing the demand for our vacation product escalate rapidly.

We will continue to increase our bottom line through ancillary revenue. We remain focused on enhancing our guests' experience by developing new products and services that add value, such as advance seat selection, buy-on-board products and enhanced capabilities for onboard point-of-sale.

Hand in hand with our business growth is our continued and expanding commitment to giving back to the communities we operate in. In 2009, we expect to donate over 12,000 flights to our charitable partners. We will continue to strategically develop our WestJet Cares for Kids program, supporting charities that address children's health and wellness issues.

A big part of our charitable giving is making sure we are supporting the causes that are near and dear to the hearts of our WestJetters. In 2008, our WestJetters volunteered almost 12,000 hours to charities of their choosing. We complemented those hours with an additional 400 flight vouchers for fundraising initiatives. Having only launched our WestJetters Caring for Our Community initiative in 2008, we estimate that the number of hours and flight vouchers will increase significantly in 2009.

We also believe strongly in growing in an environmentally responsible way. Our approach to the environment is fivefold:

- We will continue to invest in fleet renewal, ensuring that our aircraft are among the most modern in North America. Emissions from our Next-Generation aircraft are 30 per cent lower on a per-person basis than the fleet of 737-200 series aircraft we launched our service with and have since replaced.
- We will continue to take an active role in industry research on aviation biofuels through our partnerships and participation in industry-led research.
- We will continue to invest in reducing our emissions footprint on the ground through our airport operations and Calgary headquarters. We are aiming to have our new Calgary facility achieve the gold level of Leadership in Energy and Environmental Design (LEED) certification.
- We will continue to invest in navigational procedures and technology in order to fly more efficiently. We have seen great efficiencies and a reduction in fuel burn as a result of our investment in winglet and Required Navigation Performance (RNP) technology, to name a few.

- We will continue to engage WestJetters in developing new ideas and approaches to reducing our environmental footprint.

Thanks to the fortitude and dedication of our people, we know that all of this and more is possible. We may not be able to predict what lies ahead in 2009; however, we are confident that we are able to weather the storm better than most. We are optimistic about our prospects for 2009. We will attain our vision for 2016 and feel we are already well on our way. Our future is bright and the sky really is the limit.

In closing, I want to welcome Barry Jackson to WestJet's Board of Directors. His experience and expertise will assist our ongoing fuel strategies and governance practices. Also, while Clive Beddoe's role recently changed from Executive Chairman to Chairman, he is still an active part of our airline and a mentor for me and the Executive team. On behalf of WestJet's Board of Directors, Executive team and over 7,400 WestJetters, thank you for your continued support for our airline.

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Sean Durfy  
President and Chief Executive Officer  
March 10, 2009



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Certain information in this president's message may contain forward-looking statements, including but not limited to, those regarding increasing market share, aircraft deliveries, code-sharing, expansion of WestJet Vacations Inc., development of our rewards and loyalty program, increasing ancillary revenue, charitable activities and environmental initiatives. These forward-looking statements are subject to, and may be affected by, numerous risks and uncertainties, some of which are beyond WestJet's control. WestJet's actual results may differ materially from a conclusion, forecast or projection expressed in or implied by such statements. Certain material factors and assumptions were applied in formulating these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to: changes in government policy, exchange rates, interest rates, disruption of supplies, volatility of fuel prices, terrorism, general economic conditions, the competitive environment and other factors described in WestJet's public reports and filings which are available under WestJet's profile on SEDAR ([www.sedar.com](http://www.sedar.com)). Forward-looking statements are subject to change and WestJet does not undertake to update or revise any forward-looking information as a result of any new information, future events or otherwise, except as required by applicable law.





# management's discussion and analysis of financial results 2008

## Advisories

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 10, 2009, should be read in conjunction with the cautionary statement regarding forward-looking statements below, as well as the consolidated financial statements, and notes thereto, as at and for the year ended December 31, 2008. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts in the following MD&A are stated in Canadian dollars unless otherwise stated. Certain prior-period balances in the consolidated financial statements have been reclassified to conform to current period's presentation. References to "WestJet," "we," "us" or "our" mean WestJet Airlines Ltd., its subsidiaries, partnership and special-purpose entities, unless the context otherwise requires. Additional information relating to WestJet filed with Canadian securities commissions, including periodic quarterly and annual reports and Annual Information Forms (AIF), is available on SEDAR at [www.sedar.com](http://www.sedar.com) and our website at [www.westjet.com](http://www.westjet.com). An additional advisory with respect to the use of non-GAAP measures is set out at the end of this MD&A under "Non-GAAP Measures."

## Cautionary statement regarding forward-looking information and statements

This MD&A offers our assessment of WestJet's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation, including our vision in becoming one of the top five airlines in the world by 2016 referred to under the Overview on page 20, the number of cities we expect to fly to with the announcement of four destinations referred to under the Overview on page 20, our expectation that WestJet Vacations will be a key contributor to our future success referred to under Results of Operations – Revenue on page 25, our hedging expectations and the intent to hedge anticipated jet fuel purchases referred to under Results of Operations – Aircraft Fuel on page 28, our sensitivity to changes in crude oil and fuel pricing referred to under Results of Operations – Aircraft Fuel on page 28, our sensitivity to the change in the value of the Canadian dollar versus the US dollar referred to under Results of Operations – Foreign Exchange on page 32, our need to obtain external financing in the foreseeable future referred to under Liquidity and Capital Resources on page 34, our future aircraft deliveries referred to under Liquidity and Capital Resources on page 34, our anticipation of yield and revenue per available seat mile (RASM)

declines in the first quarter of 2009 referred to under the Outlook on page 50, our expected capacity increases for the first quarter and full year of 2009 referred to under the Outlook on page 50, and our expected fuel costs per litre referred to under the Outlook on page 50. These forward-looking statements typically contain the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should," "potential", "plan" or other similar terms.

Readers are cautioned that our 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. With respect to forward-looking statements contained within this MD&A, we have made the following key assumptions:

- our expected capacity increase for the first quarter and full year of 2009 was based on our commercial schedules, as well as a revised aircraft delivery schedule from Boeing for 2009;
- our future aircraft deliveries were based on a revised aircraft delivery schedule from Boeing;
- our yield and revenue per available seat mile guidance for the first quarter of 2009 was based on actual and forecasted bookings for the same period;
- our expectation that WestJet Vacations will be a key contributor to the success of our airline was based on current financial results and our current strategic plan;
- our fuel costs per litre for the first quarter of 2009 was based on realized jet fuel prices for January 2009 and forward curve prices for February and March 2009, as well as the exchange rate for the Canadian dollar in the first quarter similar to the current market rate;
- our sensitivity to changes in crude oil and fuel pricing was based on our fuel consumption for our existing schedule and historical fuel burn and a Canadian-US dollar exchange rate similar to the current market rate;
- our hedging expectations and intent to hedge anticipated jet fuel purchases was based on our current approved hedging strategy;

While the economy has seen some turbulence – I believe in my airline and I feel like there are clear skies ahead.

Kristen Agg, Dispatcher  
Flight Operations Flight Technical  
WestJetter since 2007



- our sensitivity to the change in the value of the Canadian dollar versus the US dollar was based on forecasted US-dollar spend for the remainder of 2009, excluding a percentage of aircraft leasing expense hedged under foreign exchange forward contracts and option arrangements, as well as the exchange rate for the Canadian dollar similar to the current market rate;
- our vision in becoming one of the top five airlines in the world by 2016 was based on our current strategic plan;
- the number of cities we expect to fly to was based on our current destinations and the additional destinations announced in late 2008 for our 2009 summer schedule; and
- our need to obtain external financing in the foreseeable future was based on our positive cash flows from operations for 2008 and forecasts and budgets for 2009 and beyond.

Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur or, if any of them do, what benefits or costs we will derive from them. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, 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 the pricing environment), labour matters, government regulation, stock-market volatility, the ability to access sufficient capital from internal and external sources and additional risk factors discussed in our AIF and other documents we file from time to time with securities regulatory authorities, which are available through the internet on SEDAR at [www.sedar.com](http://www.sedar.com) or, upon request, without charge from us. Additionally, risks and uncertainties are discussed in detail on page 38 of this MD&A.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Our assumptions relating to the forward-looking statements referred to above are updated quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.

#### Definition of key operating indicators

Our key operating indicators are airline industry metrics, which are useful in assessing the operating performance of an airline.

**Flight leg:** Segment of a flight involving a stopover, change of aircraft or change of airline from one landing site to another.

**Segment guest:** Any person who has been booked to occupy a seat on a flight leg and is not a member of the crew assigned to the flight.

**Average stage length:** The average distance of a non-stop flight leg between take-off and landing as defined by International Air Transport Association (IATA) guidelines.

**Available seat miles (ASM):** A measure of total guest capacity, calculated by multiplying the number of seats available for guest use in an aircraft by stage length.

**Revenue passenger miles (RPM):** A measure of guest traffic, calculated by multiplying the number of segment guests by stage length.

**Load factor:** A measure of total capacity utilization, calculated by dividing revenue passenger miles by total available seat miles.

**Yield (revenue per revenue passenger mile):** A measure of unit revenue, calculated as the gross revenue generated per revenue passenger mile.

**Revenue per available seat mile (RASM):** Total revenues divided by available seat miles.

**Cost per available seat mile (CASM):** Operating expenses divided by available seat miles.

**Cycle:** One flight counted by the aircraft leaving the ground and landing.

**Utilization:** Operating hours per day per operating aircraft.



Our guests come first. So it's going to take a lot more than the worst winter weather in 40 years to stop from us from doing what's right for them.

Kerry Leandre, Customer Service Shift Lead, Airports WestJet since 2002

## OVERVIEW

2008 was a very successful year for WestJet. In particular, the first half of the year produced very strong financial results, and the second half of the year was significantly impacted by unprecedented conditions in the financial and credit markets, and exceptionally high and volatile fuel prices. Despite the unfavourable economic environment, we continued to produce consistent and strong financial results, as evidenced by one of the best earnings before tax (EBT) margins of any large North American airline, positive cash flows from operations, a significant cash position and a healthy balance sheet. Amid the turmoil in the economy, execution of our strategy was key as we added new destinations and routes, and increased capacity and RPMs while driving down our CASM, excluding fuel and employee profit share. Our code-sharing agreement with Southwest Airlines, signed in 2008, is an important step forward in the continued execution of our strategic plan to become one of the top five airlines in the world by 2016. Our dedicated and enthusiastic WestJetters continued to deliver a world-class guest experience, contributing to the success of our airline.

## 2008 Highlights

- Increased total revenues to \$2,549.5 million, an increase of 19.9 per cent over 2007.
- Recorded RASM of 14.88 cents, an increase of 1.8 per cent over 2007, while growing capacity by 17.8 per cent year over year.
- Maintained strong cost controls by reducing CASM, excluding fuel and employee profit share, to 8.28 cents from 8.55 cents in 2007, a decrease of 3.2 per cent.
- Recorded an EBT margin of 10.0 per cent in 2008, down 1.1 points from 2007.
- Realized net earnings of \$178.1 million, a decrease of 7.6 per cent from 2007.
- Diluted earnings per share were \$1.37, a decrease of 6.8 per cent compared to 2007.
- Adjusted for the reservation system impairment and favourable income tax rate reduction in 2007, net earnings decreased by 1.8 per cent to \$178.1 million in 2008 from \$181.3 million in 2007, and diluted earnings per share decreased to \$1.37 from \$1.39 in 2007, representing a change of 1.4 per cent.
- Generated cash flows from operations of \$460.6 million, a decrease from \$541.1 million in 2007.

Please refer to page 50 of this MD&A for a reconciliation of the non-GAAP measures listed above, including CASM, excluding fuel and employee profit share, net earnings and diluted earnings per share adjusted for the impact of the reservation system impairment and favourable income tax rate reduction in 2007, to the nearest measure under Canadian GAAP.

For the fourth consecutive year, we received Canada's Most Admired Corporate Culture™ award for being among 10 winners selected on stringent criteria and evaluations. We are extremely proud of this accomplishment. Our enviable

corporate culture continues to differentiate us as an airline, has allowed us to persevere in these uncertain economic times and is a key pillar of our continued growth strategy.

Operational highlights	Three months ended December 31			Twelve months ended December 31		
	2008	2007	Change	2008	2007	Change
ASMs	4,288,054,528	3,818,613,107	12.3%	17,138,883,465	14,544,737,340	17.8%
RPMs	3,328,856,003	2,967,645,307	12.2%	13,730,960,234	11,739,063,003	17.0%
Load factor	77.6%	77.7%	(0.1 pts)	80.1%	80.7%	(0.6 pts)
Yield (cents)	18.50	18.60	(0.5%)	18.57	18.12	2.5%
RASM (cents)	14.36	14.46	(0.7%)	14.88	14.62	1.8%
CASM (cents)	13.02	12.48	4.3%	13.17	12.34*	6.7%
CASM, excluding fuel and employee profit share (cents)	8.72	8.52	2.3%	8.28	8.55*	(3.2%)
Fuel consumption (litres)	210,090,434	189,434,295	10.9%	839,699,921	723,104,203	16.1%
Fuel costs per litre (cents)	84.45	75.15	12.4%	95.66	69.69	37.3%
Segment guests	3,518,362	3,280,342	7.3%	14,283,630	13,004,726	9.8%
Average stage length (miles)	899	869	3.5%	913	856	6.7%
Utilization (hours)	12.1	12.3	(1.6%)	12.3	12.1	1.7%
Number of full-time equivalent employees at period end	6,187	5,682	8.9%	6,187	5,682	8.9%
Fleet size at period end	76	70	8.6%	76	70	8.6%

\*Excludes reservation system impairment of \$31.9 million in the second quarter of 2007. Please refer to reconciliation of non-GAAP measures to GAAP on page 50 of this MD&A.

During 2008, unprecedented capital market conditions, a weak North American economy, and volatile and elevated fuel prices resulted in capacity reductions, employee layoffs, grounding of aircraft, bankruptcy protection and aggressive ancillary revenue initiatives within the North American airline industry. Despite these trends, we remained committed to our strategic growth plan. We continued to take delivery of our fuel-efficient Next-Generation Boeing aircraft, and expanded our network with new destinations and routes, while offering a high-value guest experience, resulting in another profitable year.

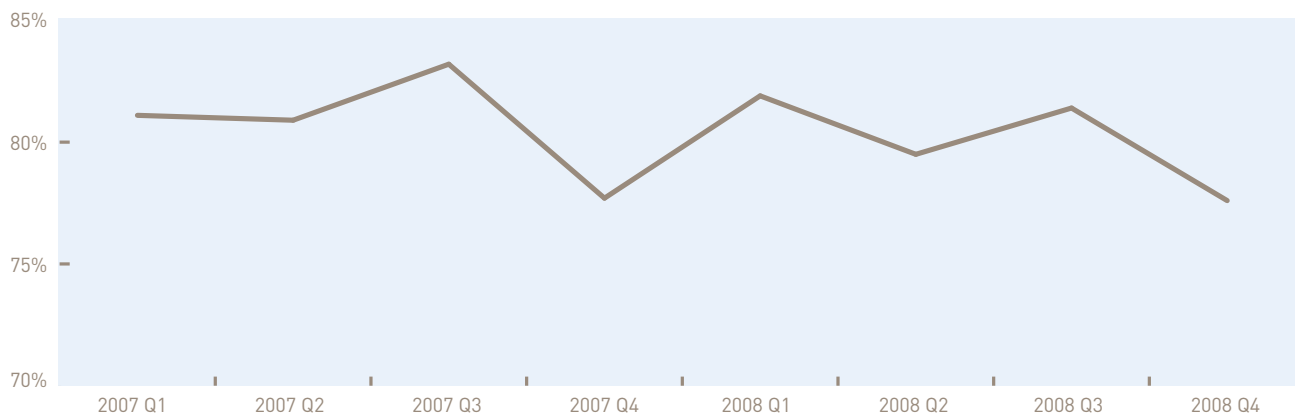
Our consistent and strong financial results are evidenced in our reported net earnings of \$178.1 million and diluted earnings per share of \$1.37 for the year ended December 31, 2008. Adjusted for the favourable income tax rate reduction and reservation system impairment in 2007, our net earnings were \$181.3 million and diluted earnings per share were \$1.39 in 2007. Our EBT margin of 10.0 per cent for 2008 was among the best in the North American airline industry.

During 2008, total revenues increased by 19.9 per cent to \$2,549.5 million compared to \$2,127.2 million in 2007, driven primarily by additional seat capacity in our network as a result of the addition of six aircraft, new destinations, increased guest traffic and improved yield.

Our load factor was down slightly by 0.6 points from 80.7 per cent in 2007 to 80.1 per cent in 2008, as depicted in the graph on the following page. Despite the slight decline, our load factor for 2008 remained within our optimal operating range of 78 per cent to 82 per cent. Additionally, this load factor was achieved on significant capacity growth of 17.8 per cent year over year. During the month of August 2008, we achieved an all-time record load factor of 88.4 per cent. We flew a record 14.3 million segment guests in 2008, an increase of 9.8 per cent over 2007, demonstrating our ability to deliver strong traffic results while maintaining a high level of service to our guests.



## Quarterly load factor



Recently, we announced the addition of four new seasonal destinations as part of our enhanced 2009 summer schedule: Yellowknife, Northwest Territories; Sydney, Nova Scotia; and San Francisco and San Diego, California. During 2008, we began service to the following destinations: Kamloops; Quebec City; Kona; New York City (via Newark); Bridgetown, Barbados; La Romana, Dominican Republic; as well as the Mexican destinations of Cancun and Puerto Vallarta. The four new destinations announced in the fourth quarter of 2008 will expand our network to 55 cities across Canada, the United States, Mexico and the Caribbean.

Our focus on strong cost control remained a core strategy during 2008 and is critical to our success, especially in light of unpredictable fuel prices. For 2008, our CASM increased by 6.7 per cent to 13.17 cents from 12.34 cents in 2007, attributable primarily to significantly higher fuel costs year over year. Excluding fuel and employee profit share, our CASM decreased to 8.28 cents from 8.55 cents in 2007, an improvement of 3.2 per cent. This decrease was achieved mainly through a longer average stage length, increased aircraft utilization and cost dilution over a greater number of available seat miles.

We maintained a strong balance sheet during 2008, as evidenced by our significant cash balance of \$820.2 million as at December 31, 2008, an increase of 25.5 per cent from December 31, 2007. Similarly, our current ratio, defined as

current assets over current liabilities, improved to 1.25 as compared to 1.22 as at December 31, 2007, and our adjusted debt-to-equity ratio decreased to 1.78 from 2.07 as at December 31, 2007. Please refer to page 50 of this MD&A for a reconciliation of our adjusted debt-to-equity ratio, a non-GAAP measure, to the nearest measure under Canadian GAAP. Our strong financial results have allowed us to generate positive cash flow from operations to fund our working capital requirements, make our debt payments and fund the construction of our Campus during the year without requiring external financing.

During the year, we assumed delivery of two leased 737-700s, three owned 737-700s and one leased 737-800, increasing our total registered fleet to 76 aircraft. We originally expected to take delivery of seven aircraft during 2008; however, the aircraft previously scheduled for delivery in November 2008 was delayed as a result of a Boeing labour strike. In 2008, we signed an agreement with Boeing to purchase four new aircraft, bringing our total committed fleet to 120 by 2013. The additional capacity is aligned with the continued commercialization of our domestic schedule, an increase in scheduled service to the U.S. and the introduction of new destinations into the Caribbean and Mexican markets. We continue to operate one of the youngest fleets of any large North American commercial airline, with an average age of 4.0 years.

Keeping an eye on our costs is a team effort. It's just a part of being positive and passionate in everything we do.

Donna Stout, Intermediate Planner, Maintenance  
WestJet since 2001



## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

### Annual audited financial information

(\$ in thousands, except per share data)	2008	2007	2006
Total revenues	\$ 2,549,506	\$ 2,127,156	\$ 1,751,269
Net earnings	\$ 178,135	\$ 192,833	\$ 114,676
Basic earnings per share	\$ 1.38	\$ 1.49	\$ 0.88
Diluted earnings per share	\$ 1.37	\$ 1.47	\$ 0.88
Total assets	\$ 3,278,849	\$ 2,984,222	\$ 2,726,527
Total long-term liabilities	\$ 1,452,868	\$ 1,443,708	\$ 1,456,016
Shareholders' equity	\$ 1,086,137	\$ 949,908	\$ 806,027

### Quarterly unaudited financial information

(\$ in thousands, except per share data)	Three months ended			
	Dec. 31, 2008	Sept. 30, 2008	Jun. 30, 2008	Mar. 31, 2008
Total revenues	\$ 615,783	\$ 718,375	\$ 616,000	\$ 599,348
Net earnings	\$ 40,771	\$ 54,665	\$ 30,193	\$ 52,506
Basic earnings per share	\$ 0.32	\$ 0.43	\$ 0.23	\$ 0.40
Diluted earnings per share	\$ 0.32	\$ 0.42	\$ 0.23	\$ 0.40

(\$ in thousands, except per share data)	Three months ended			
	Dec. 31, 2007	Sept. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
Total revenues	\$ 552,004	\$ 606,242	\$ 498,200	\$ 470,710
Net earnings	\$ 75,359	\$ 76,070	\$ 11,549	\$ 29,855
Basic earnings per share	\$ 0.58	\$ 0.59	\$ 0.09	\$ 0.23
Diluted earnings per share	\$ 0.57	\$ 0.58	\$ 0.09	\$ 0.23

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 sun destinations over

the winter period (fourth and first quarters). With our transborder and international destinations, we have been able to partially alleviate the effects of seasonality on our net earnings.



Finding the perfect balance between satisfying the demands of the market and reaching revenue goals for WestJet is an exciting and challenging part of my role.

Sharlene Chandra, Senior Pricing Analyst, Marketing WestJet since 2004

In the quarter ended December 31, 2007, our 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, our 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 our former reservation system project.

#### Fourth quarter

During the fourth quarter of 2008, we continued to produce strong financial results amid a deteriorating economy and unprecedented weather conditions across Canada. We generated positive net earnings and cash flows from operations, and our balance sheet remained healthy during this period of economic uncertainty.

For the quarter ended December 31, 2008, we recorded net earnings of \$40.8 million as compared to \$75.4 million in the same period of 2007. Excluding the one-time favourable tax rate reduction, net earnings for the fourth quarter of 2007 were \$41.7 million, representing a quarter-over-quarter decrease of 2.1 per cent. Diluted earnings per share for the fourth quarter of 2008 were \$0.32, a decrease of 43.9 per cent from \$0.57 in the comparable period of 2007. Excluding the one-time favourable tax rate reduction in the fourth quarter of 2007, diluted earnings per share were \$0.32, which was equal to diluted earnings per share for the fourth quarter of 2008 of \$0.32. Please refer to page 50 of this MD&A for a reconciliation of the non-GAAP measures above, including net earnings and diluted earnings per share adjusted for the impact of the favourable income tax rate reduction in the fourth quarter of 2007, to the nearest measure under Canadian GAAP.

We increased total revenues to \$615.8 million for the three months ended December 31, 2008, up 11.6 per cent from \$552.0 million in the same period of 2007, primarily attributable to additional capacity and a comparable increase in RPMs. In the three months ended December 31, 2008, we increased our network capacity by 12.3 per cent to 4.3 billion ASMs as compared to 3.8 billion ASMs in the same period of 2007. Our RASM for the fourth quarter of 2008 declined by 0.7 per cent to 14.36 cents, down from 14.46 cents in the same period of 2007. As average stage length increases, our revenue per available seat mile decreases over a larger number of miles flown. The increase in our average stage length of 3.5 per cent negatively impacted our RASM during the fourth quarter of 2008, as well as a lower yield from softening demand for air travel. Our fourth quarter load factor decreased slightly by 0.1 points to 77.6 per cent from 77.7 per cent in the comparable quarter of 2007.

For the fourth quarter of 2008, our CASM increased by 4.3 per cent from the same quarter in 2007 to 13.02 cents from 12.48 cents. A primary driver for this increase was an 11.0 per cent increase in fuel costs per ASM in the fourth quarter of 2008 versus the comparable period of 2007. Year-over-year reductions in US-dollar West Texas Intermediate (WTI) crude oil prices were offset by increases in refining costs, the devaluation of the Canadian dollar versus the US dollar and incremental costs incurred in transporting fuel into the prairie provinces due to an interruption of the supply of jet fuel into these provinces. Further, although the quarter saw significant reductions in the quoted market price of US-dollar jet fuel, there is a lag between our realized cost of jet fuel and the market prices due to inventory levels we maintain and the pricing mechanisms embedded in some of our purchasing contracts.

Our CASM, excluding fuel and employee profit share, increased by 2.3 per cent to 8.72 cents for the three months ended December 31, 2008 as compared to 8.52 cents in the fourth quarter of 2007. The fourth quarter of 2008 was especially challenging due to harsh winter weather conditions, particularly during the month of December and the 2008 holiday travel season. During what meteorologists called one of the worst periods of severe winter weather patterns in Canadian history, numerous airport closures and the resulting record number of delayed flights and cancellations impacted our financial and operational results. As a result, we spent an additional \$3.2 million on hotel

rooms, meal vouchers, ground transportation, chartered aircraft and de-icing costs during the fourth quarter of 2008 as compared to the same period of 2007. Also impacting our unit costs during the fourth quarter of 2008 was a \$4.3 million payment incurred for the expiration of our current reservation system contract recorded in marketing, general and administration expense.

Additionally, our maintenance costs per ASM increased by 16.7 per cent in the fourth quarter of 2008 as compared to the same period in the prior year, primarily due to the weaker Canadian dollar and incremental maintenance requirements.

## RESULTS OF OPERATIONS

### Revenue

(\$ in thousands)	Three months ended December 31			Twelve months ended December 31		
	2008	2007	Change	2008	2007	Change
Guest revenues	\$ 561,514	\$ 502,379	11.8%	\$ 2,301,301	\$ 1,899,159	21.2%
Charter and other revenues	54,269	49,625	9.4%	248,205	227,997	8.9%
	\$ 615,783	\$ 552,004	11.6%	\$ 2,549,506	\$ 2,127,156	19.9%
RASM (cents)	14.36	14.46	[0.7%]	14.88	14.62	1.8%

During 2008, total revenues increased by 19.9 per cent to \$2,549.5 million from \$2,127.2 million in 2007. This improvement in total revenues was largely attributable to our significant year-over-year capacity and RPM increases of 17.8 per cent and 17.0 per cent, respectively. One of our key indicators of revenue growth is RASM, as it takes into consideration load factor and yield. Our RASM increased by 1.8 per cent in 2008 to 14.88 cents from 14.62 cents in 2007, due mainly to improved yield, slightly offset by a decrease in load factor. We are encouraged by our improvement in year-over-year RASM when our increases in average stage length and capacity are considered. The increase in our RASM was driven primarily by a stronger first half of 2008, as we saw the economic slowdown negatively impact RASM in the last half of 2008.

Guest revenues from our scheduled flight operations increased during 2008 by 21.2 per cent to \$2,301.3 million, as compared to \$1,899.2 million in 2007, primarily due to improvements in our transborder and international markets. We continued our effective strategy of seasonal capacity adjustments during 2008, shifting capacity to higher-demand markets based on the seasonal demand for those routes. During the winter months, we capitalized on the ability of our sunny transborder and international destinations to attract leisure travellers who wanted to escape the Canadian

winters. We achieved this while also maintaining an attractive schedule, frequent flights and sufficient capacity for our domestic guests. Our year-over-year capacity increase was deployed equally to scheduled domestic, transborder and international markets. Additionally, of our total growth in ASMs for 2008 as compared to 2007, approximately 15 per cent was deployed to new domestic markets, and approximately 10 per cent was deployed to new transborder and international markets. Our strategy of profitable market expansion remained a continued focus, as evidenced from our relatively comparable year-over-year load factor and increased yield.

On September 18, 2008, because of a reduction in fuel prices and to provide more transparent pricing for our guests, we eliminated the fuel surcharge that had been implemented in the second quarter of 2008.

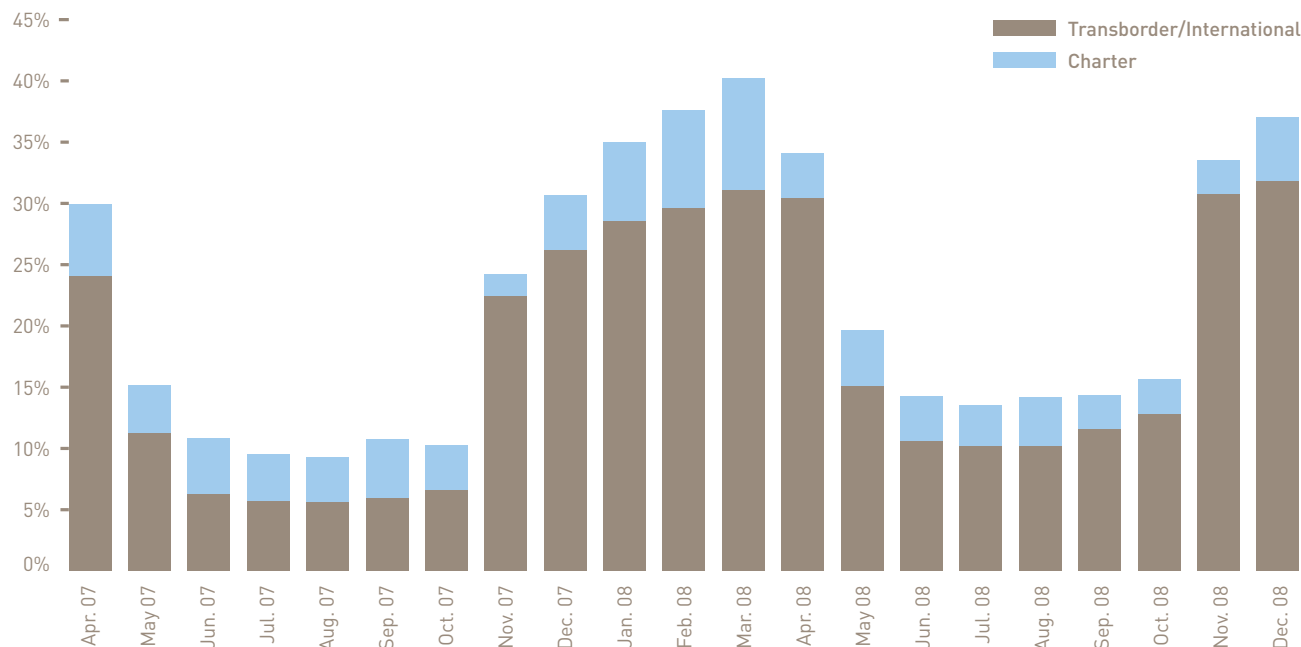
Due to diligent network planning and a relatively strong demand environment, optimization of our fleet continued in 2008 and contributed to the overall productivity of our airline. During the year, we increased our aircraft utilization by 12 minutes to 12.3 operating hours per day, compared to 12.1 operating hours per day in 2007. Increasing the utilization of our aircraft increases our revenue-generating potential and allows us to gain cost efficiencies.



Charter and other revenues, which include charter, cargo, ancillary, WestJet Vacations Inc. (WVI) non-air and other revenue, increased by 8.9 per cent for 2008 to \$248.2 million from \$228.0 million in 2007. This improvement was driven mainly by increases in ancillary revenue and WVI non-air

revenue, resulting from an expanded destination base. These improvements were partially offset by a decrease in charter revenue due to reduced charter requests during 2008 versus the prior year, as depicted in the following graph.

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



WVI had a great year in 2008. With the introduction of several new sun destinations in the last few years, WVI has become a significant player in the Canadian tour operator industry. WVI is the number one Canadian provider of hotel rooms into Las Vegas and has been successful in the popular Caribbean and Mexico markets. WVI has been instrumental in our growth and will be a key contributor to the future success of our airline.

Ancillary revenues, which include service fees, onboard sales, and partner and program revenue, provide an opportunity to maximize our profits through the sale of higher-margin goods and services, while also enhancing our overall guest experience. During 2008, ancillary revenues were \$95.7 million as compared to \$79.6 million during 2007, representing an increase of 20.1 per cent.

Ancillary revenue per guest improved to \$6.90 in 2008, an increase of 8.5 per cent from \$6.36 per guest in 2007. This increase resulted from higher fees revenue, offset somewhat by the termination of our tri-branded BMO Mosaik® AIR MILES® MasterCard® credit card partnership on July 31, 2008.

During the third quarter of 2008, we announced the introduction of a new seat selection option that, for a small fee, allows guests to select their seat at the time of booking. Revenue of \$8.5 million from our pre-reserved seating option contributed to approximately 45 per cent of our increase in fees revenue for 2008. Additionally, increases to our change and cancellation fees, same-day cancellation fees and certain buy-on-board product prices helped increase revenue from fees in 2008 versus 2007.

In the WestJet family, we don't just take care of our guests; we take care of each other because we're all driving for the same results.

Amy Wheatley, Business Advisor, People  
WestJet since 1999



## Expenses

CASM (cents)	2008	2007	2006	2005	2004
Aircraft fuel	4.69	3.46	3.40	3.32	2.69
Airport operations	2.00	2.06	2.02	2.02	1.96
Flight operations and navigational charges	1.64	1.77	1.83	1.71	1.65
Marketing, general and administration	1.22	1.22	1.17	1.23	0.82
Sales and distribution	1.00	1.01	1.00	0.86	1.12
Depreciation and amortization	0.80	0.87	0.89	1.00	0.88
Inflight	0.62	0.59	0.54	0.50	0.49
Aircraft leasing	0.50	0.52	0.57	0.62	0.46
Maintenance	0.50	0.51	0.54	0.67	0.85
Employee profit share	0.20	0.33	0.16	0.06	0.03
	13.17	12.34*	12.12	11.99	10.95*
CASM, excluding fuel and employee profit share	8.28	8.55*	8.56	8.61	8.23*

\*Excludes reservation system impairment of \$31.9 million in 2007 and \$47.6 million impairment related to retirement of 200-series aircraft in 2004.

CASM (cents)	Three months ended December 31			Twelve months ended December 31		
	2008	2007	Change	2008	2007	Change
Aircraft fuel	4.14	3.73	11.0%	4.69	3.46	35.5%
Airport operations	2.15	2.05	4.9%	2.00	2.06	(2.9%)
Flight operations and navigational charges	1.64	1.72	(4.7%)	1.64	1.77	(7.3%)
Marketing, general and administration	1.42	1.24	14.5%	1.22	1.22	—
Sales and distribution	0.99	1.07	(7.5%)	1.00	1.01	(1.0%)
Depreciation and amortization	0.81	0.86	(5.8%)	0.80	0.87	(8.0%)
Inflight	0.62	0.62	—	0.62	0.59	5.1%
Aircraft leasing	0.53	0.48	10.4%	0.50	0.52	(3.8%)
Maintenance	0.56	0.48	16.7%	0.50	0.51	(2.0%)
Employee profit share	0.16	0.23	(30.4%)	0.20	0.33	(39.4%)
	13.02	12.48	4.3%	13.17	12.34*	6.7%
CASM, excluding fuel and employee profit share	8.72	8.52	2.3%	8.28	8.55*	(3.2%)

\*Excludes reservation system impairment of \$31.9 million in the second quarter of 2007.

During 2008, we experienced significant cost pressure due to a 35.5 per cent increase in fuel costs per ASM. As a result, our CASM increased during 2008 to 13.17 cents from 12.34 cents in 2007, representing an increase of 6.7 per cent. Our underlying low-cost business model was integral during this period of volatile fuel prices and unprecedented capital market conditions, as we were able to operate with costs below that of our competitors. Our CASM, excluding fuel, employee profit share and the reservation system impairment

of \$31.9 million in the second quarter of 2007, decreased by 3.2 per cent for 2008 to 8.28 cents from 8.55 cents in 2007.

Our longer average stage length, which increased 6.7 per cent in 2008 to 913 miles from 856 miles in 2007, played a role in creating cost efficiencies. Average stage length 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



Sure, high fuel costs have been tough on everyone. But to us it's just another reason to stay true to how we run our business – calm and steady.

Frederick Arends, Aircraft Material Coordinator  
Maintenance  
WestJet since 2003

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.

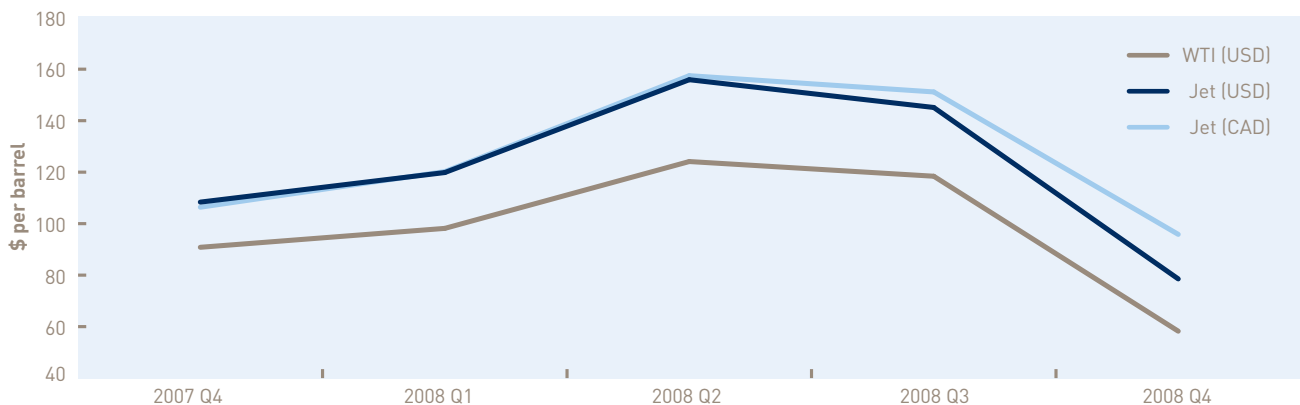
We increased capacity to 17.1 billion ASMs during 2008, as compared to 14.5 billion ASMs in 2007. The dilution of costs over a greater number of available seat miles contributed to the reduction of our CASM, excluding fuel and employee profit share, during the year.

#### Aircraft fuel

Fuel prices continued to negatively impact our CASM during 2008, representing approximately 36 per cent of

total operating costs for 2008, up from 28 per cent in 2007. During the month of July 2008, jet fuel prices peaked at approximately US \$180 per barrel, setting an all-time record high. The average market price for jet fuel was US \$125.02 per barrel in 2008 versus US \$91.05 per barrel in 2007, representing an increase of 37.3 per cent. On a total dollar basis, fuel expense increased by \$299.4 million in 2008 over the prior year, of which approximately \$220 million related to the increase in jet fuel prices. The increase in fuel prices increased our fuel cost per ASM to 4.69 cents for 2008 compared to 3.46 cents in 2007, representing a 35.5 per cent increase in our fuel cost per ASM for 2008.

#### Average market price of jet fuel



During the year ended December 31, 2008, we began a more extensive fuel hedging program under a revised policy as approved by our Board of Directors. Our current objective is to hedge a portion of our anticipated jet fuel purchases in order to provide management with reasonable foresight and predictability into operations and future cash flows. As jet fuel is not traded on an organized futures exchange, there are limited opportunities to hedge directly in jet fuel; however, financial derivatives in other commodities, such

as crude oil and heating oil, are useful in decreasing the risk of volatile fuel prices.

Upon proper qualification, we account for our fuel derivatives as cash flow hedges. Under cash flow hedge accounting, the effective portion of the change in fair value of the hedging instrument is recognized in accumulated other comprehensive loss (AOCL), while the ineffective portion is recognized in non-operating income (expense). Upon maturity, the effective gains or losses previously recognized

in AOCL are recorded in net earnings as a component of aircraft fuel expense.

If the hedging relationship ceases to qualify for cash flow hedge accounting, any change in fair value of the instrument from the point it ceases to qualify is recorded in non-operating income (expense). Amounts previously recorded in AOCL will remain in AOCL until the anticipated jet fuel purchase occurs, at which time, the amount is recorded in net earnings under aircraft fuel expense. If the transaction is no longer expected to occur, amounts previously recorded in AOCL will be reclassified to non-operating income (expense). For the year ended December 31, 2008, there were no amounts

reclassified as a result of transactions no longer expected to occur.

The periodic changes in fair value and realized settlements on fuel derivatives that do not qualify or that are not designated under cash flow hedge accounting are recorded in non-operating income (expense).

The following table displays our fuel costs per litre, excluding and including fuel hedging, for 2008. Please refer to page 50 of this MD&A for a discussion on the use of non-GAAP measures, including the economic cost of fuel, which is reconciled to GAAP in the table below.

(\$ in thousands, except per litre data)	Three months ended December 31			Twelve months ended December 31		
	2008	2007	Change	2008	2007	Change
Aircraft fuel expense – GAAP	\$ 177,422	\$ 142,359	24.6%	\$ 803,293	\$ 503,931	59.4%
Realized loss on fuel derivatives not designated under cash flow hedge accounting	—	—	n/a	10,606*	—	n/a
Economic cost of fuel – Non-GAAP	\$ 177,422	\$ 142,359	24.6%	\$ 813,899	\$ 503,931	61.5%
Fuel consumption (thousands of litres)	210,090	189,434	10.9%	839,700	723,104	16.1%
Fuel costs per litre (dollars) – excluding fuel hedging	0.84	0.75	12.0%	0.96	0.70	37.1%
Fuel costs per litre (dollars) – including fuel hedging	0.84	0.75	12.0%	0.97	0.70	38.6%

\*Settled in the third quarter of 2008.

Fuel costs per litre, excluding fuel hedging, increased by 37.1 per cent to \$0.96 per litre in 2008 from \$0.70 per litre in 2007. Including the effects of the realized loss on fuel derivatives not designated in an effective hedging relationship, our fuel costs per litre were \$0.97 for 2008.

The following table presents the financial statement impact and statement presentation of our fuel derivatives on the consolidated balance sheet and consolidated statement of earnings. The fair value of the fuel derivatives designated in an effective hedging relationship is determined using inputs, including quoted forward prices for commodities,

foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. The fair value of the fuel swap contracts is estimated by discounting the difference between the contractual strike price and the current forward price. The fair value of the fuel derivative collars is estimated by the use of a standard option valuation technique. As at December 31, 2008, for the 24 month period that we are hedged, the closing forward curve for crude oil ranged from approximately US \$45 to US \$67 and the average forward foreign exchange rate used in determining the fair value was 1.2136 US dollars to Canadian dollars.

(\$ in thousands)	Statement presentation	2008
Consolidated balance sheet:		
Fair value of fuel derivatives – current portion	Accounts payable and accrued liabilities	\$ 37,811
Fair value of fuel derivatives – long-term portion	Other liabilities	14,487
Net unrealized loss from fuel derivatives	AOCL – before tax impact	(44,711)
Consolidated statement of earnings:		
Unrealized loss on fuel derivatives – ineffective portion	Loss on derivatives	\$ (7,587)
Realized loss on fuel derivatives not designated in an effective hedging relationship	Loss on derivatives	(10,606)
		\$ (18,193)



The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft fuel expense when the underlying jet fuel is consumed during the next 12 months is a loss after tax of \$23.9 million. Subsequent to December 31, 2008, we incurred a realized loss of \$5.0 million on our settled January 2009 fuel hedging contracts.

As at December 31, 2008, we had a mixture of fixed swap agreements and costless collar structures in Canadian-dollar WTI crude oil derivative contracts to hedge

approximately 30 per cent of our anticipated jet fuel requirements for 2009 and approximately 14 per cent of our anticipated jet fuel requirements for 2010. The following table outlines, as at December 31, 2008, the notional volumes per barrel (bbl) along with the weighted average strike price for fixed swap agreements and the weighted average call and put prices for costless collar structures for each year we are hedged. We have not entered into any additional fuel derivative contracts subsequent to December 31, 2008.

Year	Instrument	Notional volumes (bbl)	WTI average strike price (CAD\$/bbl)	WTI average call price (CAD\$/bbl)	WTI average put price (CAD\$/bbl)
2009	Swaps	1,174,500	90.75	—	—
	Costless collars	509,000	—	114.50	78.76
2010	Swaps	381,000	103.09	—	—
	Costless collars	483,000	—	111.21	77.94

For 2009, excluding the impact of fuel hedging, we estimate the sensitivity to changes in crude oil and fuel pricing to be approximately \$7 million annually to our fuel costs for every one US-dollar change per barrel of crude oil and \$9 million for every one-cent change per litre of fuel.

### Airport operations

Airport operations expense consists primarily of airport landing and terminal fees, and ground handling costs for our scheduled service and charter operations. These expenditures typically fluctuate depending on the destinations serviced, aircraft weights, inclement weather conditions and number of guests. Transborder and international flights are more expensive than domestic flights due to increased charges from domestic airports for higher terminal and pre-clearance fees from transborder and international flights. Also included in airport operations are costs relating to flight cancellations and accommodations for displaced guests for situations beyond our control, such as inclement weather conditions. Because the majority of expenses are levied on a per-flight basis, the cost per departure is also a relevant performance driver for airport operations.

For 2008, our cost per ASM for airport operations decreased by 2.9 per cent to 2.00 cents from 2.06 cents in 2007, primarily attributable to dilution of costs over a greater number of available seat miles and a longer average stage length. Our year-over-year cost per departure increased by 4.0 per cent in 2008 as compared to 2007, due

mainly to higher average rates and fees for domestic and transborder airports; a higher percentage of transborder and international departures; higher meal, hotel and transportation costs for displaced guests; and the higher costs of de-icing from an increase in glycol prices and poor weather conditions in the fourth quarter of 2008. Because of the severe winter weather during the year, particularly during the month of December and the 2008 holiday travel season, we incurred an additional \$5.3 million on hotel rooms, meal vouchers, ground transportation, chartered aircraft and de-icing costs than over the same period in 2007. Despite higher fees and costs per departure, our airport operations expense per ASM grew at a lesser rate, primarily as a result of the increase in our average stage length.

### Flight operations and navigational charges

During 2008, our flight operations and navigational charge per ASM decreased by 7.3 per cent to 1.64 cents, compared to 1.77 cents in 2007. This decrease was attributable mainly to lower NAV CANADA fees and pilot stock-based compensation, as well as the dilutive impact of our capacity growth of 17.8 per cent year over year.

Flight operations expenses consist primarily of pilot compensation, including salaries, training and stock-based compensation, as well as salaries and benefits for operations control centre staff. For 2008, stock-based compensation expense relating to pilots' stock options was \$9.4 million compared to \$16.4 million in 2007, a decrease

Longer flights mean more flying time to ease the cost of take off and landings; it also means more time for me to show our guests that owners really do care.

Tobi Wendell, Flight Attendant  
WestJet since 2000



of 42.7 per cent, due to the vesting of options granted under the 2006 pilot agreement, partially offset by an increase to salary costs from annual merit increases.

Domestic air navigational charges relating to air traffic control are administered by NAV CANADA on a per-flight basis. These fees are predominantly driven by the size of aircraft and distance flown. Navigational charges have decreased on an ASM basis by 8.4 per cent to 0.76 cents in 2008 versus 0.83 cents in 2007. This decrease was primarily due to the dilutive impact of our capacity growth and a reduction in NAV rates, effective in August 2007. Additionally, the increase in our transborder and international departures during 2008 over 2007 has contributed to the decrease in our NAV fees. Transborder and international routes comprised approximately 14 per cent of our total departures during 2008 versus approximately 12 per cent of total departures in 2007, an increase of approximately 2 points. As we fly to more destinations outside of Canadian airspace, our NAV CANADA charges decrease.

## Depreciation and amortization

Our depreciation and amortization expense per ASM decreased to 0.80 cents in 2008 from 0.87 cents in 2007, a decrease of 8.0 per cent, primarily attributable to the dilutive impact of our capacity growth. On a total dollar basis, depreciation and amortization increased by 7.3 per cent in 2008 due to the greater number of aircraft and cycles compared to 2007, which is the basis for the amortization of our aircraft.

## 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 WestJet, which inherently creates a personal vested interest in our financial results and accomplishments.

(\$ in thousands)	Three months ended December 31			Twelve months ended December 31		
	2008	2007	Change	2008	2007	Change
Salaries and benefits	\$ 91,353	\$ 82,198	11.1%	\$ 359,231	\$ 307,129	17.0%
Employee share purchase plan	11,366	10,251	10.9%	42,937	35,449	21.1%
Employee profit share	6,648	8,741	(23.9%)	33,435	46,705	(28.4%)
Stock options	2,459	4,205	(41.5%)	12,597	19,273	(34.6%)
2008 Executive share unit plan	172	—	n/a	888	—	n/a
	\$ 111,998	\$ 105,395	6.3%	\$ 449,088	\$ 408,556	9.9%

## Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2008, salaries and benefits increased by 17.0 per cent to \$359.2 million from \$307.1 million in 2007. This increase was due to the employment of a greater number of WestJetters versus a year ago to support our capacity growth, as well as annual merit increases. Salaries

and benefits expense for each department is included in the respective department's operating expense line item.

## Employee share purchase plan

Our Employee Share Purchase Plan (ESPP) allows employees to become owners of WestJet shares. WestJetters may contribute up to 20 per cent of their base salaries in the ESPP. As at December 31, 2008, WestJetters contributed



Being on time and having your baggage arrive with you, whether you're travelling for business or on holiday, matters to our guests. That means it matters to me.

Chad Eberle, TAC (Turn Around Crew) Crew Chief  
Airports Ground Handling  
WestJet since 2005

an average of 14 per cent. We match contributions for every dollar contributed by employees. Of our eligible employees, 82 per cent participated in the ESPP as at December 31, 2008. Our matching expense for 2008 was \$42.9 million, a 21.1 per cent increase from \$35.4 million for 2007. The additional expense was driven by an increase in the number of WestJetters since the end of 2007.

### Employee profit share

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost, employees receive larger awards when we are highly profitable. Conversely, the amount distributed to employees is reduced and adjusted in less profitable periods. This philosophy was evidenced during 2008, as employee profit share as a percentage of total salaries and benefits was 9.3 per cent as compared to 15.2 per cent in 2007. In the current environment where companies are laying off employees and instituting wage freezes, we were pleased that our WestJetters earned a bonus of almost 10 per cent. Our profit share expense for the year ended December 31, 2008 was \$33.4 million, a 28.4 per cent decrease from \$46.7 million for 2007. This decrease was directly attributable to the lower earnings eligible for profit share, primarily due to higher fuel costs in 2008.

### Stock options

Pilots, executives and certain non-executive employees participate in stock option plans. The fair value of these options, as determined by the Black-Scholes option pricing model, is expensed over the vesting period. Stock-based compensation expense related to stock options for 2008 was \$12.6 million compared to \$19.3 million in 2007, a decrease of 34.6 per cent. The primary reason for the decrease in stock option expense relates to the vesting of options granted under the 2006 pilot agreement in which a significant number of stock options were granted, which is partially offset by an increase to salary costs from annual

merit increases. Stock-based compensation expense related to pilots' options is included in flight operations and navigational charges, while the expense related to executives' and certain non-executive employees' options is included in marketing, general and administration expense.

### 2008 Executive share unit plan

Senior executive officers participate in the 2008 Executive Share Unit Plan, whereby they receive Restricted Share Units (RSU) and Performance Share Units (PSU). Each RSU and PSU entitles the executive to receive payment upon vesting in the form of common shares. We determine compensation expense for the 2008 RSUs based on the fair market value of our common shares on the date of grant. Compensation expense for RSUs is recognized in earnings on a straight-line basis over the three-year vesting period. The value of the PSUs is based on the fair market value of our common shares on the date of grant. PSUs time vest at the end of a three-year term and incorporate performance criteria based on achieving the compounded average diluted earnings per share growth rate targets established at the time of grant. For 2008, a total of \$0.9 million of compensation expense is included in marketing, general and administration expense related to the 2008 Executive Share Unit Plan.

### Foreign exchange

We are exposed to foreign currency exchange risks arising from fluctuations in exchange rates on our US-dollar denominated net monetary assets and our operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. The foreign exchange gains and losses included on our consolidated statement of earnings were mainly attributable to the effect of the changes in the value of our US-dollar denominated net monetary assets. These assets, totalling approximately US \$99.5 million at December 31, 2008 (2007 – US \$88.7 million), consist

mainly of US-dollar cash and cash equivalents and security deposits on various leased and financed aircraft, as well as US-dollar accounts payable and accrued liabilities. We hold US-denominated cash and short-term investments to reduce the foreign currency risk inherent in our US-dollar expenditures. We reported a foreign exchange gain of \$30.6 million for 2008 on the revaluation of our US-dollar net monetary assets with the period-end exchange rate of 1.2180. This compares to a loss of \$12.8 million during 2007.

We periodically use financial derivatives to manage our exposure to foreign currency exchange risk. As at December 31, 2008, we had a mixture of US-dollar forward contracts and option arrangements to offset our US-dollar denominated aircraft lease payments for the first nine months of 2009 on our current leased aircraft. As at December 31, 2008, we had entered into financial derivative instruments to purchase on average US \$6.8 million per month for nine months for a total of US \$61.3 million. Of this total, approximately 58 per cent is hedged using forward contracts at a weighted average strike price of 1.0519 per US dollar, and approximately 42 per cent is hedged using option arrangements at a weighted average range of 1.1333 to 1.2254 per US dollar.

Upon proper qualification, we designated our forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in AOCL, while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the derivative instrument, the effective gains and losses previously recognized in AOCL are recorded in net earnings as a component of aircraft leasing expense. Maturity dates for all of the foreign exchange forward contracts are within 2009. As at December 31, 2008, no portion of the forward contracts is considered ineffective.

For the year ended December 31, 2008, we realized a gain on the forward contracts of \$4.6 million, included as a deduction to aircraft leasing expense. As at December 31, 2008, the estimated fair market value of the remaining forward contracts recorded in prepaid expenses, deposits and other is a gain of \$5.9 million (\$4.1 million net of tax). The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a reduction to aircraft leasing expense during the next 12 months is a gain after tax of \$4.1 million.

Our foreign exchange option arrangements are not designated as hedges for accounting purposes and are recorded at fair value on the consolidated balance sheet with changes in fair value recorded in non-operating income

(expense). As at and for the year ended December 31, 2008, the estimated fair market value of the option arrangements recorded in prepaid expenses, deposits and other and the unrealized amount on derivatives recorded under non-operating income (expense) is a gain of \$0.9 million. Maturity dates for all of the foreign exchange option arrangements are within 2009.

The fair value of the foreign exchange option arrangements was determined through a standard option valuation technique used by the counterparty based on inputs, including foreign exchange rates, interest rates and volatilities. Contracts outstanding as at December 31, 2008 were at a weighted average contracted range of 1.1333 to 1.2254 US dollars to Canadian dollars. The fair value of the foreign exchange forward contracts designated in an effective hedging relationship was measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace. As at December 31, 2008, the average contracted rate on the outstanding forward contracts was 1.0519 (2007 – 0.9871) US dollars to Canadian dollars and the average forward rate used in determining the fair value was 1.2178 (2007 – 0.9907) US dollars to Canadian dollars. Due to the short-term nature of the outstanding forward contracts, no discount rate has been applied.

For 2009, including the impact of foreign exchange hedging, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate \$8 million impact on our annual costs (approximately \$6 million for fuel and \$2 million related to other US-dollar denominated expenses).

### Income taxes

Our operations span several Canadian tax jurisdictions, subjecting 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 2008 was 30.1 per cent, as compared to 18.6 per cent in 2007, and our 2008 income tax expense was \$32.8 million greater than in 2007 due to the changes in future income tax rates. 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 2007 based on revised expectations of when certain temporary differences are anticipated to reverse. These changes resulted in a \$33.7 million favourable



reduction 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 of 2007.

## Guest experience

As an airline, we are focused on meeting the needs of our guests while maintaining the highest safety standards. We are committed to delivering a positive guest experience during every aspect of our service, from the time the flight

is booked to completion of the flight.

## Key operational performance indicators

On-time performance and completion rates are calculated based on the U.S. Department of Transportation's standards of measurement for the North American airline industry. Our bag ratio represents the number of delayed or lost baggage claims made per 1,000 guests.

	Three months ended December 31			Twelve months ended December 31		
	2008	2007	Change	2008	2007	Change
On-time performance	68.9%	77.8%	(8.9 pts)	77.0%	82.6%	(5.6 pts)
Completion rate	98.1%	99.0%	(0.9 pts)	98.7%	99.2%	(0.5 pts)
Bag ratio	4.68	4.32	(8.3%)	4.12	4.26	3.3%

On-time performance is a key factor in measuring our guest experience. Severe weather patterns, particularly during the fourth quarter, negatively impacted our on-time performance during 2008 as compared to 2007. In December, a record number of delayed flights due to harsh winter weather contributed to the decline in our on-time performance. During 2008, 77.0 per cent of all our flights arrived within 15 minutes of their scheduled time, compared to 82.6 per cent for 2007.

Our completion rate was down slightly for 2008 at 98.7 per cent versus 99.2 per cent in 2007, due to inclement weather and resulting flight cancellations, particularly during December. This indicator represents the percentage of flights completed from flights originally scheduled.

We continued to see our bag ratio improve by 3.3 per cent for the full year of 2008 as compared to 2007. We were pleased with this result, given our year-over-year increase in segment guests.

## LIQUIDITY AND CAPITAL RESOURCES

The strength of our balance sheet is critical in withstanding this period of economic downturn and uncertainty. Despite the current unstable state of the financial and credit markets, we continue to execute our strategic plan. Our cautious financial management, substantial cash balance and the continued generation of positive cash flows significantly mitigate the need to obtain external financing in the foreseeable future. Additionally, our positive liquidity and leverage ratios reflect our financial health and stability. As a result, we continue to persevere and grow despite unprecedented volatility in fuel prices, unpredictable market conditions, tightening credit markets and an overall weakening economic outlook.

We realized significant growth in our cash position in 2008, completing the year with a healthy cash balance of \$820.2 million compared to \$653.6 million at December 31, 2007. Part of this cash balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2008 was \$251.4 million, as compared to \$194.9 million at December 31, 2007. Typically, we have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions. As at December 31, 2008, we had cash on hand of 3.26 times (2007 – 3.35 times) the advance ticket sales balance. Additionally, the increase in our working capital ratio of 1.25 from 1.22 as at December 31, 2007, further demonstrates our financial stability and strong financial position. As at and for the three and twelve months ended December 31, 2008, we did not have any investments in asset-backed commercial paper.

We monitor capital on a number of measures, including adjusted debt-to-equity and adjusted net debt to Earnings Before Interest, Taxes, Depreciation, Aircraft Rent and other items (EBITDAR). Our adjusted debt-to-equity ratio was 1.78 at December 31, 2008, which included \$645.4 million in off-balance-sheet aircraft operating leases. This compared favourably to our adjusted debt-to-equity ratio of 2.07 at December 31, 2007, attributable to the increase in net earnings more than offsetting the addition of new aircraft financing during the year. As at December 31, 2008, our adjusted net debt to EBITDAR ratio was 2.29, an improvement of 8.8 per cent compared to 2.51 as at December 31, 2007, resulting primarily from increased cash and cash equivalents more than offsetting the slight decrease in EBITDAR. Both of these ratios met our internal targets for December 31, 2008 and 2007 of an adjusted debt-to-equity measure and an adjusted net debt to EBITDAR ratio of no more than 3.00.

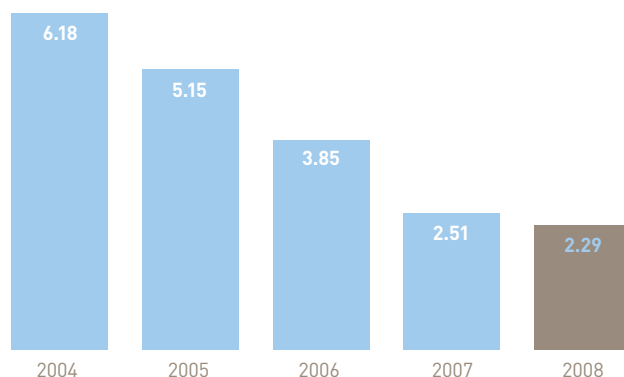
Being an owner keeps me motivated to be the best WestJetter I can be, from my first role as a TAC agent handling baggage to crunching numbers today.

Chris Hedlin, Junior Accountant II, Finance  
WestJetter since 2004



Please refer to page 50 of this MD&A for a reconciliation of the non-GAAP measures listed above, including our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios, to the nearest measure under Canadian GAAP.

#### Adjusted net debt to EBITDAR



The trailing twelve months are used in the calculation of EBITDAR.  
See Reconciliation of Non-GAAP Measures to GAAP at the end of this MD&A for further information.

#### Operating cash flow

Our ability to generate positive cash flows from operations has allowed us to meet our working capital requirements throughout the year. During 2008, cash from operations decreased to \$460.6 million compared to \$541.1 million for the same period in 2007, representing a decline of 14.9 per cent. This year-over-year decrease related primarily to the higher cost of fuel in 2008 as compared to 2007, as well as a decrease in non-cash working capital due to an increase in prepaid expenses and short-term deposits, mainly resulting from deposits for aircraft fuel and other operating costs.

#### Financing cash flow

For 2008, our total cash flow used in financing activities was \$115.4 million, consisting primarily of \$179.4 million in long-term debt repayments, \$29.4 million to repurchase

shares and \$4.1 million in deposits relating mainly to future leased aircraft. These outflows were partially offset by the issuance of \$101.8 million in long-term debt to finance three new purchased aircraft delivered during the year. During 2007, our financing cash outflow was \$59.3 million, consisting mainly of \$156.5 million in long-term debt repayments, \$21.3 million in consideration to purchase shares under our previous normal course issuer bid, and \$20.9 million in deposits relating mainly to future leased aircraft, offset partially by \$141.2 million in long-term debt issued to finance four purchased aircraft.

In addition to having strong cash liquidity, we have grown through aircraft acquisitions financed by low-interest-rate debt supported by the Export-Import Bank of the United States (Ex-Im Bank). On July 17, 2008, we took delivery of one owned 737-700 aircraft supported by \$33.8 million in debt guaranteed by Ex-Im Bank. This was the final aircraft delivery under the existing facility, which was subsequently closed. We have yet to pursue financing agreements for our remaining aircraft commitments, as our next purchased aircraft delivery is not expected until September 2010.

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 52, with an outstanding debt balance of \$1.3 billion associated with those aircraft. All of this debt has been financed in Canadian dollars at fixed interest rates, thus eliminating all future foreign exchange and interest rate exposures 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.



It's definitely rewarding offering unique vacations experiences to our guests. It's also pretty amazing to feel like I am contributing to our bottom line.

Kristi Sheldon, Sales Agent, WestJet Vacations  
WestJetter since 2005

## Investing cash flow

Cash used in investing activities for 2008 totalled \$199.7 million compared to \$200.3 million in 2007. During 2008, our investing activities consisted of \$114.5 million in aircraft additions, largely related to expenditures for three new purchased aircraft, as well as \$68.9 million in spending towards our new office space adjacent to the Calgary hangar, known as the Campus. In 2007, we added four new aircraft and paid Boeing deposits towards 23 future owned

aircraft deliveries, partially offset by \$13.8 million received on the sale of two engines.

## Contractual obligations 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:

(\$ in thousands)	Total	2009	2010	2011	2012	2013	Thereafter
Long-term debt repayments	\$ 1,351,903	\$ 165,721	\$ 165,034	\$ 177,557	\$ 163,279	\$ 162,740	\$ 517,572
Capital lease obligations <sup>(1)</sup>	1,179	444	698	37	—	—	—
Operating leases and commitments <sup>(2)</sup>	1,736,950	165,777	201,458	220,324	226,104	212,758	710,529
Purchase obligations <sup>(3)</sup>	1,266,452	62,019	131,144	151,542	561,555	360,192	—
Total contractual obligations	\$ 4,356,484	\$ 393,961	\$ 498,334	\$ 549,460	\$ 950,938	\$ 735,690	\$ 1,228,101

(1) Includes weighted average imputed interest at 5.29 per cent totalling \$71.

(2) Included in operating leases are US-dollar operating leases primarily related to aircraft. The obligations of these operating leases in US dollars are: 2009 – \$121,909; 2010 – \$156,114; 2011 – \$175,610; 2012 – \$181,594; 2013 – \$171,008; 2014 and thereafter \$547,870.

(3) Relates to purchases of aircraft, live satellite television systems and winglets. These purchase obligations in US dollars are: 2009 – \$50,919; 2010 – \$107,672; 2011 – \$124,419; 2012 – \$461,047; 2013 – \$295,724.

On December 19, 2008, we signed an agreement with Sabre Airline Solutions Inc.<sup>®</sup> (Sabre) to provide us with a license to access and use its reservation system SabreSonic<sup>®</sup>. The term of the agreement will continue for a period of five years. The minimum contract amounts associated with the reservation system have been included in the above totals.

We currently have 24 aircraft under operating leases. We have entered into agreements with independent third parties to lease 15 additional 737-700 aircraft and five 737-800 aircraft over eight- and 10-year terms in US dollars, to be delivered throughout 2009 to 2012. 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 through our adjusted debt-to-equity and net debt to EBITDAR ratios.

## Capital resources

During 2008, we took delivery of two leased 737-700s, three owned 737-700s and one leased 737-800, increasing our total registered fleet to 76 aircraft with an average age of 4.0 years. Additionally, we signed an agreement with Boeing in the second quarter of 2008 to purchase four new aircraft, bringing our total committed fleet to 120 by 2013. On September 6, 2008, Boeing's largest labour union, the International Association of Machinists and Aerospace Workers (IAM), went on strike. The IAM ratified a new four-year labour contract with Boeing on November 2, 2008. Based on previous disclosure, we expected one aircraft to be delivered in the fourth quarter of 2008 and 10 aircraft to be delivered throughout 2009. Because of the Boeing strike, delivery dates for several of our future aircraft were

delayed, and, based on our new fleet schedule, we expect delivery of nine leased aircraft in 2009.

On February 29, 2008, we signed a Letter of Intent to lease an additional 737-800 aircraft scheduled for delivery in 2011. This has not been reflected as a commitment in the

following table as the lease agreement has not yet been signed; however, if included, our future deliveries would be 121 aircraft by 2013.

As at December 31, 2008, we had existing commitments to take delivery of an additional 44 aircraft as summarized below:

	Series											
	600s			700s			800s			Total fleet		
	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total
Fleet at December 31, 2007	—	13	13	16	35	51	5	1	6	21	49	70
Fleet at December 31, 2008	—	13	13	18	38	56	6	1	7	24	52	76
Commitments:												
2009	—	—	—	6	—	6	3	—	3	9	—	9
2010	—	—	—	5	2*	7	2	—	2	7	2	9
2011	—	—	—	3	2*	5	—	—	—	3	2	5
2012	—	—	—	1	12*	13	—	—	—	1	12	13
2013	—	—	—	—	8*	8	—	—	—	—	8	8
Total commitments	—	—	—	15	24	39	5	—	5	20	24	44
Committed fleet as of 2013	—	13	13	33	62	95	11	1	12	44	76	120

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

As at December 31, 2008, our total purchased aircraft commitment, including amounts to be paid for live satellite television systems on purchased and leased aircraft, was \$1,266.5 million (US \$1,039.8 million). Additionally, our commitment relating to aircraft operating leases was \$1,543.4 million (US \$1,267.2 million) as at December 31, 2008, to be funded through our operating cash flow. Amounts relating to the previously mentioned unsigned lease have not been included in these commitments.

During the year ended December 31, 2008, we signed a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available for up to a maximum of \$85 million commencing May 1, 2009, is subject to various customary conditions precedent being satisfied, and will be secured by our new Campus facility. The line of credit will bear interest at prime plus 0.50 per cent per annum or a bankers acceptance rate at 2.0 per cent annual stamping fee, and will be available for general corporate expenses and working capital purposes. We are required to pay a standby fee of 15 basis points, based on the average unused portion of the line of credit for the previous quarter, payable quarterly and commencing on August 1, 2009. As at December 31, 2008, no amounts were drawn on this facility.

### Contingencies

We are party to certain legal proceedings 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.

### Normal course issuer bid

On March 12, 2008, we 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, we are authorized to purchase up to 2,500,000 shares (representing approximately 1.9 per cent of our issued and outstanding shares at the time of the bid) during the period of March 17, 2008 to March 16, 2009, or until such earlier time as the bid is completed or terminated at our option. Any shares we purchase 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 this bid will be cancelled.

During the year ended December 31, 2008, we purchased 2,005,084 shares under the bid for total consideration of \$29.4 million. The average book value of the shares repurchased of \$7.1 million was charged to share capital with the \$22.3 million excess of the market price over the average book value charged to retained earnings.

During the year ended December 31, 2007, we purchased 1,263,500 shares under our previous normal course issuer bid, which expired on February 27, 2008, 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

Our issued and outstanding common shares, along with common shares potentially issuable, are as follows:

	Number of shares	
	February 6, 2009	December 31, 2008
Issued and outstanding:		
Common voting shares	124,195,967	124,291,677
Variable voting shares	3,729,628	3,621,903
<b>Total common shares issued and outstanding</b>	<b>127,925,595</b>	<b>127,913,580</b>
Common shares potentially issuable:		
Stock options	11,840,290	11,918,168
2008 RSUs	55,181	55,181
2008 PSUs	73,574	73,574
<b>Total common shares potentially issuable</b>	<b>11,969,045</b>	<b>12,046,923</b>
<b>Total outstanding and potentially issuable common shares</b>	<b>139,894,640</b>	<b>139,960,503</b>

## Related party transactions

We have debt financing and investments in short-term deposits with a financial institution that is related through two common directors, one of whom is also the president of the financial institution. As at December 31, 2008, total long-term debt includes an amount of \$7.3 million (2007 – \$23.3 million) due to the financial institution. Included in cash and cash equivalents as at December 31, 2008 are short-term investments of \$96.5 million (2007 – \$189.4 million) owing from the financial institution. During the year ended December 31, 2008, we signed a three-year revolving operating line of credit agreement with a banking syndicate, of which one of the members is the related-party financial institution. These transactions occurred in the normal course of operations with terms consistent with those offered to arm's length parties and are measured at the exchange amount.

## RISKS AND UNCERTAINTIES

The airline industry has inherent risk associated with it, to which we are subject, 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 airline 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 on 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 Convention, an air carrier's liability was limited to approximately US \$25,000 (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 carrier is strictly liable for death or injury to guests up to approximately US \$150,000, but may be subject to additional damages unless the air carrier can show that it did not act negligently or that the damage was solely due to the negligence of a third party. Under the second tier, a carrier can defend against any claim above that amount. The Warsaw Convention may still apply to some destinations. The Montreal Convention will, however, apply to return flights to these destinations.

We carry 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 are, 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 jet 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 jet fuel to operate, and therefore, we are exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity and global demand and supply. Our fuel costs constitute our largest single expense category, representing approximately 36 per cent of operating costs in 2008 and approximately 28 per cent in 2007. A significant change in the price of jet fuel will materially affect our operating results. During the year ended December 31, 2008, we began a more extensive fuel hedging program under a revised policy as approved by our Board of Directors. Our current objective is to hedge a portion of our anticipated jet fuel purchases in order to provide management with reasonable foresight and predictability into operations and future cash flows.

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.

**Current worldwide economic conditions may adversely affect our business, operating results and financial condition. A weakening economy could decrease our bookings. A reduction in discretionary spending could decrease amounts our guests are willing to pay.**

General worldwide economic conditions have experienced a downturn due to the effects of the subprime lending crisis in the United States, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Our business is not immune. The weakening economy could reduce our bookings, and a reduction in discretionary spending could also decrease amounts our guests are willing to pay. These factors could adversely affect our revenues and results of operations.

**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 one Canadian airline and its subsidiaries in our domestic market, and the same Canadian airline and numerous U.S. carriers in the transborder and international markets. 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 of Internet distribution channels have pushed air carriers to more aggressively price their products. This, in turn, reduces yield and may have an impact on our revenue and profitability, as more and more consumers utilize 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 further reduce costs 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.

On December 19, 2008, we signed an agreement with Sabre to provide us with a license to access and use its SabreSonic® reservation system. Because Sabre will be hosting the reservation system on our behalf, we will be dependent on Sabre for processing of information critical to our business. Mitigating this risk is the fact that Sabre

is a well-established airline solutions company, and the SabreSonic® reservation system is utilized by a number of major airlines.

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 card brands 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 or 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, the Competition Bureau, the Canadian Transportation Agency, and other domestic or foreign government entities may implement new laws or regulatory schemes, or render decisions, 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 operations. Any material changes that add additional requirements to collecting, processing and filing data 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 we carry. Reduction in guest numbers will impact negatively on our revenues and results of operations.

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

Our reliance on Boeing and General Electric makes us susceptible to any problems connected with Boeing aircraft or General Electric engines or components, including defective materials, mechanical problems or negative perceptions 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 operations and utilization efficiencies through our charter operations, particularly through our charter relationship with Air Transat. Any disruption in the relationship with Air Transat or Air Transat's failure or inability to fulfill its contractual obligations with us, pursuant to the Transat Charter Agreement, could have an adverse effect on our business, results from operations and financial condition in the event that we are unable to successfully redeploy these aircraft.

**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 arising from fluctuations in exchange rates on our US-dollar denominated net monetary assets and our operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. Since our revenues are received primarily in Canadian dollars, we are exposed to fluctuations in the US-dollar exchange rate with respect to these payment obligations.

We are exposed to fluctuations in the US-dollar exchange rate relating to the purchases of the remaining 24 737 aircraft. The purchase of our aircraft is 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. In July 2008, we took delivery of the final aircraft under our previous facility with Ex-Im Bank, which was subsequently closed. We have yet to pursue financing agreements for our remaining 24 aircraft, as our next purchased aircraft delivery is not expected until September 2010. There is no guarantee we will be able to secure similar financing arrangements for the remaining 24 aircraft to be delivered in 2010 to 2013; however, we do not anticipate problems in obtaining financing.

We are also exposed to general market fluctuations of interest rates, as we have future aircraft purchase commitments that 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 over 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 on 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 our airline and, therefore, on our financial results and our business.

**Governmental fee increases discourage air travel.**

Increases in air navigation fees in Canada could have a negative impact on our business and our financial results.

Airport authorities continue to implement or increase various user fees that 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 air travellers, may negatively impact travel, in particular, discretionary travel.

**Our maintenance costs will increase as our fleet ages.**

The average age of our fleet as at December 31, 2008, was 4.0 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, 2008, 36 owned aircraft have come off warranty, with an additional 15 coming off warranty in 2009.

**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 values, 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 our interests and those of 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 become 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.

Please refer to Accounting – Financial Instruments and Risk Management below for a further discussion on risks.

## ACCOUNTING

### Financial instruments and risk management

At December 31, 2008, our financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives both designated and not designated in an effective hedging relationship, US-dollar deposits, accounts payable and accrued liabilities, and long-term debt.

We are exposed to market, credit and liquidity risks associated with our financial assets and liabilities. We will, from time to time, use various financial derivatives to reduce market risk exposures from changes in foreign exchange rates, interest rates and jet fuel prices. We do not hold or use any derivative instruments for trading or speculative purposes.

Overall, our Board of Directors has responsibility for the establishment and approval of our risk management policies. Management continually performs risk assessments to ensure that all significant risks related to us and our operations have been reviewed and assessed to reflect changes in market conditions and our operating activities.

#### Fuel risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, we are exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. To provide management with reasonable foresight and predictability into operations and future cash flows, we periodically use short-term and long-term financial derivatives. Upon proper qualification, we account for these fuel derivatives as cash flow hedges. For a discussion of the nature and extent of our use of fuel

derivatives for the year ended December 31, 2008, including the business purposes they serve; risk management activities; the financial statement classification and amounts of income, expense, gains and losses associated with the instruments; and the significant assumptions made in determining their fair value, please refer to Results of Operations – Aircraft Fuel on page 28 of this MD&A. As at, and for the year ended December 31, 2007, we had no outstanding fuel derivatives.

#### Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of recognized assets and liabilities or future cash flows would fluctuate as a result of changes in foreign exchange rates. We are exposed to foreign currency exchange risks arising from fluctuations in the foreign exchange rate on our US-dollar denominated net monetary assets and operating expenditures. To manage our exposure, we periodically use financial derivative instruments, including US-dollar forward contracts and option arrangements. Upon proper qualification, we designate our forward contracts as effective cash flow hedges for accounting purposes. For a discussion of the nature and extent of our use of US-dollar forward contracts and option arrangements, including the business purposes they serve; risk management activities; the financial statement classification and amounts of income, expense, gains and losses associated with the instruments; and the significant assumptions made in determining their fair value, please refer to Results of Operations – Foreign Exchange on page 32 of this MD&A.

#### Interest rate risk

Interest rate risk is the risk that the value of financial assets and liabilities or future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on our cash and cash equivalents balance, which, as at December 31, 2008 totalled \$820.2 million (2007 – \$653.6 million). We are also exposed to interest rate fluctuations on our US-dollar deposits that relate to purchased aircraft, which, as at December 31, 2008 totalled \$24.3 million (2007 – \$22.7 million). The fixed-rate nature of the majority of our long-term debt reduces the risk of interest rate fluctuations over the term of the outstanding debt. Additionally, we are exposed to interest rate fluctuations on our variable-rate long-term debt, which as at December 31, 2008 totalled \$11.2 million (2007 – \$29.6 million) or 0.8 per cent (2007 – 2.1 per cent) of our total long-term debt.

## Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2008, our credit exposure consists primarily of the carrying amounts of cash and cash equivalents, accounts receivable and US-dollar deposits, as well as the fair value of derivative financial assets. Cash and cash equivalents consist of bank balances and short-term investments with terms of up to 91 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions. Furthermore, we manage our exposure risk by assessing the financial strength of our counterparties and by limiting the total exposure to any one individual counterparty. As at December 31, 2008, we had a total principal amount invested of \$692.2 million in Canadian-dollar short-term investments with terms ranging between three and 91 days, and a total of US \$23.8 million invested in US-dollar short-term investments with terms ranging between 60 and 91 days. During the year ended December 31, 2008, we did not hold any investments in asset-backed commercial paper. We perform an ongoing review to evaluate our counterparty risk. As at December 31, 2008, we did not expect any counterparties to fail to meet their obligations.

Generally, our accounts receivable are the result of tickets sold to individual guests through the use of travel agents and other airlines. Purchase limits are established for each agent and, in some cases, when deemed necessary, a letter of credit is obtained. As at December 31, 2008, \$7.4 million is receivable from travel agents and other airlines.

These receivables are short-term in nature, generally being settled within four weeks from the date of booking. As at December 31, 2008, \$0.7 million of the balance receivable is covered by letters of credit.

We recognize that we are subject to credit risk arising from derivative transactions that are in an asset position at the balance sheet date. We carefully monitor this risk by keeping close consideration to the size, credit rating and diversification of the counterparty. As at December 31, 2008, the fair value of foreign exchange derivative assets totalled \$6.7 million. As at December 31, 2008, outstanding fuel derivatives are in a liability position.

We are not exposed to counterparty credit risk on our US-dollar deposits that relate to purchased aircraft as the funds are held in a security trust separate from the assets of the financial institution.

## Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We maintain a strong liquidity position and sufficient financial resources to meet our obligations as they fall due. We have secured low-interest-rate fixed debt supported by Ex-Im Bank commitments on our aircraft acquisitions. This represents approximately 98 per cent of our total long-term debt.

The following table details our contractual maturities for our non-derivative and derivative financial liabilities, including those designated in an effective hedging relationship, as at December 31, 2008:

(\$ in thousands)	Carrying amount	Within 1 year	1 – 3 years	4 – 5 years	Over 5 years
Accounts payable and accrued liabilities <sup>(1)</sup>	\$ 211,543	\$ 211,543	\$ —	\$ —	\$ —
Long-term debt	1,351,903	165,721	342,591	326,019	517,572
Fuel derivatives	52,298	37,811	14,487	—	—
Total	\$ 1,615,744	\$ 415,075	\$ 357,078	\$ 326,019	\$ 517,572

(1) Excludes fuel derivative liabilities of \$37,811.

A portion of our cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2008 was \$251.4 million (2007 – \$194.9 million). Typically, we have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions. As at December 31, 2008, we have cash on hand of 3.26 times (2007 – 3.35 times) the advance ticket sales

balance. We aim to maintain a current ratio of at least 1.00. As at December 31, 2008, our current ratio was 1.25 (2007 – 1.22).

## Fair value of financial instruments

Fair value represents a point-in-time estimate. The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities included in

the balance sheet approximate their carrying amounts due to the short-term nature of the instruments. The fair value of the US-dollar deposits, which relate to purchased aircraft, approximates their carrying amounts as they are at a floating market rate of interest. At December 31, 2008, the fair value of long-term debt was approximately \$1,515.5 million (2007 – \$1,474.0 million). The fair value of our fixed-rate long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates obtained from the lender, which represent borrowing rates presently available to us for loans with similar terms and remaining maturities. As at December 31, 2008, rates used in determining the fair value ranged from 2.08 per cent to 2.58 per cent (2007 – 4.52 per cent to 4.61 per cent). The fair value of our variable-rate long-term debt approximates its carrying value as it is at a floating market rate of interest. Please refer to Results of Operations – Aircraft Fuel and Results of Operations – Foreign Exchange on pages 28 and 32, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of derivatives both designated and not designated in an effective hedging relationship.

### Critical accounting estimates

Our significant accounting policies are described in note 1 to our 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.

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

#### Property and equipment

We make estimates about the expected useful lives, depreciation and amortization methods, 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 on 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 when events and circumstances indicate that the assets may be impaired. We make estimates for future costs to return leased aircraft to certain standard conditions as specified within our lease agreements, subject to an appropriate discount rate.

#### Derivative financial instruments

The fair values of derivative financial instruments are calculated on the basis of information available at the balance sheet date. The fair value of the foreign exchange option arrangements is determined through a standard option valuation technique used by the counterparty based on inputs, including foreign exchange rates, interest rates and volatilities. The fair value of the foreign exchange forward contracts designated in an effective hedging relationship is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace. Due to the short-term nature of the outstanding forward contracts, no discount rate has been applied.

The fair value of the fuel derivatives designated in an effective hedging relationship is determined using inputs, including quoted forward prices for commodities, foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. The fair value of the fuel swap contracts is estimated by discounting the difference between the contractual strike price and the current forward price. The fair value of the fuel derivative collars is estimated by the use of a standard option valuation technique.

Ineffectiveness is inherent in hedging jet fuel with derivative instruments in other commodities, such as crude oil, particularly given the significant volatility observed in the market on crude oil and related products. Due to this volatility, we are unable to predict the amount of ineffectiveness for each period. This may result in increased volatility in our results.

#### 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 expire based on the nature of the credit, other than gift certificates which do not contain an expiry date. We record 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.

#### **Future income tax**

We use 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. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liabilities may change.

#### **Stock-based compensation expense**

Grants under our stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity, the fair value of the option or unit is determined on the grant date using a valuation model and recorded as compensation expense over the period that the stock option or unit vests, with a corresponding increase to contributed surplus. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, and the fair value of our other equity-based share unit plans is determined based on the market value of our common shares on the date of the grant. Upon the exercise of stock options or units, consideration received, together with amounts previously recorded in contributed surplus, are recorded as an increase in share capital. 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 share price volatility.

#### **Deferred costs**

We defer sales and distribution costs attributed 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 consolidated balance sheet in prepaid expenses, deposits and other, and expensed to sales and distribution in the period the related revenue is recognized.

### **Changes in accounting policies**

Effective January 1, 2008, we adopted CICA Section 3031, Inventories, which replaces Section 3030, Inventories, and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). 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. There was no impact on our financial results for the three and twelve months ended December 31, 2008 from the adoption of Section 3031.

Effective January 1, 2008, we adopted CICA Section 1535, Capital Disclosures, which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. This enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure purposes only and, on adoption, did not impact our financial results for the three and twelve months ended December 31, 2008. See note 3 to the consolidated financial statements for further disclosure.

Effective January 1, 2008, we adopted CICA Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation, which 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. This new requirement is for disclosure purposes only and, on adoption, did not impact our financial results for the three and twelve months ended December 31, 2008. See note 11 to the consolidated financial statements for further disclosure.

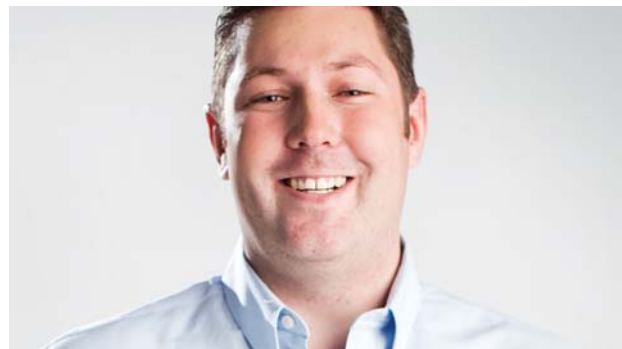
### **Future accounting policy changes**

#### **Goodwill and intangible assets**

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. We do not anticipate that the adoption of this standard, effective January 1, 2009, will significantly impact our financial results.

We stock our aircraft with complimentary and buy-on-board products that our guests enjoy. This is an important part of the guest experience we're so proud of, and can also contribute to our ancillary revenue.

Andrew Tousignant, Air Supply Agent  
WestJetter since 1999



## Business combinations

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after our first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with IFRS. We do not anticipate that the adoption of this standard will impact our financial results.

## IFRS

On February 13, 2008, the CICA Accounting Standards Board (AcSB) confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis.

We commenced our IFRS conversion project during 2008 and established a formal project governance structure, including an IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. The Steering Committee consists of senior levels of management from Finance, Treasury and Investor Relations, among others. An external advisor has been engaged to work with our dedicated project staff to complete the conversion. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit Committee of the Board of Directors.

Our IFRS conversion project consists of three phases: Diagnostic, Solution Development, and Implementation and Execution. We have completed the Diagnostic phase, which involved a high-level preliminary assessment of the

differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to us and include property and equipment, provisions and leases, as well as the more extensive presentation and disclosure requirements under IFRS.

We have finalized our IFRS transition plan including a timetable for assessing the impact on systems, internal controls over financial reporting (ICFR) and business activities. Currently we are engaged in the Solution Development phase of the project and are working in issue-specific teams to focus on generating options and making recommendations in the identified areas. We have begun to roll out our staff training programs, and have begun to perform an in-depth review of accounting policy impacts, as well as the associated impacts of the IFRS transition on business activities. A full review of our information systems is in progress to assess IFRS conversion impacts and we continue to evaluate the available alternatives within our current financial systems. Our target is to complete the Solution Development phase by the third quarter of 2009.

We continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of our adoption of IFRS.

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. As we are still in the Solution Development phase and have not yet selected our accounting policy choices and IFRS 1 exemptions, we are unable to quantify the impact of IFRS on our financial statements. The areas of significance identified above are





A commitment to safety is our number one priority; I'm with our guests every step of the way.

Sarah Moran, Dispatcher  
Flight Operations Flight Technical  
WestJet since 2006

based on available information and our expectations as of the date of this MD&A and thus, are subject to change for new facts and circumstances.

Please see the following table for certain elements of our IFRS transition plan, and an assessment of progress towards achieving these. The project team is working through a detailed IFRS transition plan and certain project activities and milestones could change. We have begun to highlight certain key activities below to provide insights into the IFRS project.

Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating these key milestones below and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes to the transition plan being different from those communicated here.

Key activity	Key milestones	Status
<b>Financial statement preparation</b>		
<ul style="list-style-type: none"> <li>Identify differences in Canadian GAAP/ IFRS accounting policies</li> <li>Select ongoing IFRS policies</li> <li>Select IFRS 1 choices</li> <li>Develop financial statement format</li> <li>Quantify effects of change in initial IFRS disclosure and 2010 comparative financial statements</li> </ul>	<p>Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur during the third quarter of 2009.</p> <p>Development of draft financial statement format to occur during the latter part of 2009.</p>	<p>Completed the IFRS Diagnostic phase during 2008, which involved a high-level review of the major differences between Canadian GAAP and IFRS.</p> <p>In-depth analysis of issues and accounting policy choices is currently underway.</p>
<b>Training</b>		
<p>Define and introduce appropriate level of IFRS expertise for each of the following:</p> <ul style="list-style-type: none"> <li>Controller's Group and business unit accounting personnel</li> <li>Audit Committee</li> </ul>	<p>Controller's Group and business unit accounting personnel training to occur during the third and fourth quarters of 2009 as needed. Additional training will occur throughout the project as needed.</p> <p>Audit Committee training tentatively scheduled to occur during the second half of 2009.</p>	<p>Project team expert resources have been identified to provide insights and training. Training for project team members is occurring throughout the project.</p>
<b>Information technology (IT) infrastructure</b>		
<p>Confirm that business processes and systems are IFRS compliant, including:</p> <ul style="list-style-type: none"> <li>Program upgrades/changes</li> <li>Gathering data for disclosures</li> </ul>	<p>Confirm that systems can address 2010 parallel processing requirements by the third quarter of 2009.</p> <p>Confirm that business processes and systems are IFRS compliant throughout the project.</p>	<p>Diagnostic analysis regarding current IT systems completed.</p> <p>Currently reviewing options to address business process changes and parallel processing during 2010.</p>
<b>Control environment</b>		
<ul style="list-style-type: none"> <li>For all accounting policy changes identified, assess control design and effectiveness implications</li> <li>Implement appropriate changes</li> </ul>	<p>All key control and design effectiveness implications are being assessed as part of the key IFRS differences and accounting policy choices through to the fourth quarter of 2009.</p>	<p>Analysis of control issues is underway in conjunction with review of accounting issues and policies.</p>

## MANAGEMENT'S ANNUAL REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

### Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (DC&P) was conducted, as of December 31, 2008, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as of December 31, 2008, our DC&P, as defined by the CSA in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

### Internal control over financial reporting

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management is responsible for establishing and maintaining adequate ICFR.

Our ICFR includes policies and procedures that pertain to the maintenance of records that provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with Canadian GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors; pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our annual and interim consolidated financial statements.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management, under the supervision of the CEO and the CFO, has evaluated the effectiveness of our ICFR using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has concluded that the design and operating effectiveness of our ICFR was effective as of December 31, 2008.

### Changes in internal control over financial reporting

During the year ended December 31, 2008, we began a more extensive fuel hedging program under a revised policy, as approved by our Board of Directors. Our current objective is to hedge a portion of our anticipated jet fuel purchases in order to provide management with reasonable foresight and predictability into operations and future cash flows. We account for our fuel derivatives as cash flow hedges. Further detail of the financial reporting impact is provided in note 11 of the notes to the consolidated financial statements.

The policy amendment and accounting of the hedges has resulted in a change that materially affects our ICFR.

Management has designed and implemented controls to ensure that all fuel derivative transactions, where management has applied hedge accounting, have received the relevant designation requirements; a reasonable methodology has been established to determine the effectiveness of the hedge relationship; all relevant gains or losses, changes in fair value for effective, ineffective and any other hedge relationship designated by management have been accurately measured, reviewed and recorded; and all relevant presentation and disclosure requirements have been included in the financial statements in accordance with Canadian GAAP.

Other than as previously described, there have not been any other changes in our ICFR, during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our ICFR.

## OUTLOOK

During 2008, we experienced numerous challenges from elevated and volatile fuel prices, unstable market conditions, a weakening economy and softening demand for air travel in the latter part of the year. Despite these pressures, we reported one of the top EBT margins within the North American airline industry. Our 2008 financial achievements were a direct result of the hard work and commitment of our exceptional WestJetters.

Our first quarter capacity is expected to increase between six per cent and seven per cent from the first quarter of 2008, and full-year capacity is expected to be five per cent higher than in 2008. The capacity increase comes from the delivery of nine leased aircraft throughout 2009.

As we move forward into 2009, it is already shaping up to be another challenging year for the airline industry. The price of jet fuel has declined from the record levels of 2008 and at current levels is providing substantial relief on costs. However, the North American economy is in recession, the capital and financial markets are still in turmoil and, by all accounts, consumer confidence remains at or near an all-time low, putting increased pressure on demand.

As Easter falls in the second quarter of 2009 versus the first quarter of 2008, it is difficult to compare against our record first quarter of 2008, which saw us increase RASM by 8.0 per cent year over year. Although the demand and price environment held up reasonably well in the fourth quarter of 2008, weakening demand in the first quarter of 2009 is leading to pressure on yields, as we seek to maintain targeted loads. With the short-term view of our booking curve and today's uncertain economic environment, it is difficult to obtain an accurate assessment of near-term impact on RASM and yields, but we anticipate them to decline year over year for the first quarter of 2009.

Based on current fuel prices and US-dollar foreign exchange rates, we expect our first quarter 2009 fuel costs, excluding the impact of hedging, to be approximately \$0.65 to \$0.67 per litre, representing an approximate 21 per cent decline from the first quarter 2008 due to lower jet fuel prices,

offset partially by a weaker Canadian dollar and slightly higher fuel transportation costs. For the first quarter of 2009, we have hedged approximately 30 per cent of our anticipated fuel requirements using Canadian-dollar WTI fixed swap agreements and costless collar structures. The swap agreements represent approximately 75 per cent of the total volume hedged for the first quarter and are at an average strike price of CAD \$93 per barrel. The costless collar structures represent the remaining 25 per cent and are at a weighted average call price of CAD \$115 per barrel and a weighted average put price of CAD \$77 per barrel. Based on current assumptions and market rates, we expect our fuel hedging program to add approximately \$0.04 to \$0.06 per litre to the aircraft fuel expense line in the first quarter of 2009.

We remain confident we will be able to effectively manage through the economic challenges as they are presented in 2009. We are well-positioned to adapt our capacity during this period, with our seasonal deployment strategy, the number of new destinations that we can fly to, and our relatively low market share into a number of markets. Moreover, during these challenging times, our WestJet brand has remained strong as we continue focusing on gaining market share by capitalizing on our lower-cost structure, maintaining a strong balance sheet, and delivering high-value service to our guests. With our airline's healthy underlying fundamentals, enviable corporate culture and people providing an award-winning guest experience, we believe that 2009 will be another successful and profitable year for WestJet.

## NON-GAAP MEASURES

To supplement our consolidated financial statements presented in accordance with Canadian GAAP, we use various non-GAAP performance measures as discussed below. These measures are provided to enhance the reader's overall understanding of our current financial performance and are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a more consistent basis for comparison between quarters. These measures are not in accordance with, or an alternative to, Canadian GAAP and do not have standardized meanings. Therefore, they are not likely to be comparable to similar measures presented by other entities.

We just don't believe guests should have to pay extra to speak to a real person; our low-cost advantage lets us do lots of things outside the norm.

Vincent Lamb, Sales Super Agent  
WestJetter since 2002



The following non-GAAP measures are used to monitor our financial performance:

**Adjusted debt:** The sum of long-term debt, obligations under capital lease and off-balance-sheet aircraft operating leases. Our practice, consistent with common industry practice, is to multiply the trailing twelve months of aircraft leasing expense by 7.5 to derive a present value debt equivalent. This measure is used in the calculation of adjusted debt-to-equity and adjusted net debt to Earnings Before Interest, Taxes, Depreciation, Aircraft Rent and other items, as defined below.

**Adjusted equity:** The sum of share capital, contributed surplus and retained earnings, excluding accumulated other comprehensive loss (AOCL). This measure is used in the calculation of adjusted debt-to-equity.

**Adjusted net debt:** Adjusted debt less cash and cash equivalents. This measure is used in the calculation of adjusted net debt to Earnings Before Interest, Taxes, Depreciation, Aircraft Rent and other items, as defined below.

**EBITDAR:** Earnings Before Interest, Taxes, Depreciation, Aircraft Rent and other items, such as asset impairments, gains and losses on derivatives, and foreign exchange gains or losses. EBITDAR is a non-GAAP measure commonly used in the airline industry to evaluate results by excluding differences in the method in which an airline finances its aircraft.

**Net earnings, diluted earnings per share and CASM, adjusted for one-time items:** We have excluded one-time items, such as the reservation system impairment and favourable income tax rate reduction in 2007, in assessing the operating performance of our ongoing operations. These items are excluded from our results, as they could skew the trend analysis of our financial performance and were one-time items unique to 2007 that we do not expect to see in the future.

**CASM, excluding fuel and employee profit share:** We exclude the effects of aircraft fuel expense and employee profit share expense to assess the operating performance of our business. Fuel expense is excluded from our operating results due to the fact that fuel prices are impacted by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity and global demand and supply. Excluding this expense allows us to analyze our operating results on a comparable basis. Employee profit share expense is excluded from our operating results due to its variable nature, and excluding this expense allows greater comparability.

**Economic cost of fuel:** As presented in the non-GAAP measures to GAAP reconciliation on page 29 of this MD&A in Results of Operations – Aircraft Fuel, we believe it is useful to reflect aircraft fuel expense on an economic basis, which includes realized losses on fuel derivatives not designated under cash flow hedge accounting, and excludes ineffectiveness, as defined, for future period derivative instruments. Since fuel expense is highly volatile, we believe presenting the economic cost of fuel is useful to a reader. This table has not been repeated in this section.



Our guest experience is the most caring one you'll find anywhere – I know this because guests tell me it's the reason they fly with us.

Marisa Lawrence, Flight Attendant  
WestJet since 2004

## Reconciliation of non-GAAP measures to GAAP

(\$ in thousands, except ratio amounts)	2008	2007	Change
<b>Adjusted debt-to-equity:</b>			
Long-term debt (i)	\$ 1,351,903	\$ 1,429,518	\$ (77,615)
Obligations under capital lease (ii)	1,108	1,483	(375)
Off-balance-sheet aircraft leases (iii)	645,375	564,008	81,367
Adjusted debt	\$ 1,998,386	\$ 1,995,009	\$ 3,377
Total shareholders' equity	1,086,137	949,908	136,229
Add: AOCL	38,112	11,914	26,198
Adjusted equity	\$ 1,124,249	\$ 961,822	\$ 162,427
Adjusted debt-to-equity	1.78	2.07	(14.0%)
<b>Adjusted net debt to EBITDAR (iv):</b>			
Net earnings	\$ 178,135	\$ 192,833	\$ (14,698)
Add:			
Net interest (v)	50,593	51,448	(855)
Taxes	76,702	43,924	32,778
Depreciation and amortization	136,485	127,223	9,262
Aircraft leasing	86,050	75,201	10,849
Other (vi)	(13,256)	44,631	(57,887)
EBITDAR	\$ 514,709	\$ 535,260	\$ (20,551)
Adjusted debt (as above)	1,998,386	1,995,009	3,377
Less: Cash and cash equivalents	(820,214)	(653,558)	(166,656)
Adjusted net debt	\$ 1,178,172	\$ 1,341,451	\$ (163,279)
Adjusted net debt to EBITDAR	2.29	2.51	(8.8%)

(i) As at December 31, 2008, long-term debt includes the current portion of long-term debt of \$165,721 (2007 – \$172,992) and long-term debt of \$1,186,182 (2007 – \$1,256,526).

(ii) As at December 31, 2008, obligations under capital lease includes the current portion of obligations under capital lease of \$395 (2007 – \$375) and obligations under capital lease of \$713 (2007 – \$1,108).

(iii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing twelve months of aircraft leasing expense by 7.5. As at December 31, 2008, the trailing twelve months of aircraft leasing costs totalled \$86,050 (2007 – \$75,201).

(iv) The trailing twelve months are used in the calculation of EBITDAR.

(v) For the year ended December 31, 2008, net interest includes interest income of \$25,485 (2007 – \$24,301) and interest expense of \$76,078 (2007 – \$75,749).

(vi) For the year ended December 31, 2008, other includes the foreign exchange gain of \$30,587 and loss on derivatives of \$17,331 (2007 – reservation system impairment of \$31,881 and foreign exchange loss of \$12,750).



	Three months ended December 31		Twelve months ended December 31	
(\$ in thousands, except per share and per unit data)	2008	2007	2008	2007
<b>Net earnings</b>				
GAAP	\$ 40,771	\$ 75,359	\$ 178,135	\$ 192,833
Adjusted for:				
Reservation system impairment	—	—	—	31,881
Tax on impairment	—	—	—	(9,667)
Future tax rate reduction	—	(33,700)	—	(33,700)
Non-GAAP	\$ 40,771	\$ 41,659	\$ 178,135	\$ 181,347
<b>Diluted earnings per share</b>				
GAAP	\$ 0.32	\$ 0.57	\$ 1.37	\$ 1.47
Adjusted for:				
Reservation system impairment	—	—	—	0.24
Tax on impairment	—	—	—	(0.07)
Future tax rate reduction	—	(0.25)	—	(0.25)
Non-GAAP	\$ 0.32	\$ 0.32	\$ 1.37	\$ 1.39
<b>CASM</b>				
Operating expenses - GAAP	\$ 558,186	\$ 476,471	\$ 2,256,631	\$ 1,826,255
Adjusted for:				
Reservation system impairment	—	—	—	(31,881)
Operating expenses, excluding above items - Non-GAAP	\$ 558,186	\$ 476,471	\$ 2,256,631	\$ 1,794,374
ASMs (in thousands)	4,288,055	3,818,613	17,138,883	14,544,737
CASM, excluding above items - Non-GAAP (cents)	13.02	12.48	13.17	12.34
<b>CASM, excluding fuel and employee profit share</b>				
Operating expenses - GAAP	\$ 558,186	\$ 476,471	\$ 2,256,631	\$ 1,826,255
Adjusted for:				
Reservation system impairment	—	—	—	(31,881)
Aircraft fuel expense	(177,422)	(142,359)	(803,293)	(503,931)
Employee profit share expense	(6,648)	(8,741)	(33,435)	(46,705)
Operating expenses, excluding above items - Non-GAAP	\$ 374,116	\$ 325,371	\$ 1,419,903	\$ 1,243,738
ASMs (in thousands)	4,288,055	3,818,613	17,138,883	14,544,737
CASM, excluding above items - Non-GAAP (cents)	8.72	8.52	8.28	8.55

# 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 this report is consistent, where appropriate, with the information and data contained in the consolidated financial statements. All information in this 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 applications.

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, composed 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.

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Sean Durfy  
President and  
Chief Executive Officer



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Vito Culmone  
Executive Vice-President, Finance and  
Chief Financial Officer



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Calgary, Canada  
February 10, 2009

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## auditors' report to the shareholders

We have audited the consolidated balance sheets of WestJet Airlines Ltd. as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Chartered Accountants  
Calgary, Canada  
February 10, 2009

KPMG LLP

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# consolidated statement of earnings

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

	2008	2007
Revenues:		
Guest revenues	\$ 2,301,301	\$ 1,899,159
Charter and other revenues	248,205	227,997
	2,549,506	2,127,156
Expenses:		
Aircraft fuel	803,293	503,931
Airport operations	342,922	299,004
Flight operations and navigational charges	280,920	258,571
Marketing, general and administration	211,979	177,393
Sales and distribution	170,605	146,194
Depreciation and amortization	136,485	127,223
Inflight	105,849	85,499
Aircraft leasing	86,050	75,201
Maintenance	85,093	74,653
Employee profit share	33,435	46,705
Loss on impairment of property and equipment (note 5)	—	31,881
	2,256,631	1,826,255
Earnings from operations	292,875	300,901
Non-operating income (expense):		
Interest income	25,485	24,301
Interest expense	(76,078)	(75,749)
Gain (loss) on foreign exchange	30,587	(12,750)
Gain (loss) on disposal of property and equipment	(701)	54
Loss on derivatives (note 11)	(17,331)	—
	(38,038)	(64,144)
Earnings before income taxes	254,837	236,757
Income tax expense: (note 7)		
Current	2,549	2,149
Future	74,153	41,775
	76,702	43,924
<b>Net earnings</b>	<b>\$ 178,135</b>	<b>\$ 192,833</b>
Earnings per share: (note 8(c))		
Basic	\$ 1.38	\$ 1.49
Diluted	\$ 1.37	\$ 1.47

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

# consolidated balance sheet

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

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 820,214	\$ 653,558
Accounts receivable	16,837	15,009
Future income tax (note 7)	4,196	—
Prepaid expenses, deposits and other (note 12(a))	67,693	39,019
Inventory	17,054	10,202
	925,994	717,788
Property and equipment (note 5)	2,281,850	2,213,063
Other assets (note 12(a))	71,005	53,371
	\$ 3,278,849	\$ 2,984,222
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 249,354	\$ 168,171
Advance ticket sales	251,354	194,929
Non-refundable guest credits	73,020	54,139
Current portion of long-term debt (note 6)	165,721	172,992
Current portion of obligations under capital lease	395	375
	739,844	590,606
Long-term debt (note 6)	1,186,182	1,256,526
Obligations under capital lease	713	1,108
Other liabilities (note 12(a))	24,233	11,337
Future income tax (note 7)	241,740	174,737
	2,192,712	2,034,314
Shareholders' equity:		
Share capital (note 8(b))	452,885	448,568
Contributed surplus	60,193	57,889
Accumulated other comprehensive loss (note 12(c))	(38,112)	(11,914)
Retained earnings	611,171	455,365
	1,086,137	949,908
Commitments and contingencies (note 10)		
	\$ 3,278,849	\$ 2,984,222

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

On behalf of the Board:



Sean Durfy, Director



Hugh Bolton, Director



# consolidated statement of shareholders' equity

For the years ended December 31  
(Stated in thousands of Canadian dollars)

	2008	2007
Share capital:		
Balance, beginning of year	\$ 448,568	\$ 431,248
Issuance of shares pursuant to stock option plans (note 8(b))	227	1,551
Stock-based compensation on stock options exercised (note 8(b))	11,181	20,040
Shares repurchased (note 8(b))	(7,091)	(4,271)
	452,885	448,568
Contributed surplus:		
Balance, beginning of year	57,889	58,656
Stock-based compensation expense (note 8(e)(f))	13,485	19,273
Stock-based compensation on stock options exercised (note 8(b))	(11,181)	(20,040)
	60,193	57,889
Accumulated other comprehensive loss: (note 12(c))		
Balance, beginning of year	(11,914)	—
Change in accounting policy	—	(13,420)
Other comprehensive income (loss)	(26,198)	1,506
	(38,112)	(11,914)
Retained earnings:		
Balance, beginning of year	455,365	316,123
Change in accounting policy	—	(36,612)
Shares repurchased (note 8(b))	(22,329)	(16,979)
Net earnings	178,135	192,833
	611,171	455,365
Total accumulated other comprehensive loss and retained earnings	573,059	443,451
Total shareholders' equity	\$ 1,086,137	\$ 949,908

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

# consolidated statement of comprehensive income

For the years ended December 31  
(Stated in thousands of Canadian dollars)

	2008	2007
Net earnings	\$ 178,135	\$ 192,833
Other comprehensive income, net of taxes:		
Amortization of hedge settlements to aircraft leasing	1,400	1,400
Net unrealized gain on foreign exchange derivatives under cash flow hedge accounting (net of tax of (\$3,097); 2007 – \$nil)	7,224	88
Reclassification of net realized (gains) losses on foreign exchange derivatives to net earnings (net of tax of \$1,357; 2007 – \$nil)	(3,197)	18
Net unrealized loss on fuel derivatives under cash flow hedge accounting (net of tax of \$13,086)	(31,625)	—
	(26,198)	1,506
<b>Total comprehensive income</b>	<b>\$ 151,937</b>	<b>\$ 194,339</b>

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

# consolidated statement of cash flows

For the years ended December 31  
(Stated in thousands of Canadian dollars)

	2008	2007
<b>Operating activities</b>		
Net earnings	\$ 178,135	\$ 192,833
Items not involving cash:		
Depreciation and amortization	136,485	127,223
Amortization of other liabilities	(937)	(897)
Amortization of hedge settlements	1,400	1,400
Unrealized loss on derivative instruments (note 11)	6,725	—
Loss on disposal of property, equipment and aircraft parts (note 5)	1,809	32,773
Stock-based compensation expense (note 8(e)(f))	13,485	19,273
Future income tax expense	74,153	41,775
Unrealized foreign exchange loss (gain)	(34,823)	13,813
Change in non-cash working capital (note 12(b))	84,154	112,872
	460,586	541,065
<b>Financing activities</b>		
Increase in long-term debt	101,782	141,178
Repayment of long-term debt	(179,397)	(156,516)
Decrease in obligations under capital lease	(375)	(356)
Increase in other assets	(4,135)	(20,897)
Shares repurchased (note 8(b))	(29,420)	(21,250)
Issuance of common shares (note 8(b))	227	1,551
Change in non-cash working capital	(4,111)	(3,000)
	(115,429)	(59,290)
<b>Investing activities</b>		
Aircraft additions	(114,470)	(191,437)
Aircraft disposals	84	1,975
Other property and equipment additions	(90,663)	(24,639)
Other property and equipment disposals	172	13,819
Change in non-cash working capital	5,147	—
	(199,730)	(200,282)
Cash flow from operating, financing and investing activities	145,427	281,493
Effect of exchange rate on cash and cash equivalents	21,229	(5,452)
Net change in cash and cash equivalents	166,656	276,041
Cash and cash equivalents, beginning of year	653,558	377,517
<b>Cash and cash equivalents, end of year</b>	<b>\$ 820,214</b>	<b>\$ 653,558</b>
Cash interest paid	\$ (76,604)	\$ (75,712)
Cash taxes received (paid)	\$ (2,305)	\$ 10,623

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

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 1. Summary of significant accounting policies

### (a) Basis of presentation

The accompanying consolidated financial statements of WestJet Airlines Ltd. (the Corporation) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Amounts presented in the Corporation's consolidated financial statements and the notes thereto are in Canadian dollars unless otherwise stated.

### (b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of 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.

### (c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 distribution costs, impairment assessments of property and equipment, and the valuation of derivative financial instruments that affect the amounts reported in the consolidated financial statements and accompanying notes. Changes in facts and circumstances may result in revised estimates, and actual results may differ from these estimates.

### (d) Revenue recognition

#### (i) Guest revenues

Guest revenues, including the air component of vacation packages, are recognized when air transportation is provided. Tickets sold but not yet used are reported in the consolidated balance sheet as advance ticket sales.

#### (ii) Charter and other revenues

Charter and other revenues include charter revenue, cargo revenue, net revenues from the sale of the land component of vacation packages, ancillary revenues and other.

Charter and cargo revenue is recognized when air transportation is provided.

Revenue from the land component of vacation packages 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. Revenue from the land component is deferred and recognized on completion of the vacation.

Ancillary revenues are recognized as the services and products are provided to the guests. Included in ancillary revenues are fees associated with guest itinerary changes or cancellations, excess baggage fees, buy-on-board sales and pre-reserved seating fees.

Included in other revenue is revenue from expired credit files recognized at the time of expiry. Also included in other revenue is revenue under the tri-branded credit card agreement that expired in 2008, where net retail sales revenue was recognized at the time the transaction occurred and revenue related to account activations was recognized immediately upon activation.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

## 1. Summary of significant accounting policies (continued)

### (e) 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, other than gift certificates which do not contain an expiry date. 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.

### (f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet at the time the Corporation becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value and for the purpose of subsequent measurement, financial instruments are allocated into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, US-dollar deposits, accounts receivable, accounts payable and accrued liabilities, long-term debt and derivative instruments. The Corporation has designated its financial instruments as follows:

Financial instrument	Category	Measurement method
Cash and cash equivalents	Held-for-trading	Fair value
US-dollar deposits	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Derivative instruments (i)	Held-for-trading	Fair value

(i) Except for derivative instruments designated in an effective hedging relationship.

Held-for-trading instruments are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. As at December 31, 2008, the Corporation does not hold any financial instruments that do not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held-for-trading are measured at fair value, with gains and losses recorded in net earnings for the period in which the change occurs. The Corporation uses trade-date accounting for its held-for-trading financial assets.

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturity, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. As at December 31, 2008, the Corporation does not have any financial assets classified as held-to-maturity.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method.



# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
(Stated in thousands of Canadian dollars, except share and per share data)

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## 1. Summary of significant accounting policies (continued)

### (f) Financial instruments (continued)

Available-for-sale financial assets are non-derivative assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income (OCI) until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost. As at December 31, 2008, the Corporation does not have any financial assets classified as available-for-sale.

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities other than derivatives or liabilities that have been identified as held-for-trading.

The Corporation will from time to time use various financial derivatives to reduce market risk exposure from changes in foreign exchange rates and jet fuel prices. Derivatives, including embedded derivatives, are recorded at fair value on the balance sheet with changes in fair value recorded in the statement of earnings unless exempted from derivative treatments as a normal purchase and sale or as designated effective hedging instruments. The Corporation selected January 1, 2003, as its transition date for embedded derivatives; as such only contracts entered into or substantively modified after the transition date have been examined for embedded derivatives. When financial assets and liabilities are designated as part of a hedging relationship and qualify for hedge accounting, they are subject to measurement and classification requirements outlined under cash flow hedges. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as held-for-trading, is impaired.

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

Effective January 1, 2008, the Corporation adopted CICA Section 3862, Financial Instruments – Disclosure and Section 3863, Financial Instruments – 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 new requirements are for disclosure purposes only and, on adoption, did not impact the financial results of the Corporation. See note 11, financial instruments and risk management, for further disclosure.

### (g) Cash flow hedges

The Corporation uses various financial derivative instruments such as forward contracts, fixed swap agreements, costless collar structures and option arrangements to manage fluctuations in foreign exchange rates and jet fuel prices.

The Corporation's derivatives that have been designated and qualify for hedge accounting are classified as cash flow hedges. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives that are designated in a cash flow hedging relationship to a specific firm commitment or forecasted transaction. The Corporation also formally assesses, both at inception and at every reporting date, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

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## 1. Summary of significant accounting policies (continued)

### (g) Cash flow hedges (continued)

Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in OCI while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the financial derivative instrument, the effective gains and losses previously recognized in accumulated other comprehensive loss (AOCL) are recorded in net earnings under the same caption as the hedged item.

If the hedging relationship ceases to qualify for cash flow hedge accounting, any change in fair value of the instrument from the point it ceases to qualify is recorded in non-operating income (expense). Amounts previously recorded in AOCL will remain in AOCL until the anticipated transaction occurs, at which time, the amount is recorded in net earnings under the same caption as the hedged item. If the transaction is no longer expected to occur, amounts previously recorded in AOCL will be reclassified to non-operating income (expense).

### (h) Foreign currency

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date with any resulting gain or loss being included in the consolidated statement of earnings. Non-monetary assets, non-monetary liabilities and revenues and expenses arising from transactions denominated in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transaction.

### (i) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments that are highly liquid in nature and have a maturity date of three months or less.

### (j) Inventory

Effective January 1, 2008, the Corporation adopted CICA Section 3031, Inventories. This section provides more extensive guidance on the determination of cost, narrows permitted cost formulas, requires impairment testing and expands the disclosure requirements to increase transparency. There was no impact as a result of adoption on the financial results of the Corporation.

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. The Corporation's inventory balance consists of aircraft fuel, de-icing fluid and retail merchandise. Aircraft expendables and consumables are expensed as acquired.

### (k) Deferred costs

Certain sales and distribution costs attributed to advance ticket sales are deferred in prepaid expenses, deposits and other on the consolidated balance sheet and expensed to sales and distribution in the period the related revenue is recognized.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
(Stated in thousands of Canadian dollars, except share and per share data)

## 1. Summary of significant accounting policies (continued)

### (l) Property and equipment

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

Asset class	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	3 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 \$4,000 to \$6,000.

Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of property and equipment may not be recoverable, the long-lived assets are tested for recoverability by comparing the undiscounted future cash flows to the carrying amount of the asset or group of assets. If the total of the undiscounted future cash flows is less than the carrying amount of the property and equipment, the amount of any impairment loss is determined as the amount by which the carrying amount of the asset exceeds the fair value of the asset. The impairment loss is then recognized in net earnings. Fair value is defined as the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

### (m) 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.

### (n) Leases

The Corporation classifies leases as either a capital lease or an operating lease. Leases that transfer substantially all of the benefits and risk of ownership to the Corporation are accounted for as capital leases. Assets under capital leases are depreciated on a straight-line basis over the term of the lease. Rental payments under operating leases are expensed as incurred.

The Corporation provides for asset retirement obligations to return leased aircraft to certain standard conditions as specified within the Corporation's lease agreements. The lease return costs are accounted for in accordance with the asset retirement obligations requirements and are initially measured at fair value and capitalized to property and equipment as an asset retirement cost.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

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## 1. Summary of significant accounting policies (continued)

### (o) Capitalized costs

Costs associated with assets under development, which have probable future economic benefit, can be clearly defined and measured, and are incurred for the development of new products or technologies, are capitalized. These costs are not amortized until the asset is 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.

Costs of new route development are expensed as incurred.

### (p) 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. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liabilities may change.

### (q) Stock-based compensation plans

Grants under the Corporation's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity, the fair value of the option or unit is determined on the grant date using a valuation model and recorded as compensation expense over the period that the stock option or unit vests, with a corresponding increase to contributed surplus. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, and the fair value of the Corporation's other equity-based share unit plans is determined based on the market value of the Corporation's common shares on the date of the grant. Upon the exercise of stock options and units, consideration received, together with amounts previously recorded in contributed surplus, are recorded as an increase in share capital.

Stock-based compensation plans that are to be settled in cash are accounted for as liabilities based on the intrinsic value of the awards. The compensation expense is accrued over the vesting period of the award, based on the difference between the market value of the Corporation's common shares and the exercise price of the award, if any. Fluctuations in the market value of the Corporation's common shares, determined based on the closing share price on the last trading day of each reporting period, will result in a change to the accrued compensation expense, which is recognized in the period in which the fluctuation occurs.

The Corporation does not incorporate an estimated forfeiture rate for stock options or share units that will not vest, but rather accounts for actual forfeitures as they occur.

For employees eligible to retire during the vesting period, the compensation expense is recognized over the period from the grant date to the retirement eligibility date. In instances where an employee is eligible to retire on the grant date of the stock-based award, compensation expense is recognized immediately.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 1. Summary of significant accounting policies (continued)

### (r) 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 share units and the unamortized portion of stock-based compensation on stock options and share units 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.

### (s) Comparative amounts

Certain prior-period balances have been reclassified to conform to current period's presentation, including the reclassification of interest income and interest expense as non-operating items and the reclassification of the Corporation's employee profit share expense as an operating item.

## 2. Future accounting pronouncements

### (a) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Corporation does not anticipate that the adoption of this standard, effective January 1, 2009, will significantly impact its financial results.

### (b) Business combinations

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Corporation beginning on or after January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with international financial reporting standards (IFRS). The Corporation does not anticipate that the adoption of this standard will impact its financial results.

### (c) International financial reporting standards

On February 13, 2008, the CICA Accounting Standards Board (AcSB) confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis.

The Corporation commenced its IFRS conversion project during 2008 and established a formal project governance structure, including an IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. The Steering Committee consists of senior levels of management from Finance, Treasury and Investor Relations, among others. An external advisor has been engaged to work with the Corporation's dedicated project staff to complete the conversion. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit Committee of the Board of Directors.



# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 2. Future accounting pronouncements (continued)

### (c) International financial reporting standards (continued)

The Corporation's IFRS conversion project consists of three phases: Diagnostic, Solution Development, and Implementation and Execution. The Corporation has completed the Diagnostic phase, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to the Corporation and includes property and equipment, provisions and leases, as well as the more extensive presentation and disclosure requirements under IFRS.

The Corporation has finalized its IFRS transition plan including a timetable for assessing the impact on systems, internal controls over financial reporting and business activities. Currently the Corporation is engaged in the Solution Development phase of the project and is working in issue-specific teams to focus on generating options and making recommendations in the identified areas. The Corporation has begun to roll out its staff training programs, and has begun to perform an in-depth review of accounting policy impacts, as well as the associated impacts of the IFRS transition on business activities. A full review of the Corporation's information systems is in progress to assess IFRS conversion impacts and is continuing to evaluate the available alternatives within its current financial systems. The Corporation's target is to complete the Solution Development phase by the end of the third quarter of 2009.

The Corporation continues to monitor standards development as issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Corporation's adoption of IFRS.

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. As the Corporation is still in the Solution Development phase and has not yet selected its accounting policy choices and IFRS 1 exemptions, the Corporation is unable to quantify the impact of IFRS on its financial statements. The areas of significance identified above are based on available information and the Corporation's expectations as of the date of this report and thus, are subject to change for new facts and circumstances.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 2. Future accounting pronouncements (continued)

### (c) International financial reporting standards (continued)

Please see the following table for certain elements of the Corporation's IFRS transition plan, and an assessment of progress towards achieving these. The project team is working through a detailed IFRS transition plan and certain project activities and milestones could change. The Corporation has begun to highlight certain key activities below to provide insights into the IFRS project.

Given the progress of the project and outcomes identified, the Corporation could change its intentions between the time of communicating these key milestones below and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes to the transition plan being different from those communicated here.

Key activity	Key milestones	Status
<b>Financial statement preparation</b>		
<ul style="list-style-type: none"> <li>Identify differences in Canadian GAAP/ IFRS accounting policies</li> <li>Select ongoing IFRS policies</li> <li>Select IFRS 1 choices</li> <li>Develop financial statement format</li> <li>Quantify effects of change in initial IFRS disclosure and 2010 comparative financial statements</li> </ul>	<p>Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur during the third quarter of 2009.</p> <p>Development of draft financial statement format to occur during the latter part of 2009.</p>	<p>Completed the IFRS Diagnostic phase during 2008, which involved a high-level review of the major differences between Canadian GAAP and IFRS.</p> <p>In-depth analysis of issues and accounting policy choices is currently underway.</p>
<b>Training</b>		
<p>Define and introduce appropriate level of IFRS expertise for each of the following:</p> <ul style="list-style-type: none"> <li>Controller's Group and business unit accounting personnel</li> <li>Audit Committee</li> </ul>	<p>Controller's Group and business unit accounting personnel training to occur during the third and fourth quarters of 2009 as needed. Additional training will occur throughout the project as needed.</p> <p>Audit Committee training tentatively scheduled to occur during the second half of 2009.</p>	<p>Project team expert resources have been identified to provide insights and training. Training for project team members is occurring throughout the project.</p>
<b>Information technology (IT) infrastructure</b>		
<p>Confirm that business processes and systems are IFRS compliant, including:</p> <ul style="list-style-type: none"> <li>Program upgrades/changes</li> <li>Gathering data for disclosures</li> </ul>	<p>Confirm that systems can address 2010 parallel processing requirements by the third quarter of 2009.</p> <p>Confirm that business processes and systems are IFRS compliant throughout the project.</p>	<p>Diagnostic analysis regarding current IT systems completed.</p> <p>Currently reviewing options to address business process changes and parallel processing during 2010.</p>
<b>Control environment</b>		
<ul style="list-style-type: none"> <li>For all accounting policy changes identified, assess control design and effectiveness implications</li> <li>Implement appropriate changes</li> </ul>	<p>All key control and design effectiveness implications are being assessed as part of the key IFRS differences and accounting policy choices through to the fourth quarter of 2009.</p>	<p>Analysis of control issues is underway in conjunction with review of accounting issues and policies.</p>

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

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### 3. Capital management

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the airline. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Corporation may from time to time purchase shares for cancellation pursuant to normal course issuer bids to offset dilution, issue new shares and adjust current and projected debt levels.

In the management of capital, the Corporation includes shareholders' equity (excluding AOCL), long-term debt, capital leases, cash and cash equivalents and the Corporation's off-balance-sheet obligations related to its aircraft operating leases, all of which are presented in detail below.

The Corporation monitors capital on a number of bases, including adjusted debt-to-equity and adjusted net debt to Earnings Before Interest, Taxes, Depreciation and Aircraft Rent (EBITDAR). EBITDAR is a non-GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft. In addition, the Corporation will adjust EBITDAR for one-time special items, for non-operating gains and losses on derivatives and for gains and losses on foreign exchange. The calculation of EBITDAR is a measure that does not have a standardized meaning prescribed under GAAP and is therefore not likely to be comparable to similar measures presented by other issuers. The Corporation adjusts debt to include its off-balance-sheet aircraft operating leases. Common industry practice is to multiply the trailing twelve months of aircraft leasing expense by 7.5 to derive a present value debt equivalent. The Corporation defines adjusted net debt as adjusted debt less cash and cash equivalents. The Corporation defines equity as the sum of share capital, contributed surplus and retained earnings, and excludes AOCL.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
(Stated in thousands of Canadian dollars, except share and per share data)

## 3. Capital management (continued)

	2008	2007	Change
<b>Adjusted debt-to-equity:</b>			
Long-term debt (i)	\$ 1,351,903	\$ 1,429,518	\$ (77,615)
Obligations under capital lease (ii)	1,108	1,483	(375)
Off-balance-sheet aircraft leases (iii)	645,375	564,008	81,367
Adjusted debt	\$ 1,998,386	\$ 1,995,009	\$ 3,377
Total shareholders' equity	1,086,137	949,908	136,229
Add: AOCL	38,112	11,914	26,198
Adjusted equity	\$ 1,124,249	\$ 961,822	\$ 162,427
Adjusted debt-to-equity	1.78	2.07	(14.0%)
<b>Adjusted net debt to EBITDAR (iv):</b>			
Net earnings	\$ 178,135	\$ 192,833	\$ (14,698)
Add:			
Net interest (v)	50,593	51,448	(855)
Taxes	76,702	43,924	32,778
Depreciation and amortization	136,485	127,223	9,262
Aircraft leasing	86,050	75,201	10,849
Other (vi)	(13,256)	44,631	(57,887)
EBITDAR	\$ 514,709	\$ 535,260	\$ (20,551)
Adjusted debt (as above)	1,998,386	1,995,009	3,377
Less: Cash and cash equivalents	(820,214)	(653,558)	(166,656)
Adjusted net debt	\$ 1,178,172	\$ 1,341,451	\$ (163,279)
Adjusted net debt to EBITDAR	2.29	2.51	(8.8%)

(i) As at December 31, 2008, long-term debt includes the current portion of long-term debt of \$165,721 (2007 – \$172,992) and long-term debt of \$1,186,182 (2007 – \$1,256,526).

(ii) As at December 31, 2008, obligations under capital lease includes the current portion of obligations under capital lease of \$395 (2007 – \$375) and obligations under capital lease of \$713 (2007 – \$1,108).

(iii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing twelve months of aircraft leasing expense by 7.5. As at December 31, 2008, the trailing twelve months of aircraft leasing costs totalled \$86,050 (2007 – \$75,201).

(iv) The trailing twelve months are used in the calculation of EBITDAR.

(v) For the year ended December 31, 2008, net interest includes interest income of \$25,485 (2007 – \$24,301) and interest expense of \$76,078 (2007 – \$75,749).

(vi) For the year ended December 31, 2008, other includes the foreign exchange gain of \$30,587 and loss on derivatives of \$17,331 (2007 – reservation system impairment of \$31,881 and foreign exchange loss of \$12,750).

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 3. Capital management (continued)

As at December 31, 2008 and 2007, the Corporation's targets were an adjusted debt-to-equity measure of no more than 3.00 and an adjusted net debt to EBITDAR of no more than 3.00. As at December 31, 2008, the Corporation's adjusted debt-to-equity ratio improved by 14.0% compared to December 31, 2007, attributable to the increase in shareholders' equity (mainly net earnings) more than offsetting the addition of new aircraft financing in the year. As at December 31, 2008, the Corporation's adjusted net debt to EBITDAR improved by 8.8% compared to December 31, 2007, mainly as a result of increased cash and cash equivalents more than offsetting the slight decrease in EBITDAR.

As part of the long-term debt agreements for the Calgary hangar facility and the flight simulator, the Corporation monitors certain financial covenants to ensure compliance with these debt agreements. As at December 31, 2008 and 2007, the Corporation was in compliance with these financial covenants. There are no financial covenant compliance requirements for the facilities guaranteed by the Export-Import Bank of the United States (Ex-Im Bank).

Under the Canada Transportation Act, the Corporation must, as a corporation which indirectly wholly owns the holder of a domestic licence, a scheduled international licence and a non-scheduled international licence, be Canadian, that is, be controlled, in fact, by Canadians with at least 75% of its voting interest owned and controlled by Canadians. To monitor this external requirement, the Corporation has structured its voting shares into two classes: common voting and variable voting. The common voting shares may be owned and controlled by Canadians only. The variable voting shares may be owned and controlled only by persons who are not Canadian and, as a class, cannot exceed more than 25% of the total number of votes cast on any matter on which a vote is to be taken. See note 8, share capital, for further information. As at December 31, 2008 and 2007, the Corporation was in compliance with this requirement.

No dividends have been paid or declared on any of the Corporation's shares since the date of incorporation. This policy is based on operational results, financial policy and financing requirements for future growth and is continuously reviewed by the Corporation.

There were no changes in the Corporation's approach to capital management during the year ended December 31, 2008.

## 4. Cash and cash equivalents

As at December 31, 2008, cash and cash equivalents includes bank balances of \$98,998 (2007 – \$37,395) and short-term investments of \$721,216 (2007 – \$616,163). Included in these balances, as at December 31, 2008, the Corporation has US-dollar cash and cash equivalents totaling US \$56,920 (2007 – US \$59,843).

As at December 31, 2008, cash and cash equivalents includes total restricted cash of \$10,748 (2007 – \$2,357). Included in this amount is \$6,062 (2007 – \$nil), representing cash held in trust by WestJet Vacations, a wholly owned subsidiary of the Corporation, in accordance with regulatory requirements governing advance ticket sales for certain travel-related activities; \$4,222 (2007 – \$2,069) for security on the Corporation's facilities for letters of guarantee; and, in accordance with U.S. regulatory requirements, US \$381 (2007 – US \$295) in restricted cash representing cash not yet remitted for passenger facility charges.



# notes to consolidated financial statements

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## 5. Property and equipment

2008	Cost	Accumulated depreciation	Net book value
Aircraft	\$ 2,394,098	\$ 402,095	\$ 1,992,003
Ground property and equipment	157,223	83,648	73,575
Spare engines and parts	86,728	17,099	69,629
Buildings	40,028	6,828	33,200
Leasehold improvements	12,019	5,692	6,327
Assets under capital lease	2,482	1,690	792
	2,692,578	517,052	2,175,526
Deposits on aircraft	23,982	—	23,982
Assets under development	82,342	—	82,342
	\$ 2,798,902	\$ 517,052	\$ 2,281,850

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

As at December 31, 2008, assets under development includes \$80,725 (2007 – \$11,850) in amounts capitalized in conjunction with the Corporation's new Campus facility.

Included in aircraft costs are estimated lease return costs for aircraft under operating leases totaling \$3,493 (2007 – \$1,292) and associated accumulated amortization of \$846 (2007 – \$439). These amounts are being amortized on a straight-line basis over the term of each lease.

During the year ended December 31, 2007, the Corporation recognized a non-cash impairment of \$31,881 for the capitalized costs associated with its former reservation system project.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 6. Long-term debt

		2008	2007
Term loans – purchased aircraft	(i)	\$ 1,331,083	\$ 1,389,888
Term loan – flight simulator	(ii)	7,265	23,325
Term loans – live satellite television equipment	(iii)	1,740	3,621
Term loan – Calgary hangar facility	(iv)	9,648	10,054
Term loan – Calgary hangar facility	(v)	2,167	2,630
		1,351,903	1,429,518
Current portion		165,721	172,992
		\$ 1,186,182	\$ 1,256,526

- (i) 52 individual term loans, amortized on a straight-line basis over a 12-year term, each repayable in quarterly principal instalments ranging from \$668 to \$955, including fixed interest at a weighted average rate of 5.32%, maturing between 2014 and 2020. These facilities are guaranteed by Ex-Im Bank and secured by one 800-series aircraft, 38 700-series aircraft and 13 600-series aircraft.
- (ii) Term loan repayable in monthly instalments of \$95, including floating interest at the bank's prime rate plus 0.88%, with an effective interest rate of 4.38% as at December 31, 2008, maturing in 2011, secured by one flight simulator.
- (iii) 14 individual term loans, amortized on a straight-line basis over a five-year term, repayable in quarterly principal instalments ranging from \$29 to \$42, including floating interest at the Canadian LIBOR rate plus 0.08%, with a weighted average effective interest rate of 2.82% as at December 31, 2008, 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.
- (iv) Term loan repayable in monthly instalments of \$108, including interest at 9.03%, maturing April 2011, secured by the Calgary hangar facility.
- (v) Term loan repayable in monthly instalments of \$50, including floating interest at the bank's prime rate plus 0.50%, with an effective interest rate of 4.00% as at December 31, 2008, maturing April 2013, secured by the Calgary hangar facility.

The net book value of the property and equipment pledged as collateral for the Corporation's secured borrowings was \$2,012,915 as at December 31, 2008 (2007 – \$2,028,548).

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

2009	\$ 165,721
2010	165,034
2011	177,557
2012	163,279
2013	162,740
2014 and thereafter	517,572
	\$ 1,351,903

Held within the special-purpose entities, as identified in note 1, significant accounting policies, are liabilities of \$1,332,859 (2007 – \$1,393,526) related to the acquisition of the 52 purchased aircraft, which are included above in the long-term debt balances.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 7. 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:

	2008	2007
Earnings before income taxes	\$ 254,837	\$ 236,757
Income tax rate	31.30%	33.99%
Expected income tax provision	79,764	80,474
Add (deduct):		
Non-deductible expenses	2,097	1,728
Non-deductible stock-based compensation	4,218	6,542
Effect of tax rate changes	(9,540)	(44,811)
Other	163	(9)
Actual income tax provision	\$ 76,702	\$ 43,924

The Corporation has included in its reconciliation an amount of \$9,540 (2007 – \$44,811) for the effect of tax rate changes. This amount reflects the impact of certain federal and provincial corporate income tax rate reductions enacted in 2008 and 2007, changes to the timing around when the Corporation expects certain temporary differences to reverse and differences between current statutory rates used in the reconciliation and future rates at which the future income tax liability is recorded.

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

	2008	2007
Future income tax liability:		
Property and equipment	\$ (305,623)	\$ (261,879)
Deferred partnership income	(34,741)	(17,420)
Future income tax asset:		
Share issue costs	13	79
Net unrealized loss on effective portion of derivatives designated in a hedging relationship	11,346	—
Non-capital losses	91,461	104,483
	\$ (237,544)	\$ (174,737)
The net future tax liability is presented on the consolidated balance sheet as follows:		
Future income tax	Current assets	4,196
Future income tax	Long-term liability	(241,740)
		\$ (237,544)
		\$ (174,737)

The Corporation has recognized a benefit of \$314,384 (2007 – \$352,298) for 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.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

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## 8. 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.

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

#### **Unlimited number of variable voting shares**

The variable voting shares may be owned and controlled only by a person who is not Canadian 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 collectively (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.

In either of the above-noted circumstances, the voting rights attached to each variable voting share will decrease automatically without further act of formality, such that the variable voting shares as a class do not 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 (i) the aggregate number of issued and outstanding variable voting shares and common voting shares of the Corporation or (ii) 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, each series consisting of such number of non-voting shares and non-voting preferred shares as determined by the Corporation's Board of Directors who may also fix the designations, rights, privileges, restrictions and conditions attaching 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.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 8. Share capital (continued)

### (b) Issued and outstanding

	2008		2007	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	129,571,570	\$ 448,568	129,648,688	\$ 431,248
Issuance of shares pursuant to stock option plans	347,094	227	1,186,382	1,551
Stock-based compensation expense on stock options exercised	—	11,181	—	20,040
Shares repurchased	(2,005,084)	(7,091)	(1,263,500)	(4,271)
Balance, end of year	127,913,580	\$ 452,885	129,571,570	\$ 448,568

As at December 31, 2008, the number of common voting shares outstanding was 124,291,677 (2007 – 122,884,662) and the number of variable voting shares was 3,621,903 (2007 – 6,686,908).

On March 12, 2008, the Corporation 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 2,500,000 shares (representing approximately 1.9% of its issued and outstanding shares at the time of the bid) during the period of March 17, 2008 to March 16, 2009, or until such earlier time as the bid is completed or terminated at the option of the Corporation. Any shares the Corporation 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 this bid will be cancelled.

During the year ended December 31, 2008, the Corporation purchased 2,005,084 shares under the bid for total consideration of \$29,420. The average book value of the shares repurchased of \$7,091 was charged to share capital with the \$22,329 excess of the market price over the average book value charged to retained earnings.

During the year ended December 31, 2007, the Corporation purchased 1,263,500 shares under its previous normal course issuer bid, which expired on February 27, 2008, for total consideration of \$21,250. The average book value for the shares repurchased of \$4,271 was charged to share capital with the \$16,979 excess of the market price over the average book value charged to retained earnings.

### (c) Per share amounts

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

	2008	2007
Weighted average number of shares outstanding – basic	128,690,146	129,709,329
Effect of dilutive employee stock options and unit plans	1,285,094	1,900,850
Weighted average number of shares outstanding – diluted	129,975,240	131,610,179

For the year ended December 31, 2008, 5,918,948 employee stock options, and 48,527 restricted share units, (2007 – 1,584,520 employee stock options) were not included in the calculation of dilutive potential shares as the result would be anti-dilutive.



# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

## 8. Share capital (continued)

### (d) Stock option plan

The Corporation has a stock option plan, whereby up to a maximum of 12,622,734 (2007 – 12,016,887) 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 of the Corporation's common shares, 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:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	12,226,232	\$ 13.66	15,046,201	\$ 13.21
Granted	1,974,485	16.68	1,689,773	16.45
Exercised	(2,013,290)	15.08	(4,276,574)	13.19
Forfeited	(90,891)	13.24	(226,909)	13.24
Expired	(178,368)	14.93	(6,259)	15.97
Stock options outstanding, end of year	11,918,168	\$ 13.90	12,226,232	\$ 13.66
Exercisable, end of year	7,849,131	\$ 12.87	4,425,763	\$ 14.93

Under the terms of the Corporation's stock option plan, a cashless settlement alternative is available, whereby option holders can either (i) elect to receive shares by delivering cash to the Corporation in the amount of the options, or (ii) elect to receive a number of shares equivalent to the market value of the options over the exercise price. For the year ended December 31, 2008, option holders exercised 1,998,926 options (2007 – 4,139,944) on a cashless settlement basis and received 332,730 shares (2007 – 1,049,752). For the year ended December 31, 2008, 14,364 options (2007 – 136,630) were exercised on a cash basis.

The following table summarizes the options outstanding and exercisable as at December 31, 2008:

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
\$ 9.00 – \$11.99	5,383,388	1.32	\$ 11.81	4,906,882	\$ 11.82
\$12.00 – \$14.99	3,037,811	0.39	14.53	2,934,657	14.60
\$15.00 – \$16.50	1,548,322	2.35	16.41	4,100	16.26
\$16.51 – \$19.99	1,948,647	3.35	16.72	3,492	19.37
	11,918,168	1.55	\$ 13.90	7,849,131	\$ 12.87

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
(Stated in thousands of Canadian dollars, except share and per share data)

## 8. Share capital (continued)

### (e) Stock option compensation

As new options are granted, the fair value of the options is expensed over the 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 to share capital.

Stock-based compensation expense related to stock options included in flight operations and navigational charges and marketing, general and administration expenses totalled \$12,597 for the year ended December 31, 2008 (2007 – \$19,273).

The fair value of options granted during the years ended December 31, 2008 and 2007 and the assumptions used in their determination, are as follows:

	2008	2007
Weighted average fair value per option	\$ 5.24	\$ 5.66
Weighted average risk-free interest rate	3.0%	4.2%
Weighted average volatility	37%	38%
Expected life (years)	3.6	3.7
Dividends 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.

### (f) Executive share unit plan

During the year ended December 31, 2008, the Board of Directors approved the 2008 executive share unit plan whereby up to a maximum of 200,000 restricted share units (RSU) and performance share units (PSU) combined may be issued to senior executive officers of the Corporation. The fair market value of the RSUs and PSUs at the time of grant is equal to the weighted average trading price of the Corporation's common shares on the TSX for the five trading days immediately preceding the grant date.

#### 2008 Restricted share units

Each RSU entitles the executive to receive payment upon vesting in the form of common shares of the Corporation. The Corporation determines compensation expense for the 2008 RSUs based on the fair market value of the Corporation's common shares on the date of grant. The 2008 RSUs time vest at the end of a three-year period, with compensation expense being recognized in net earnings on a straight-line basis over the vesting period. For the year ended December 31, 2008, 55,181 RSUs were granted under this plan at a weighted average fair market value of \$19.37 per unit, with \$385 of compensation expense included in marketing, general and administration expense. As at December 31, 2008, 55,181 RSUs are outstanding, all of which are scheduled to vest in 2011.

#### 2008 Performance share units

Each PSU entitles the executive to receive payment upon vesting in the form of common shares of the Corporation. The value of the PSUs is based on the fair market value of the Corporation's common shares on the date of grant. PSUs time vest at the end of a three-year term and incorporate performance criteria based on achieving the compounded average diluted earnings per share growth rate targets established at the time of grant. For the year ended December 31, 2008, 73,574 PSUs were granted under this plan at a weighted average fair market value of \$19.37 per unit, with \$503 of compensation expense included in marketing, general and administration expense. As at December 31, 2008, 73,574 PSUs are outstanding, all of which are scheduled to vest in 2011.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 8. Share capital (continued)

### (g) 2007 Restricted share units

The Corporation has a cash-settled 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. Compensation expense is accrued over the vesting period of the RSU. Fluctuations in the market value are recognized in the period in which the fluctuations occur. For the year ended December 31, 2008 no 2007 RSUs were granted (2007 – 68,058) with \$75 of compensation expense being recovered (2007 – \$736 expense) and included as a deduction to marketing, general and administration expense and accounts payable and accrued liabilities and other liabilities. As at December 31, 2008 68,058 (2007 – 68,058) 2007 RSUs are outstanding, all of which are scheduled to vest in 2010.

### (h) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for the independent 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. The number of DSUs granted is determined based on the closing price of the Corporation's common shares on the TSX on the trading day immediately prior to the date of grant. Total compensation expense is recognized at the time of grant. Fluctuations in the market value are recognized in the period in which the fluctuations occur. For the year ended December 31, 2008, 15,192 DSUs were granted (2007 – 2,299), with \$180 of expense (2007 – \$49) included in marketing, general and administration expense and accounts payable and accrued liabilities. DSUs are redeemable upon the Director's retirement from the Board. As at December 31, 2008, 17,491 (2007 – 2,299) DSUs are vested and outstanding.

### (i) 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, 2008 and 2007, 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 shares issued from treasury is determined based on the weighted average trading price of the common shares on the TSX 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 shares, which have not been held for at least one year to the Corporation, four times per year. The purchase price of the voting shares shall be equal to 50% of the weighted average trading price of the shares on the TSX for the five days preceding the employee's notice to the Corporation.

The Corporation's share of the contributions in 2008 amounted to \$42,937 (2007 – \$35,449) and is recorded as compensation expense within the related business unit.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
(Stated in thousands of Canadian dollars, except share and per share data)

## 9. Related party transactions

The Corporation has debt financing and investments in short-term deposits with a financial institution that is related through two common directors, one of whom is also the president of the financial institution. As at December 31, 2008, total long-term debt includes an amount of \$7,265 (2007 – \$23,325) due to the financial institution. See note 6, long-term debt, for further disclosure. Included in cash and cash equivalents as at December 31, 2008 are short-term investments of \$96,500 (2007 – \$189,389) owing from the financial institution. During the year ended December 31, 2008, the Corporation signed a three-year revolving operating line of credit agreement with a banking syndicate, of which one of the members is the related-party financial institution. See note 10, commitments and contingencies, for further information. These transactions occurred in the normal course of operations with terms consistent with those offered to arm's length parties and are measured at the exchange amount.

## 10. Commitments and contingencies

### (a) Purchased aircraft and live satellite television systems

As at December 31, 2008, the Corporation is committed to purchase 24 737-700 aircraft for delivery between 2010 and 2013. The remaining estimated amounts to be paid in deposits and purchase prices for the 24 aircraft, as well as amounts to be paid for live satellite television systems on purchased and leased aircraft in Canadian dollars and the US-dollar equivalents, are as follows:

	US dollar	CAD dollar
2009	\$ 50,919	\$ 62,019
2010	107,672	131,144
2011	124,419	151,542
2012	461,047	561,555
2013	295,724	360,192
	\$ 1,039,781	\$ 1,266,452

The Corporation has yet to pursue financing agreements for the remaining 24 purchased aircraft included in the above totals. The next purchased aircraft delivery is not expected until September 2010.

### (b) Operating leases and commitments

The Corporation has entered into operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licences and satellite programming. As at December 31, 2008, the future payments, in Canadian dollars and when applicable the US-dollar equivalents under operating leases and commitments are as follows:

	US dollar	CAD dollar
2009	\$ 121,909	\$ 165,777
2010	156,114	201,458
2011	175,610	220,324
2012	181,594	226,104
2013	171,008	212,758
2014 and thereafter	547,870	710,529
	\$ 1,354,105	\$ 1,736,950

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 10. Commitments and contingencies (continued)

### (b) Operating leases and commitments (continued)

As at December 31, 2008, the Corporation is committed to lease an additional 15 737-700 aircraft and five 737-800 aircraft for terms ranging between eight and 10 years in US dollars. These aircraft have been included in the table totals.

The Corporation signed a six-year agreement with Bell ExpressVu to provide satellite programming. The agreement commenced in 2004 and can be renewed for an additional four years. The minimum commitment amounts associated with this agreement have been included in the table totals.

On December 19, 2008, the Corporation signed an agreement with Sabre Airline Solutions Inc. (Sabre) for Sabre to provide WestJet with a licence to access and use its reservation system, SabreSonic. The term of the agreement will continue for a period of five years. The minimum contract amounts associated with the reservation system have been included in the table totals.

### (c) Letters of credit

The Corporation has available two facilities with a Canadian chartered bank for a total of \$15,000 (2007 – \$15,000) for letters of guarantee. As at December 31, 2008, letters of guarantee totaling \$12,222 (2007 – \$9,950) have been issued. The facilities are secured by a general security agreement, an assignment of insurance proceeds and \$4,222 (2007 – \$2,069) of restricted cash.

### (d) Operating line of credit

During the year ended December 31, 2008, the Corporation signed a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available for up to a maximum of \$85 million commencing May 1, 2009 subject to various customary conditions precedent being satisfied, and will be secured by the Corporation's new Campus facility. The line of credit will bear interest at prime plus 0.50% per annum, or a bankers acceptance rate at 2.0% annual stamping fee or equivalent and will be available for general corporate expenses and working capital purposes. The Corporation is required to pay a standby fee of 15 basis points, based on the average unused portion of the line of credit for the previous quarter, payable quarterly and commencing on August 1, 2009. As at December 31, 2008, no amounts were drawn on this facility.

### (e) Contingencies

On February 29, 2008, the Corporation signed a letter of intent to lease one 737-800 aircraft over a term of eight years commencing in March 2011, for an estimated total commitment of US \$39 million.

The Corporation is party to 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.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 11. Financial instruments and risk management

### (a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives both designated and not designated in an effective hedging relationship, US-dollar deposits, accounts payable and accrued liabilities, and long-term debt. The following tables set out the Corporation's classification and the carrying amount for each of its financial assets and liabilities as at December 31, 2008 and 2007:

2008	Held-for-trading	Derivatives	Loans and receivables	Other financial liabilities	Total carrying amount
Asset (liability)					
Cash and cash equivalents	\$ 820,214	\$ —	\$ —	\$ —	\$ 820,214
Accounts receivable	—	—	16,837	—	16,837
Foreign exchange options (i)	—	862	—	—	862
Cash flow hedges: (ii)					
Foreign exchange forward contracts (iii)	—	5,873	—	—	5,873
Fuel derivatives (iv)	—	(52,298)	—	—	(52,298)
US-dollar deposits (v)	24,309	—	—	—	24,309
Accounts payable and accrued liabilities (vi)	—	—	—	(211,543)	(211,543)
Long-term debt (vii)	—	—	—	(1,351,903)	(1,351,903)
	\$ 844,523	\$ (45,563)	\$ 16,837	\$ (1,563,446)	\$ (747,649)

2007	Held-for-trading	Derivatives	Loans and receivables	Other financial liabilities	Total carrying amount
Asset (liability)					
Cash and cash equivalents	\$ 653,558	\$ —	\$ —	\$ —	\$ 653,558
Accounts receivable	—	—	15,009	—	15,009
Cash flow hedges: (ii)					
Foreign exchange forward contracts (iii)	—	106	—	—	106
US-dollar deposits (v)	22,748	—	—	—	22,748
Accounts payable and accrued liabilities	—	—	—	(168,171)	(168,171)
Long-term debt (vii)	—	—	—	(1,429,518)	(1,429,518)
	\$ 676,306	\$ 106	\$ 15,009	\$ (1,597,689)	\$ (906,268)

(i) Foreign exchange options not designated in a hedging relationship included in prepaid expenses, deposits and other.

(ii) Derivatives designated in an effective cash flow hedging relationship.

(iii) Foreign exchange forward contracts included in prepaid expenses, deposits and other. See foreign exchange risk section for more information.

(iv) Includes \$37,811 classified in accounts payable and accrued liabilities and \$14,487 included in other liabilities. See fuel risk section for more information.

(v) Includes \$404 (2007 – \$1,956) classified in prepaid expenses, deposits and other and \$23,905 (2007 – \$20,792) classified in other assets.

(vi) Excludes fuel derivative liabilities of \$37,811.

(vii) Includes current portion of long-term debt of \$165,721 (2007 – \$172,992) and long-term portion of \$1,186,182 (2007 – \$1,256,526).



# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

## 11. Financial instruments and risk management (continued)

### (a) Fair value of financial assets and financial liabilities (continued)

The fair values of financial assets and liabilities, together with carrying amounts, shown in the balance sheet as at December 31, 2008 and 2007, are as follows:

		2008		2007	
		Carrying amount	Fair value	Carrying amount	Fair value
Asset (liability)					
Cash and cash equivalents	(i)	\$ 820,214	\$ 820,214	\$ 653,558	\$ 653,558
Accounts receivable	(i)	16,837	16,837	15,009	15,009
Foreign exchange options	(ii)	862	862	—	—
Cash flow hedges:					
Foreign exchange forward contracts	(iii)	5,873	5,873	106	106
Fuel derivatives	(iv)	(52,298)	(52,298)	—	—
US-dollar deposits	(v)	24,309	24,309	22,748	22,748
Accounts payable and accrued liabilities	(vi)	(211,543)	(211,543)	(168,171)	(168,171)
Long-term debt	(vii)	(1,351,903)	(1,515,487)	(1,429,518)	(1,473,997)
		\$ (747,649)	\$ (911,233)	\$ (906,268)	\$ (950,747)
Unrecognized loss			\$ (163,584)		\$ (44,479)

The fair values of financial assets and financial liabilities are calculated on the basis of information available at the balance sheet date using the following methods:

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) The fair value of the foreign exchange options is determined by the use of a standard option valuation technique used by the counterparty based on inputs, including foreign exchange rates, interest rates and volatilities. Contracts outstanding as at December 31, 2008 are at a weighted average contracted range of 1.1333 to 1.2254 US dollars to Canadian dollars.
- (iii) The fair value of the foreign exchange forwards designated in an effective hedging relationship is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace. As at December 31, 2008, the average contracted rate on the outstanding forward contracts was 1.0519 (2007 – 0.9871) US dollars to Canadian dollars and the average forward rate used in determining the fair value was 1.2178 (2007 – 0.9907) US dollars to Canadian dollars. Due to the short-term nature of the outstanding contracts, no discount rate was applied.
- (iv) The fair value of the fuel derivatives designated in an effective hedging relationship is determined using inputs, including quoted forward prices for commodities, foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. The fair value of the fuel swap contracts is estimated by discounting the difference between the contractual strike price and the current forward price. The fair value of the fuel derivative collars is estimated by the use of a standard option valuation technique. As at December 31, 2008, for the 24 month period that the Corporation is hedged, the closing forward curve for crude oil ranged from approximately US \$45 to US \$67 and the average forward foreign exchange rate used in determining the fair value was 1.2136 US dollars to Canadian dollars.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

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## 11. Financial instruments and risk management (continued)

### (a) Fair value of financial assets and financial liabilities (continued)

- (v) The fair value of the US-dollar deposits, which relate to purchased aircraft, approximates their carrying amounts as they are at a floating market rate of interest.
- (vi) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.
- (vii) The fair value of the Corporation's fixed-rate long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates obtained from the lender, which represent borrowing rates presently available to the Corporation for loans with similar terms and remaining maturities. As at December 31, 2008, rates used in determining the fair value ranged from 2.08% to 2.58% (2007 – 4.52% to 4.61%). The fair value of the Corporation's variable-rate long-term debt approximates its carrying value as it is at a floating market rate of interest.

### (b) Risk management

The Corporation is exposed to market, credit and liquidity risks associated with its financial assets and liabilities. The Corporation will, from time to time, use various financial derivatives to reduce market risk exposures from changes in foreign exchange rates, interest rates and jet fuel prices. The Corporation does not hold or use any derivative instruments for trading or speculative purposes.

Overall, the Corporation's Board of Directors has responsibility for the establishment and approval of the Corporation's risk management policies. Management continually performs risk assessments to ensure that all significant risks related to the Corporation and its operations have been reviewed and assessed to reflect changes in market conditions and the Corporation's operating activities.

#### Fuel risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, the Corporation is exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside the Corporation's control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. For the year ended December 31, 2008, aircraft fuel expense represented approximately 36% (2007 – 28%) of the Corporation's total operating expenses.

During the year ended December 31, 2008, the Corporation's Board of Directors approved an amended fuel price risk management policy. Under the amended policy, it is the Corporation's current objective to hedge a portion of its anticipated jet fuel purchases in order to provide its management with reasonable foresight and predictability into operations and future cash flows. As jet fuel is not traded on an organized futures exchange, there are limited opportunities to hedge directly in jet fuel; however, financial derivatives in other commodities, such as crude oil and heating oil, are useful in decreasing the risk of volatile fuel prices.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

## 11. Financial instruments and risk management (continued)

### (b) Risk management (continued)

#### Fuel risk (continued)

As at December 31, 2008, the Corporation had a mixture of fixed swap agreements and costless collar structures in Canadian-dollar West Texas Intermediate (WTI) crude oil contracts to hedge approximately 30% of its anticipated jet fuel requirements for 2009 and approximately 14% of its anticipated jet fuel requirements for 2010. The following table outlines, as at December 31, 2008, the notional volumes per barrel and the weighted average strike price for fixed swap agreements and the weighted average call and put prices for costless collar structures for each year the Corporation is hedged.

Year	Instrument	Notional volumes (bbl)	WTI average strike price (CAD\$/bbl)	WTI average call price (CAD\$/bbl)	WTI average put price (CAD\$/bbl)
2009	Swaps	1,174,500	90.75	—	—
	Costless collars	509,000	—	114.50	78.76
2010	Swaps	381,000	103.09	—	—
	Costless collars	483,000	—	111.21	77.94

Upon proper qualification, the Corporation accounts for its fuel derivatives as cash flow hedges. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in AOCL, while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the derivative instrument, the effective gains and losses previously recognized in AOCL are recorded in net earnings as a component of aircraft fuel expense.

The Corporation's policy for its fuel derivatives is to measure effectiveness based on the change in the intrinsic value of the fuel derivatives versus the change in the intrinsic value of the anticipated jet fuel purchase. The Corporation has elected to exclude time value from the measurement of effectiveness, accordingly, changes in time value are recognized in non-operating income (expense) during the period the change occurs. As a result, a significant portion of the change in fair value of the Corporation's options may be recorded as ineffective.

Ineffectiveness is inherent in hedging jet fuel with derivative instruments in other commodities, such as crude oil, particularly given the significant volatility observed in the market on crude oil and related products. Due to this volatility, the Corporation is unable to predict the amount of ineffectiveness for each period. This may result in increased volatility in the Corporation's results.

If the hedging relationship ceases to qualify for cash flow hedge accounting, any change in fair value of the instrument from the point it ceases to qualify is recorded in non-operating income (expense). Amounts previously recorded in AOCL will remain in AOCL until the anticipated jet fuel purchase occurs, at which time, the amount is recorded in net earnings under aircraft fuel expense. If the transaction is no longer expected to occur, amounts previously recorded in AOCL will be reclassified to non-operating income (expense). For the year ended December 31, 2008, there were no amounts reclassified as the result of transactions no longer expected to occur.

The periodic changes in fair value and realized settlements on fuel derivatives that do not qualify or that are not designated under cash flow hedge accounting are recorded in non-operating income (expense).

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 11. Financial instruments and risk management (continued)

### (b) Risk management (continued)

#### Fuel risk (continued)

The following table presents the financial impact and statement presentation of the Corporation's fuel derivatives on the consolidated balance sheet and consolidated statement of earnings:

	Statement presentation	2008
Consolidated balance sheet:		
Fair value of fuel derivatives – current portion	Accounts payable and accrued liabilities	\$ 37,811
Fair value of fuel derivatives – long-term portion	Other liabilities	14,487
Net unrealized loss from fuel derivatives	AOCL – before tax impact	[44,711]
Consolidated statement of earnings:		
Unrealized loss on fuel derivatives – ineffective portion	Loss on derivatives	\$ [7,587]
Realized loss on fuel derivatives not designated in an effective hedging relationship	Loss on derivatives	[10,606]
		\$ [18,193]

The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft fuel expense when the underlying jet fuel is consumed during the next 12 months is a loss after tax of \$23,873.

A 10% increase in the forward curve for WTI, the underlying commodity of the Corporation's fuel derivatives, as at December 31, 2008, would have decreased AOCL by approximately \$11,546, net of taxes (\$7,283 for the 2009 fuel derivatives and \$4,263 for the 2010 fuel derivatives). A 10% decrease in the forward curve for WTI, as at December 31, 2008, would have increased AOCL by approximately \$11,574, net of taxes (\$7,316 for the 2009 fuel derivatives and \$4,258 for the 2010 fuel derivatives). This is assuming that all other variables remain constant, especially foreign exchange and interest rates. It also assumes that 100% of the change in price is considered effective under cash flow hedge accounting. These assumptions may not be representative of actual movements.

#### Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value of recognized assets and liabilities or future cash flows would fluctuate as a result of changes in foreign exchange rates. The Corporation is exposed to foreign currency exchange risks arising from fluctuations in exchange rates on its US-dollar denominated net monetary assets and its operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. During the year ended December 31, 2008, the average US-dollar exchange rate was 1.0651 (2007 – 1.0756), with the period-end exchange rate at 1.2180 (2007 – 0.9779).

The gain or loss on foreign exchange included on the Corporation's consolidated statement of earnings is mainly attributable to the effect of the changes in the value of the Corporation's US-dollar denominated net monetary assets. As at December 31, 2008, US-dollar denominated net monetary assets totalled approximately US \$99,488 (2007 – US \$88,711). During the year ended December 31, 2008, the Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar would have increased or decreased net earnings by \$2,888 (2007 – \$2,245) as a result of the Corporation's US-dollar denominated net monetary assets.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except share and per share data)

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## 11. Financial instruments and risk management (continued)

### (b) Risk management (continued)

#### Foreign currency exchange risk (continued)

As at December 31, 2008, the Corporation had a mixture of US-dollar forward contracts and option arrangements to offset its US-dollar denominated aircraft lease payments for the first nine months of 2009 on its current leased aircraft. As at December 31, 2008, the Corporation had entered into financial derivative instruments to purchase on average US \$6,813 per month for nine months for a total of US \$61,317. Of this total, approximately 58% is hedged using forward contracts at a weighted average strike price of 1.0519 per US dollar, and approximately 42% is hedged using option arrangements at a weighted average range of 1.1333 to 1.2254 per US dollar.

Upon proper qualification, the Corporation designated its forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in AOCL, while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the derivative instrument, the effective gains and losses previously recognized in AOCL are recorded in net earnings as a component of aircraft leasing expense. Maturity dates for all of the foreign exchange forward contracts are within 2009. As at December 31, 2008, no portion of the forward contracts is considered ineffective.

For the year ended December 31, 2008, the Corporation realized a gain on the forward contracts of \$4,554 (2007 – \$18 loss), included as a deduction to aircraft leasing expense. As at December 31, 2008, the estimated fair market value of the remaining forward contracts recorded in prepaid expenses, deposits and other is a gain of \$5,873 (\$4,133 net of tax). The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a reduction to aircraft leasing expense during the next 12 months is a gain after tax of \$4,133.

The Corporation's foreign exchange options are not designated as hedges for accounting purposes and are recorded at fair value on the consolidated balance sheet with changes in fair value recorded in non-operating income (expense). As at and for the year ended December 31, 2008, the estimated fair market value of the options recorded in prepaid expenses, deposits and other and the unrealized amount on derivatives recorded under non-operating income (expense) is a gain of \$862. Maturity dates for all of the foreign exchange option arrangements are within 2009.

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2008 would not have significantly impacted the Corporation's net earnings and OCI as a result of the foreign exchange derivatives.

#### Interest rate risk

Interest rate risk is the risk that the value of financial assets and liabilities or future cash flows will fluctuate as a result of changes in market interest rates.

##### (i) Cash and cash equivalents

The Corporation is exposed to interest rate fluctuations on its cash and cash equivalents balance, which, as at December 31, 2008, totalled \$820,214 (2007 – \$653,558). A change of 50 basis points in the market interest rate would have had, for the year ended December 31, 2008, an approximate impact on net earnings of \$2,250 (2007 – \$1,770). The increase in sensitivity from 2007 is a direct result of the increase in the balance of the Corporation's cash and cash equivalents balance.

##### (ii) US-dollar deposits

The Corporation is exposed to interest rate fluctuations on its US-dollar deposits that relate to purchased aircraft, which, as at December 31, 2008 totalled \$24,309 (2007 – \$22,748). A reasonable change in market interest rates for the year ended December 31, 2008 would not have significantly impacted the Corporation's net earnings as a result of the US-dollar deposits.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

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## 11. Financial instruments and risk management (continued)

### (b) Risk management (continued)

#### Interest rate risk (continued)

##### (iii) Long-term debt

The fixed-rate nature of the majority of the Corporation's long-term debt reduces the risk of interest rate fluctuations over the term of the outstanding debt. The Corporation accounts for its long-term fixed-rate debt at amortized cost, and therefore, a change in interest rates as at December 31, 2008 would not impact net earnings.

The Corporation is exposed to interest rate fluctuations on its variable-rate long-term debt, which, as at December 31, 2008 totalled \$11,172 (2007 – \$29,576) or 0.8% (2007 – 2.1%) of the Corporation's total long-term debt. Due to the immaterial balance of the variable-rate long-term debt, a change in market interest rates for the year ended December 31, 2008 would not have significantly impacted the Corporation's net earnings.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2008, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, accounts receivable and US-dollar deposits, as well as the fair value of derivative financial assets.

##### (i) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and short-term investments with terms of up to 91 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions. The Corporation manages its exposure risk by assessing the financial strength of its counterparties and by limiting the total exposure to any one individual counterparty. As at December 31, 2008, the Corporation had a total principal amount invested of \$692,188 in Canadian-dollar short-term investments with terms ranging between three and 91 days and a total of US \$23,832 invested in US-dollar short-term investments with terms ranging between 60 and 91 days.

During the year ended December 31, 2008, the Corporation did not hold any investments in asset-backed commercial paper.

The Corporation performs an ongoing review to evaluate its counterparty risk. As at December 31, 2008, the Corporation does not expect any counterparties to fail to meet their obligations.

##### (ii) Accounts receivable

Generally, the Corporation's accounts receivable are the result of tickets sold to individual guests through the use of travel agents and other airlines. Purchase limits are established for each agent and, in some cases, when deemed necessary, a letter of credit is obtained. As at December 31, 2008, \$7,403 is receivable from travel agents and other airlines. These receivables are short term in nature, generally being settled within four weeks from the date of booking. As at December 31, 2008, \$651 of the balance receivable is covered by letters of credit. As at December 31, 2008, all of the Corporation's accounts receivable are current.

##### (iii) Derivative financial assets

The Corporation recognizes that it is subject to credit risk arising from derivative transactions that are in an asset position at the balance sheet date. The Corporation carefully monitors this risk by keeping close consideration to the size, credit rating and diversification of the counterparty. As at December 31, 2008, the fair value of foreign exchange derivative assets totalled \$6,735. As at December 31, 2008, outstanding fuel derivatives are in a liability position.



# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

## 11. Financial instruments and risk management (continued)

### (b) Risk management (continued)

#### Credit risk (continued)

##### (iv) US-dollar deposits

The Corporation is not exposed to counterparty credit risk on its US-dollar deposits that relate to purchased aircraft, as the funds are held in a security trust separate from the assets of the financial institution.

#### Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation maintains a strong liquidity position and maintains sufficient financial resources to meet its obligations as they fall due.

The Corporation has secured low-interest-rate fixed debt supported by Ex-Im Bank commitments on its aircraft acquisitions. This represents approximately 98% of the Corporation's total long-term debt. See note 6, long-term debt, for further detail.

The following table details the Corporation's contractual maturities for its non-derivative and derivative financial liabilities, including those designated in an effective hedging relationship, as at December 31, 2008:

	Carrying amount	Within 1 year	1 – 3 years	4 – 5 years	Over 5 years
Accounts payable and accrued liabilities (i)	\$ 211,543	\$ 211,543	\$ —	\$ —	\$ —
Long-term debt	1,351,903	165,721	342,591	326,019	517,572
Fuel derivatives	52,298	37,811	14,487	—	—
Total	\$ 1,615,744	\$ 415,075	\$ 357,078	\$ 326,019	\$ 517,572

(i) Excludes fuel derivative liabilities of \$37,811.

A portion of the Corporation's cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2008 was \$251,354 (2007 – \$194,929). Typically, the Corporation has cash and cash equivalents on hand to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As at December 31, 2008, the Corporation had cash on hand of 3.26 times (2007 – 3.35 times) the advance ticket sales balance.

The Corporation aims to maintain a current ratio, defined as current assets over current liabilities, of at least 1.00. As at December 31, 2008, the Corporation's current ratio was 1.25 (2007 – 1.22).

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007  
[Stated in thousands of Canadian dollars, except share and per share data]

## 12. Additional financial information

### (a) Balance sheet

		2008	2007
Prepaid expenses, deposits and other:			
Prepaid expenses		\$ 26,521	\$ 13,763
Short-term deposits	(i)	18,761	10,827
Deferred costs	(ii)	14,410	14,323
Foreign exchange derivative assets (note 11)		6,735	106
Other		1,266	—
		\$ 67,693	\$ 39,019
Other assets:			
Aircraft-related deposits	(iii)	\$ 68,492	\$ 51,754
Other		2,513	1,617
		\$ 71,005	\$ 53,371
Other liabilities:			
Deferred gains	(iv)	\$ 5,270	\$ 6,139
Unearned revenue	(v)	—	3,000
Lease return costs	(vi)	3,508	1,292
Long-term fuel derivative liability (note 11)		14,487	—
Other		968	906
		\$ 24,233	\$ 11,337

(i) Short-term deposits include deposits relating to aircraft fuel, other operating costs and short-term US-dollar deposits.

(ii) Deferred costs relate to certain sales and distribution expenses attributed to advance ticket sales.

(iii) Aircraft-related deposits include long-term deposits with lessors for the lease of aircraft and long-term US-dollar deposits, which relate to purchased aircraft.

(iv) 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, 2008 the Corporation recognized amortization of \$869 (2007 – \$868).

(v) 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, 2008 the Corporation recognized the remaining \$3,000 (2007 – \$3,000).

(vi) Included in other liabilities is an estimate pertaining to lease return costs on its aircraft under operating leases. During the year ended December 31, 2008, the Corporation increased the liability by \$2,216 (2007 – \$185) due to the addition of further leased aircraft and a revision to the existing estimate with \$nil (2007 – \$nil) incurred on the settlement of these obligations.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

## 12. Additional financial information (continued)

### (b) Supplementary cash flow information

	2008	2007
Net change in non-cash working capital from operations:		
Increase in accounts receivable	\$ (1,828)	\$ (2,364)
Decrease in income taxes recoverable	—	13,820
Increase in prepaid expenses and deposits (i)	(22,045)	(8,292)
Increase in inventory	(6,852)	(2,002)
Increase in accounts payable and accrued liabilities (ii)	43,373	47,014
Increase in advance ticket sales	56,425	46,186
Increase in non-refundable guest credits	18,881	13,631
Other non-cash items	(3,800)	4,879
	\$ 84,154	\$ 112,872

(i) Excludes \$6,735 (2007 – \$106) for unrealized current portion of foreign exchange derivatives.

(ii) Excludes \$37,811 for unrealized current portion of fuel derivatives.

# notes to consolidated financial statements

For the years ended December 31, 2008 and 2007

[Stated in thousands of Canadian dollars, except share and per share data]

## 12. Additional financial information (continued)

### (c) Accumulated other comprehensive loss

	Amortization of hedge settlements	Cash flow hedges – foreign exchange derivatives	Cash flow hedges – fuel derivatives	Total
Balance as at January 1, 2007	\$ —	\$ —	\$ —	\$ —
Change in accounting policy	(13,420)	—	—	(13,420)
Amortization of settlements	1,400	—	—	1,400
Unrealized gain on derivatives	—	88	—	88
Realized loss on derivatives	—	18	—	18
Balance as at December 31, 2007	(12,020)	106	—	(11,914)
Amortization of settlements	1,400	—	—	1,400
Unrealized gain (loss) on derivatives	—	10,321	(44,711)	(34,390)
Tax on unrealized portion	—	(3,097)	13,086	9,989
Realized gain on derivatives	—	(4,554)	—	(4,554)
Tax on realized portion	—	1,357	—	1,357
Balance as at December 31, 2008	\$ (10,620)	\$ 4,133	\$ (31,625)	\$ (38,112)

## executive team

L to R:

**Ken McKenzie**, Executive Vice-President, Operations

**Vito Culmone**, Executive Vice-President, Finance and CFO

**Sean Durfy**, President and CEO

**Fred Ring**, Executive Vice-President, Corporate Projects

**Dr. Hugh Dunleavy**, Executive Vice-President,  
Commercial Distribution

**Bob Cummings**, Executive Vice-President,  
Guest Experience and Marketing

**Ferio Pugliese**, Executive Vice-President, People







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# destinations

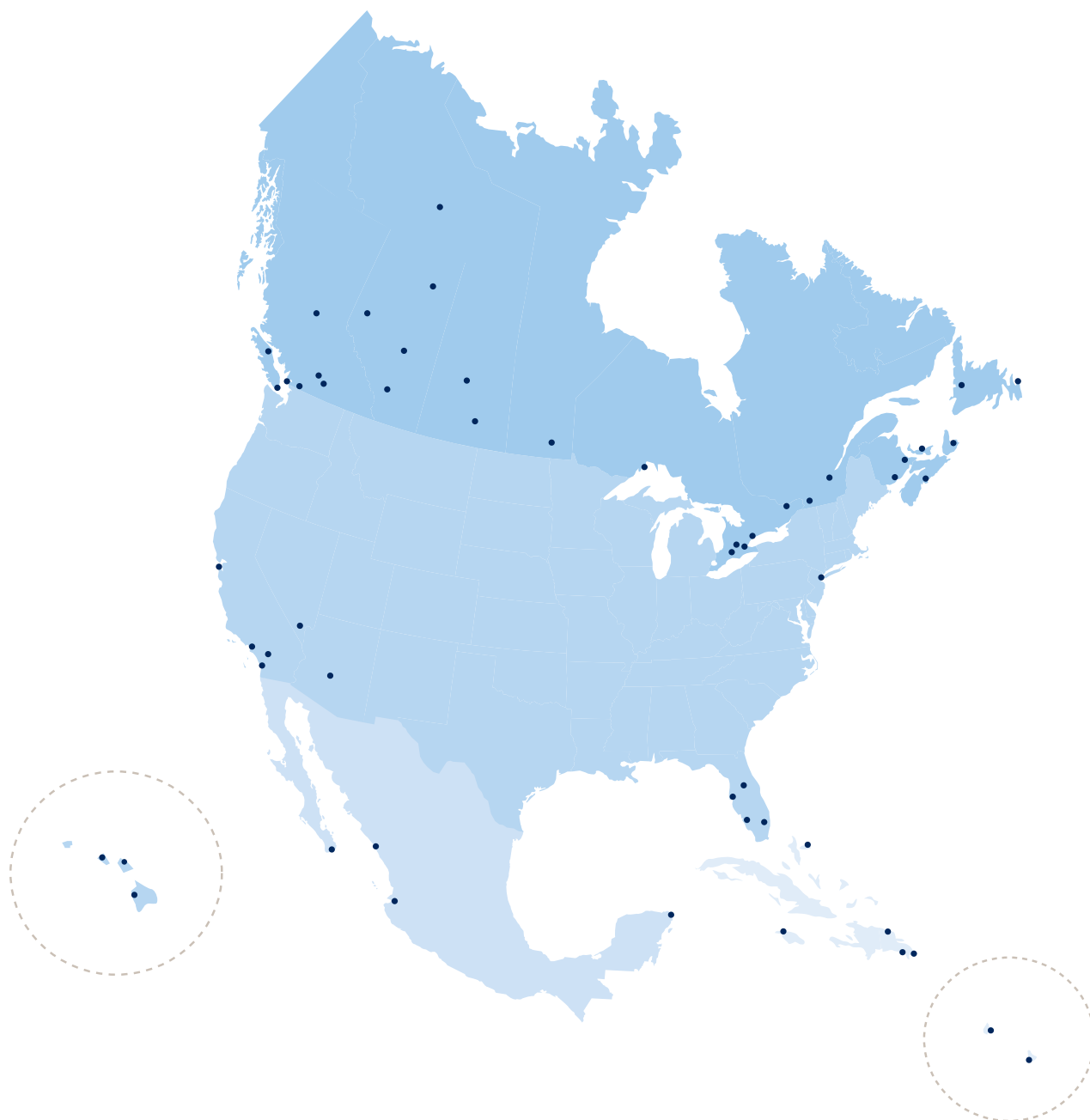
**Canada:** Abbotsford, Calgary, Charlottetown, Comox, Deer Lake, Edmonton, Fort McMurray, Grande Prairie, Halifax, Hamilton, Kamloops, Kelowna, Kitchener-Waterloo, London, Moncton, Montréal, Ottawa, Prince George, Quebec City, Regina, Saint John, Saskatoon, St. John's, Sydney, Thunder Bay, Toronto, Vancouver, Victoria, Winnipeg, Yellowknife

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**United States:** Fort Lauderdale, Fort Myers, Honolulu, Kona, Las Vegas, Los Angeles, Maui (Kahului), New York (via Newark), Orlando, Palm Springs, Phoenix, San Diego, San Francisco, Tampa

**International:** Bridgetown, Barbados; Cabo San Lucas, Mexico; Cancun, Mexico; La Romana, Dominican Republic; Mazatlan, Mexico; Montego Bay, Jamaica; Nassau, Bahamas; Puerto Vallarta, Mexico; Punta Cana, Dominican Republic; Puerto Plata, Dominican Republic; St. Lucia, Hewanorra

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## board of directors

**Clive Beddoe**

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

**Murph Hannon**

President

Murcon Development Ltd.

**Don Hougan**

Captain

P.A.C.T. Chairman

WestJet Airlines Ltd.

**Allan Jackson**

President and CEO

Arci Ltd.

**Barry Jackson**

Chair and Corporate Director

TransCanada Corporation

**Wilmot Matthews**

President

Marjad Inc.

**Larry Pollock**

President and CEO

Canadian Western Bank

and Canadian Western Trust

**Arthur Scafe**

Chair

Garbell Holdings Limited

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## corporate information

**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

E-mail: [investor\\_relations@westjet.com](mailto:investor_relations@westjet.com)

**WestJet Campus**

22 Aerial Place NE

Calgary, Alberta T2E 3J1

Phone: (403) 444-2600

**Annual and special meeting**

WestJet Airlines Ltd.'s Annual and Special Meeting will be held at 2 p.m. (MDT) on Tuesday, May 5, 2009 at WestJet's Campus, 22 Aerial Place NE, Calgary, AB.

**Transfer agent and registrar**

CIBC Mellon Trust Company

Toll Free in North America: 1-800-387-0825

[www.cibcmellon.com](http://www.cibcmellon.com)

**Auditors**

KPMG LLP, Calgary, AB

**Legal counsel**

Burnet, Duckworth and Palmer LLP, Calgary, AB

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